



# **SÜTAŞ SÜT ÜRÜNLERİ A.Ş.**

## **ANNUAL REPORT**

### **2017**



**SÜTAŞ GROUP**

# SÜTAŞ GROUP

## *Our Mission*

In order to provide natural and delicious dairy products that improve people's quality of life and bring them health and happiness, we manage and develop the dairy value chain -From Farm to Table- and the resources entrusted to us in the most efficient way, with the passion of spreading the goodness and abundance of milk.

## *Our Vision*

To become the most loved brand, the most trusted corporation and the leading company in dairy.

## *Our Values*

### **Respect**

We have respect for humans, society and nature.

### **Responsibility**

We act in a fair and transparent manner and we are accountable for our actions, we own up to our responsibilities.

### **Excellence**

We always improve ourselves and seek excellence to become the masters of our business.

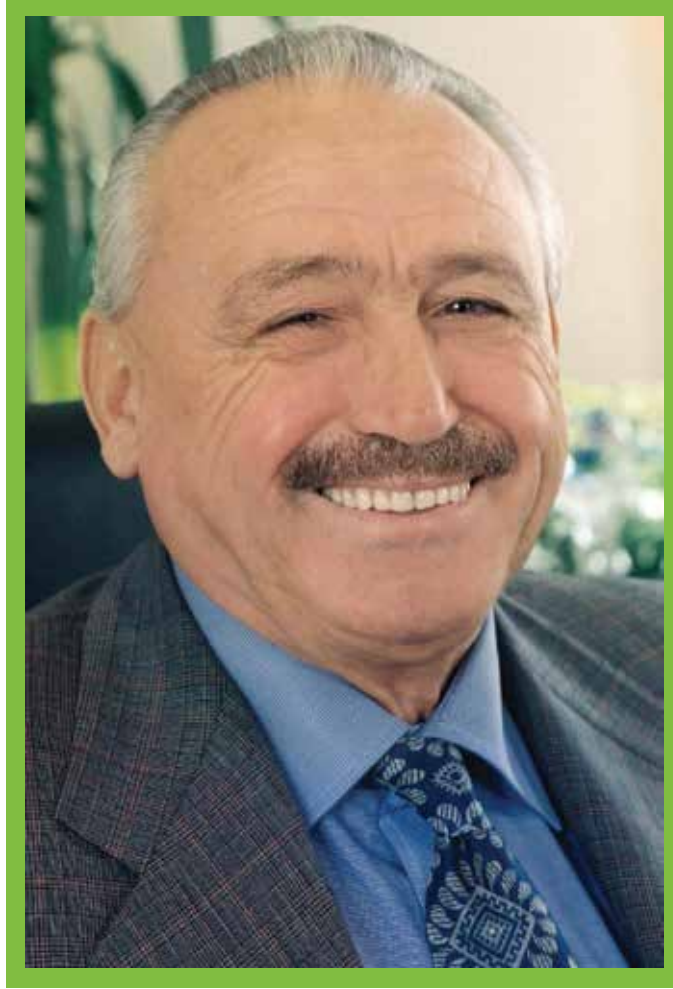
### **Passion**

We passionately commit ourselves to the goodness and abundance of milk and to dairy.





## OUR FOUNDER



**Sadık Yılmaz**  
**(1929 - 2005)**

"Our love for you  
lives in our passion for milk..."



**Chairman's Statement**

Esteemed Stakeholders,

The positive developments regarding economy around the world and in our country since 2015, continued throughout 2017, the year we left behind. IMF revised the world's economic growth forecast upwards in a long time. With the growth rate of 11,1% and 7,3% performed in third and fourth quarters respectively, our country's economy completed the whole year with 7,4% growth, an increase in comparison to previous years.

Besides these positive developments in the economy, milk production in Turkey was 20,7 million tons in 2017 with an increase of 12%, according to data provided by the Turkish Statistical Institute. We process about 900 thousand tons of milk, which constitute 10% of 9,1 million tons raw milk transferred to Turkish

industry, from 27.500 milk producers, in our Süttaş integrated facilities in Karacabey, Aksaray, and Tire. Total payment that we made in 2017 has reached 1,2 billion TL.

Achieving a significant growth by conducting sales in 30 countries with an export value of 25 million dollars in comparison to previous year and providing employment for 4142 people directly, 2500 distributors and business partners indirectly with production and distribution activities, Süttaş completed the year 2017 with a net profit of 111,1 million TL, by increasing its profit 13% in comparison to last year.

Süttaş products had the highest household access rate in the milk and dairy products market in 2017. While Süttaş Yogurt, Süttaş Ayran and Süttaş Cheese continued to be leader in their own categories, Süttaş maintained its market leadership in retail packaged dairy products with 12,6% of turnover share.

We are experiencing a dynamic process for the purposes of our company. Our company's strategic approach, organized around corporate, environmental, economic and social sustainability, holds.

We continued to maintain our goal of being close to consumers, with our regional integrated production facilities throughout the country. While increasing our competitive power in developing countries with an efficient organization, at the beginning of 2017, in order to transform from a national structure to a global company, we pursued an organizational restructuring. . We gathered production, sales and distribution activities of dairy products under the roof of "Dairy Products Business Unit" in order to manage them through a central



structure both in domestic and international markets.

Our Balkan Dairy companies, which we had established to bring Anatolian dairy tradition and natural flavors of Sütaş first to the Balkans, then to the European markets, will continue their activities as the companies, "Euro Dairy - Macedonia, Romania and Germany" in the new structure and will represent Sütaş in international markets.

We are aware that the essential condition of making an institution's success sustainable is to adopt corporate governance. Universal corporate governance principles, which are specified as fairness, transparency, accountability and responsibility, correspond to our values we have adopted since the day we were founded. They guide us in our path to becoming a sustainable institution. As we know, it is the vision for institutionalization in long-established corporations that guarantees its future.

Despite not having a legal obligation, we voluntarily have a corporate governance compliance report prepared to assess our performance. We were awarded by the Corporate Governance Association of Turkey by raising our evaluation rating for the 3rd time in 2017 and obtained the highest score among "Nonpublic family owned companies in Turkey". Thus we continue to be a role model in Turkey in the field of "Corporate Governance," which is one of our four main strategies.

As a pioneering corporation in the development of our sector, we work with the passion of spreading goodness and abundance of milk, by adding value to all our stakeholders both in our domestic and foreign investments. We started production in our feed factory built within the scope of Aegean Dairy Project - Tire Integrated Facilities in June 2017. We will soon play an important role in regional development by going

forward with our Eastern and South Eastern Anatolian Dairy Project in Bingöl.

For the last 43 years, we have been working masterfully to spread the goodness and abundance of milk and its natural flavor, with our passion for milk and without wavering from our principle of remaining as good people, good citizens.

"Goodness," which is at the heart of all our activities and our brand, is also solidified in our business strategies and we continue our way with firm steps in the light of our values.

We will continue our activities with the same enthusiasm and determination to create value for our country and all our stakeholders in 2018.

I would like to thank all members of Sütaş for their valuable contributions to our company in 2017 and to express my gratitude to our shareholders, customers and business partners who share our vision and believe in our mission.

Respectfully,

Muharrem Yılmaz  
Chairman of the Board of Directors



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## 1. SÜTAŞ GROUP ACTIVITIES 2017

### 1.1 Major Developments and Our Activities in Turkey

#### New Structuring in Sütaş Organization

At the beginning of 2017, Sütaş restructured its organization with its goal to move from a national structure to a global company while increasing its competitive power in developing countries with an efficient organization. It gathered production, sales and distribution activities of dairy products under the roof of "Dairy Products Business Unit" in order to manage them through a central structure both in domestic and international markets.

Balkan Dairy companies that were established to bring Anatolian dairy tradition and natural flavors of Sütaş first to the Balkans and then to European markets continue their activities as the companies, "Euro Dairy - Macedonia, Romania and Germany", in the new structure and represent Sütaş in international markets.

#### Sütaş Tire Feed Factory Began Production

The feed factory, built within the scope of Aegean Dairy Project - Tire Integrated Facilities, which commenced its operation in 2016, began production in June 2017.



#### Sütaş was Awarded "Ruban d'Honneur" in European Business Awards



In "European Business Awards 2016-2017," to which more than 33 thousand companies from 34 countries had applied and the best ones were chosen in the fields of entrepreneurship, innovation and sustainability, Sütaş was awarded "Ruban d'Honneur" in "Environmental and Organizational Sustainability" category by ranking among "The Best 10 Companies" in Europe.



#### Sütaş Received Grand Prize in IPRA with Environmental Sustainability Practices

Sütaş was awarded the grand prize in the category of "Environment" at the annual IPRA Golden World Awards, with its environmental sustainability practices and communication practices within the scope of its integrated



business model "From Farm to Table." The Golden Globe Awards, the most prestigious PR award organization in the world, was attended by 166 companies in 30 categories this year. Winning the grand prize in its category, Sütaş became the only company representing its sector from Turkey.



### Sütaş Received Corporate Governance Award for the Third Time

In "Corporate Governance Awards" ceremony organized within "Corporate Governance Summit XII" and held by Turkish Corporate Governance Association (TKYD), Sütaş was awarded "Nonpublic Family Owned Company with the Highest Corporate Governance Rating". With a 9,51 Corporate Governance Rating obtained by being rated in accordance with ISE (Istanbul Stock Exchange) Corporate Governance Index by SAHA Corporate Governance Rating Services Inc. licensed by the Capital Markets Board, Sütaş has raised its rate in comparison to the previous year and has once again proven that it is the sector leader in institutionalization.



### Sütaş Became "Turkey's Most Admired Company" in Its Sector

In Capital Magazine's traditional "Turkey's Most Admired Companies" survey, Sütaş got the first place in "Milk and Dairy Products" category. The survey, which sorts the 38 most admired companies in Turkey, was conducted using an online survey technique with 1.584 directors from more than 500 companies representing the business world. Sütaş was awarded "The Most Admired Milk and Dairy Products Company" prize according to the results of the survey, which included the criteria of "management according to corporate governance principles", "employee satisfaction", "customer satisfaction", "being a reliable company", "product or service quality", "social opportunities, rights offered to its employees and wage policy" and "contribution to region, economy, work force and investment".



### Sütaş was Selected 'The Most Loved Brand' Again

According to "Turkey's Lovemarks 2017" survey conducted on the offline side by Ipsos and on the online side by Fikrimühim under the leadership of Mediacat, Sütaş was selected the most popular brand in the category of "Packaged Cheese". In the survey, conducted by interviewing 3.041 people between the ages of 15-55 in 22 different categories, the answer to the questions "What is the brand coming to your mind first in packaged cheese category?" and





"Which brand do you like most/will you never give up?" was given as Sütaş with the highest rate. Sütaş, the most loved brand of milk and



dairy products in 2015, thus has been selected as the most loved brand in packaged cheese, by carrying its success to the subcategory this year.

### Sütaş Became "Low Carbon Hero"

With its environmental sustainability activities that contribute to the fight against climate change, Sütaş was selected the 'Low Carbon Hero' in 'Low Carbon Awards' which was organized by Sustainable Production and Consumption Association (SÜT-D) in order to be awarded to projects that reduce carbon emissions within the scope of 4th İstanbul Carbon Summit. By producing renewable energy from fertilizers of farms and organic wastes of factories within the scope of its integrated business model "From Farm to Table," Sütaş has thus prevented greenhouse gas emissions as much as cleaned by 3 million trees.



In the contest where 42 projects reducing carbon emission were nominated, Sütaş was granted 'Low Carbon Hero' award for its works contributing to the fight against climate change.

### Sütaş was Granted Ethical Company Award

Sütaş was among the winners of "ETİKA 2016 Turkey's Most Ethical Companies" contest organized by Ethical Values Center Association (EDMER) in order to create ethical and business ethics awareness, spread ethical awareness, reward companies and executives who will serve as role models for young people. Based on the criteria of Ethical Values, Ethical Culture, Reputation Management, Corporate



Governance, Corporate Social Responsibility, Leadership, Adaptation Management, Creativity and Leadership, Sütaş was granted "ETİKA 2016 Turkish Ethics Award".

### Sütaş Received "Special Jury Award" at ISO Energy Efficiency Awards

Sütaş was granted an award at "Energy Efficiency Awards" organized by İstanbul Chamber of Industry (ISO) for the purpose of encouraging companies that contribute to



sustainable development by using energy efficiently. Sütaş Environment and Energy



Activities won "ISO SME Energy Efficiency Implementation Project Special Jury Award" with its "Energy Production from Organic Wastes and Greenhouse Gas Reduction" project.

### Two Awards Go to Sütaş From Golden Compass Awards

Sütaş won two awards at "Golden Compass Turkish Public Relations Awards," which is the first and only award program of public relations sector in Turkey, and is organized by Turkish Public Relations Association (TÜHİD).

At 16th Golden Compass Awards, Sütaş was granted "Corporate Reports Award" with its



Sustainability Report and "Special Jury Award" with Communication Works for the Opening Ceremony of Tire Integrated Plants. Sütaş, which distinguished itself with its Sustainability Report and Tire Integrated Facilities, was granted two different awards having its 360 degree communication activities evaluated under the criteria of reflecting corporate culture, increasing corporate reputation, strengthening ties with stakeholders, improving relationships with national and local media.

### Two Awards for Sütaş Website

HSütaş won "Excellence Award" with its corporate website under the category of "Food/Beverage" at "IMA - International Interactive Media Awards" given by Interactive Media Council (IMC) annually to reward organizations and individuals who have shown great success in designing and developing websites.



Sütaş Corporate website was also chosen "Public's Favorite" at "Golden Spider" contest under "Food and Beverage Category".





### Sütaş Put "Be Sensitive" (DO) Project into Practice



Sütaş Group put "Be Sensitive" (DO) project into practice in cooperation with Business Council for Sustainable Development Turkey (BCSD Turkey) in order to raise awareness about sustainable consumption with our employees.

Through "Be Sensitive" (DO) project, Sütaş aims to increase the sensitivity of its employees regarding sustainable consumption while sharing key points about sustainable consumption and providing special savings suggestions about electricity, paper, waste and water.

### Sütaş Became Main Sponsor in the 'Local Chains are Meeting' Organization



Sütaş also supported "Local Chains are Meeting" (YZB) organization that was organized by Turkish Retailers Federation and became the largest organization of organized food retail, as the main sponsor in 2017. At the conference organized within the scope of the organization, Sütaş Chairman of Board of Directors Muharrem Yılmaz gave a speech entitled



"Opportunities brought by Digital Transformation".

Sütaş had strengthened its cooperation channels at the organization that was visited by approximately 7000 people and brought manufacturers and suppliers that provided products and services in the food sector together with local market chains.

### Suggestion and Kaizen Awards Found Their Owners

Sütaş members who were entitled to receive Kaizen and suggestion awards, got their awards at ceremonies held in Sütaş Karacabey, Aksaray and Tire facilities. In 2017, a total of 617 Sütaş members were awarded for their suggestions to improve their work environments and business processes.





### 1.1.1 Basic Developments Relating to the Market

In 2017, by reaching 81,7% of the households in Turkey, Sütaş became the brand with the highest household penetration rate in milk and dairy products market. (Source: Ipsos Household Consumption Panel, 2017).

In 2017, in terms of turnover, retail packaged dairy products market has reached 10,4 billion TL by growing %17,3. In this period, Sütaş has continued its market leadership with 12,6%\* turnover share. (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017).

Turnover share and amount share of Sütaş, in the categories that it leads, were realized as follows:

Category – 2017*	Amount Share (%)	Turnover Share (%)
UHT Semi-Skimmed Milk	8,8	11,0
Cream-on-Top Yogurt in Bowl	31,6	33,1
Set Yogurt	9,8	12,7
Strained Yogurt	11,0	14,2
Seasoned Yogurt	90,8	88,0
Adult Fruit Yogurt	23,3	21,8
Children's Fruit Yogurt Tube	100	100
Baby Yogurt	98,8	98,9
Light Yogurt	84,4	81,8
Ayran	21,9	24,7
Fresh White Cheese -With Culture	12,1	13,7
Fresh Kashkaval Cheese	13,4	15,0
Ultra Filtrated White Cheese – Süzme	24,9	26,8
Light Kashkaval Cheese	21,6	20,9

Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017

\* Market leadership among branded products

### Sütaş Milk:



In 2017, Sütaş Milk takes the second place in the market with 8,4% turnover share. Sütaş UHT Milk has %7,4, Sütaş Pasteurized Milk has 16,2%, Sütaş Chocolate and Fruit Milk has 11,8% turnover shares. (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).

### Sütaş Butter:



Sütaş Butter has completed 2017 with 15% turnover growth and 12,5% turnover share. (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).

### Sütaş Yogurt:



In 2017, Sütaş Yogurt has maintained its leadership with 15,5% turnover share.

Sütaş Set Yogurt has reached 12,7% turnover share, Sütaş Light Yogurt reached 81,8% turnover share.

Sütaş's turnover share in Cream-on-Top Yogurt in Bowl market is 33,1%.

Sütaş Strained yogurt having 10% of turnover growth and 14,2% of turnover share; Adult Fruit Yogurt having 12% of turnover growth and 21,8% of turnover share, are leaders in their categories (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017).

Sütaş Yogurt is the brand with the highest mind share in its category (Source: Ipsos Yogurt Category Brand Tracking Study, 2017, Among Branded Products).

### Sütaş Ayran:



Sütaş Ayran has grown by 16% in terms of turnover. Sütaş Ayran also continued its leadership in ayran market in 2017 with 24,7% of turnover share (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).

Sütaş Ayran is the brand with the highest mind share in its category (Source: IPSOS Ayran Category Brand Tracking Study 2017).

### Sütaş Cheese:



In 2017, Sütaş Cheese has continued its leadership in total cheese market with 12,8% of turnover share.

Sütaş Fresh White Cheese with 13,7%; Sütaş Süzme with 26,8%; Sütaş Kashkaval Cheese with 15,0% turnover shares are leaders in their categories. Among also spreadable cheese products, Sütaş Cream Cheese has 10,0%; Sütaş Triangle Cheese has 9,2% and Sütaş Labne has 9,6% turnover shares (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).

Sütaş White Cheese and Kashkaval Cheese are the brands with the highest mind share in their categories (Source: IPSOS Solid Cheese Category Brand Tracking Study, 2017).

### Joyful, Tasty and Functional Products:



**Sütaş Büyümix:** Children fresh cheese market, in which Sütaş Büyümix is included, has grown by 4% in terms of turnover. Sütaş Büyümix is the second strongest brand with 22,9% of turnover share (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).





**Sütaş Tatlımmm:** In 2017, Sütaş Tatlımmm has 19,0% of turnover share in fresh pudding category. Sütaş Tatlımmm is placed as the 2nd brand in the market (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).



**Sütaş Hüpatrik:** Sütaş Hüpatrik, the first fruit yogurt tube for children in Turkey, has maintained its leading position with 17% of turnover growth as the only product in its category (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017).



**Sütaş Minimix:** In 2017, Sütaş Minimix has 28,3% of turnover share (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).



**Sütaş Babymix:** Sütaş Babymix, the first yogurt for babies in Turkey, has 98,9% of turnover share in the market (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).



**Sütaş Yovita:** Due to changing consumer trends, it went through a shrinkage in the market (Source: Nielsen Retail Measurement Panel, Including Discount Stores, 2017, Among Branded Products).



## 1.1.2 Corporate Brand and Consumer Marketing Activities

### June 1, World Milk Day Communication

On "World Milk Day," which was agreed by United Nations Food and Agriculture Organization (FAO) in 2001 to be celebrated on June 1, communication activities have been carried out addressing employees and external stakeholders to raise awareness about the value of milk and dairy products that is an important investment in the future of both individuals and society and to improve their production and consumption.

An animated video of Sütaş Farm's cow characters celebrating World Milk Day, an infographic "World Milk Day Brochure" that describes Sütaş and the goodness of milk with numbers, and a World Milk Day web page containing those information, were prepared to highlight the importance of the day.

With e-mails prepared for internal and external stakeholders, receivers were directed to the World Milk Day web page with a surprise celebratory visual message. Also for Sütaş employees, a desktop sub-banner and an intranet pop-up were prepared and published.



An SMS containing celebration message and the website link was sent to our external stakeholders.

Sütaş cows celebration video was shared on Sütaş social media accounts both as free of charge and as sponsored, and people were directed to World Milk Day page on the web site via the video.

Within the scope of the campaign, our celebration message was transformed into a film where our animated cows took part and World Milk Day was celebrated by sharing Sütaş's belief in goodness and abundance of milk and its passion for milk once again with the world by stating "May the goodness of milk be with you; may the abundance of milk be with you."

In addition to e-mails, SMS and social media posts sent to stakeholders, the film we prepared was shown on the internet before popular series.



Sütaş World Milk Day ads were viewed by 350 thousand people on the internet and 85 thousand people on mobile phones.

Brochures prepared for World Milk Day were distributed on Bağdat Street in Istanbul accompanied by the Sütaşkı Band. Moreover, Sütaş Bands performed at shopping centers in İstanbul, Bursa and İzmir, and celebrated World Milk Day by distributing brochures to the consumers.



### Sütaş Members Came Together in Sütaşlı Meetings

Since Sütaşlı Meetings held within the scope of World Milk Day celebrations coincided with Ramadan this year, Sütaş employees, mono-distributors and distributors and their spouses came



together at iftar dinners held at regional offices located in İstanbul, Ankara, Aksaray, Karacabey and various places around Turkey.

565 Sütaş employees, who has served Sütaş for many years, were also presented their 5th, 10th, 15th, 20th, 25th and 30th year seniority awards at these meetings.

### April 23, National Sovereignty and Children's Day

On National Sovereignty and Children's Day, Sütaş celebrated this special day of children with delicious children's products and the Sütaşlı Band.

At the April 23 activities held in Sarıyer Lifepark activity area, Sütaş Fruit Milk stand hosted games of basketball,

bicycle and quoits; the participants were photographed and a special certificate of participation was given to commemorate the day.

This special day of the children of employees working at Karacabey, Aksaray and Tire integrated facilities was celebrated with April 23 festivals held at the facilities. A total of 865 little Sütaş members and their families attended the celebrations.

### "Sütaşlı Band" Received an Award



"Sütaşlı Band," a real musical band made up of charming cow mascots won the second prize in "The Best Guerilla Activity Category" of Direct Marketing Communicators Association (DPİD).

### Sütaş Farm Comics Book was Published



Sütaş Farm Comics Book, containing the most popular Sütaş Farm comics published throughout the year of 2017, was published.



## Sütaş Website

Sütaş website was developed in terms of content. A total of 2.049.566 pages were viewed on Sütaş website, which was visited 1.138.366 times by 978.738 users in 2017.

## Sütaş Social Media Communication

Effectiveness of Sütaş on social media channels increased in 2017. Number of people who liked Sütaş's Corporate Facebook page reached 262.022 and interaction with followers was 414.025.

Number of followers of Sütaş Corporate Instagram account increased by 35,52% and reached 17.032 and shared posts received 76.080 likes.

## Sütaş Online Store "Sütaş. Market" was Opened

In 2017, online store Sütaş Market was opened. Sütaş Market, which cooperates with various e-commerce platforms, had distributed 1 lt. daily milk in glass bottle free of charge on the platform "Getir" in February 2017; later in April 2017 with the platform "Getir" 1 lt. daily milk in glass bottle free of charge and Oreo cookies promotion was implemented. An agreement was made with "Gittigidiyor" (eBay) in November 2017 and at the end of 2017, Sütaş Market online store started to operate at the platform "Gitti-

gidiyor." Following Sütaş Market's 10% discount applicable to Sütaş employees since the end of 2017, the store at Karacabey facilities serving the employees there was closed down. Thus, all employees started to benefit from the opportunities provided by Sütaş Market.

## Sütaş Ramadan and Bayram Communication

For years now, at each Ramadan period with the slogan of "Time of iftar for Turkey, time to be proud for Sütaş", commercials that are an essential part of Ramadan communication, which strengthen its bond with its consumers and reflect the warm, sincere air and the spirit of unity and solidarity of Ramadan that embraces the family has been released.



With the theme "If your loved ones are around you and Sütaş is at the table, iftar tastes much better", commercial films that feature large families coming together at warm and friendly Ramadan tables





have become unforgettable with colorful "Hot and Spicy Brother-in-Law, Shy Brother-in-Law, Entrepreneur Nephew and Modern Grandmother" characters. Through effective TV broadcasts, 22 million 188 thousand people watched Süttaş's Ramadan commercials at least 3 times.

In addition to effective commercial broadcasts on TV, just like every year the campaign had spread throughout Turkey with Ramadan



menus through out-of-home consumption channel, applications for shoppers, radio, outdoor and digital communication channels.



Digital communications and social media posts were directed to Süttaş Ramadan Package at Süttaş Market and enabled consumers to order directly.

Within the scope of Instagram contest prepared with "Modern Grandmother" character during Bayram period of the campaign, consumers were asked to share photographs taken with their family members, family elders and tables set with tasty Süttaş products, with the hashtag #SüttaşileBayramdaSelfie.

With the new advertising campaign, which was designed with the idea of what gives Ramadan tables its unique taste is the spirit of togetherness as much as legendary meals, Süttaş once more became the brand that captured the spirit of Ramadan best, and reinforced its emotional bond with the consumers. Due to high approval ratings during the Ramadan period, Süttaş overshadowed its tough competitors that invested in Ramadan communication and raised image scores of the Süttaş brand. Most importantly, it has reminded the goodness and spirit of togetherness of Ramadan when it was needed most.

"Süttaş Ramadan Campaign / A Shy Brother in Law" commercial film won the Silver Apple in the film category in Crystal Apple Creativity Awards.

### Not Without Milk



With "Not Without Milk" social media campaign, Süttaş UHT and Pasteurized Milk aimed to



increase brand recognition and market share by distinguishing in milk market where competition is intense and aimed to put Süt milk on consumers' agenda.

In the unbranded first phase of the campaign, consumers' attention

was drawn to the importance of milk with the question "How would life be without milk?" without mentioning any specific brand; in the branded second phase, karaoke contest with the slogan and song "Not Without Süt Milk" reached a large audience with the use of opinion leader and in cooperation with Fatma Turgut. On the stages put at shopping malls and festivals, karaoke performances were made with the song "Not Without Süt Milk" and participation in the contest was increased. The video which was broadcasted live on Youtube homepage on the final day, was watched by 13,5 million people, rising above Turkey's average.

During the campaign, the market share of Süt UHT Milk was increased by 5% (Source: Scantrack, May'17) and Süt took the leading position in UHT market. In pasteurized milk market, Süt obtained the highest market share of the last 9 months as well. (Source: ACN – SMP, May'17)

The campaign was granted 6 awards in different categories in MMA Smarties Awards.

### Süt Lactose-Free Milk

Süt Lactose-Free Milk, which is easy to digest and can be drunk by milk lovers who



are deprived of benefits of milk due to lactose intolerance as much as they want, was added to Süt product portfolio.

### Süt Chocolate and Fruit Milk Term Break and Spring Communication



Within the scope of the communication campaigns for Süt Chocolate and Fruit Milk family held during the spring months, including Term Break and April 23 National Sovereignty and Children's Day, there were remarkable practices for shoppers and consumer activities that

increased visibility at points of sale in addition to commercials on TV, cinema, and digital channels.

Run of Legends, the running activity attended by thousands of children, held in Alaçatı district of Çeşme was supported. At the same time, children were invited to play games on website neseliagle-celi.com and were given surprise gifts.

### Süt Chocolate and Fruit Milk Package Change

Süt Chocolate and Fruit Milk, which makes drinking milk more enjoyable for children and gets them to adopt the habit of drinking milk, offered a more cheerful and fun brand world for children with its renewed world of characters and packages. With three different front side designs for each of chocolate, strawberry and banana variants, differentiation and separation on shelves were aimed.





### Sütaş Chocolate and Fruit Milk "Back to School" Period Communication

During "Back to School" period, it was aimed to strengthen its position in supermarket channel with free collectable stickers in multiple product packages. A fun content consisting of games, puzzles and videos, was presented to the children with the mobile application "Cheerful Fun" as a new communication platform.



### Sütaş Salep

Sütaş Salep, which was put on market in order to enrich Sütaş's milk product portfolio with natural and healthy choices that carry the values of Anatolia and Turkish culture in a way to appeal to people of all ages, every need and every usage, to provide a delicious and high quality product in also the salep market to the consumers who trust Sütaş and prefer Sütaş products and to strengthen Sütaş's market leadership in milk and dairy products market, took its place on the shelves as of November.



### Sütaş Butter

Sütaş Butter was chosen as "the most popular brand" in Butter category as a result of Brand Health Tracking research carried out with a total of 400 people between the ages of 18-55 in 3 big cities with quota sampling method, using face to face research management (CAPI) in December 2017 period by IPSOS for Sütaş.

### "Yogurt Trusted By Yogurt Lovers" Campaign



"Yogurt lover" communication, which has met with consumers through TV, outdoor, radio, digital and shopper applications, was continued with "Yogurt Trusted By Yogurt Lovers" campaign and thus, Sütaş's image as

the "leader" and "trusted brand" was strengthened.

### Gourmet Yogurt from Sütaş Specific to Spring Months



Gourmet Yogurt, offered by Sütaş seasonally for gourmet yogurt lovers, received appreciation of consumers with its special taste derived from mixing buffalo, sheep, goat and cow

milks and its unique formula with thick



cream and intense consistency. Yogurt communication specific to spring was performed through shopper applications in addition to TV, outdoor and digital channels.

### Sütaş Glass Bowl Yogurt Exclusive New Year Package Work

Just like every year, glass bowl yogurt design specially prepared for the new year took its place on shelves in the new year period.



### Sütaş Fruit Yogurt Family Expanded with New Varieties

Sütaş Fruit Yogurt family, with the highest fruit rate on the market, got larger with Peach-Pineapple variety as Turkey's first and only variety special to the summer period, and with Apple-Pear-Cinnamon and Pomegranate varieties special for the winter period.

### Sütaş Fruit Yogurt "Rich in Fruit, Very Delicious" Communication Campaign

Through two commercial films, by showing the positive reactions of adult people who were prejudiced against the taste of fruit yogurt, consumers were invited to try taste of Sütaş Fruit Yogurt. In the campaign, taste of Sütaş Fruit Yogurt due to being rich in fruit was also emphasized.



Sütaş Fruit Yogurt which grew by 16% during communication period in comparison to the same period of the previous year, became the leader in mind awareness by reaching 5 points above the closest competitor in brand recognition, coming to mind first. Sütaş Fruit Yogurt that strengthened its leadership in image elements, got scores higher than its two closest competitors in blind taste tests.

### "Being Yourself is the Most Natural Way, Shake Your Sütaş Ayran" Communication Campaign



In the communication campaign, aimed at enabling young people to prefer Sütaş Ayran especially in social environments and for them to adopt the habit of consuming ayran - which is mostly drunk with meals - at all times, it was emphasized that being yourself and acting naturally is more important than what is cool or not. The most preferred Ayran brand of Turkey and 100% natural beverage, Sütaş Ayran, encouraged especially young people to be themselves and act natural with



the slogan of "Being Yourself is The Most Natural Way, Shake Your Sütaş Ayran".

Within the framework of the campaign, TV commercials on national, local and thematic channels, radio commercials on national and local stations were broadcasted and commercials were broadcast in digital channels; outdoor channels were also used extensively across Turkey. In addition, campaign was supported with on-tram advertising in Antalya.

According to brand health research conducted in December 2017; Sütaş Ayran won 9 points and reached 61% in the brand scores coming to mind first according to April 2017 scores. (Source: IPSOS)

The campaign won Effie bronze award in the beverage category.

"Blip with Sütaş Ayran" project was chosen as Public's Favorite in social media category at the Golden Spider Contest.

### Sütaş Ayran 300 ml. Glass Bottle Incentive Work



An incentive contest was organized for 500 waiters in order to highlight that Sütaş Ayran is the best supplementary beverage of meals and to increase awareness with regards to Sütaş Ayran 300 ml glass bottle. In the same period, visibility was heightened using combo menu placements with Sütaş Ayran on table mats and free standing boards.

### Sütaş Süzme "If We Love, There Are Lots of Reasons" Communication Campaign

In the campaign "If we love, there are lots



of reasons", it has been expressed why Sütaş Süzme, the most preferred cheese in most of the households, is loved so much.

Within the scope of "If we love, there are lots of reasons" communication campaign



of Sütaş Süzme, which is Turkey's the most loved cheese taste by young and old alike, there were social media projects, activities, Sütaş caricature applications



and sales point activities besides TV, advertorial applications, radio, digital and outdoor advertising.

Thousands of consumers from 78 provinces of Turkey participated in a





digital contest organized within the scope of the campaign and they sent their reasons for loving Sütaş Süzme to the address of [www.seviyorsaksebebicok.com.tr](http://www.seviyorsaksebebicok.com.tr).

In the outdoor channel, bus stops, metrobus, subway shelter ads, subway screen applications were included and the campaign was strengthened with the use of local media. In Hürriyet comic strip, comics in line with the communication campaign content wise were published.

### Süzme Küp Küp Launch

Offering popular tastes of Sütaş Süzme, which maintains its innovation leadership by expanding its product range in line with consumer needs and

market dynamics as small cubes, Sütaş Süzme offers Süzme Küp Küp to the consumers.

Practicality of the product was emphasized in cooperation with opinion leaders besides television and digital media publications made within the scope of Süzme Küp Küp communication which adds flavor to salads, pastas, canapes, cheese plates and many more recipes with ready to eat cheese cubes.



Süzme Küp Küp communication was supported by digital commercials and opinion applications.

### Sütaş "Tatlımmm is So Sweet, I Can't Explain" Campaign



Continuing Sütaş Tatlımmm communication campaign in 2017 in television, radio, internet and shopping points, consumers were informed that Tatlımmm is a very delicious dessert rich in milk and can be consumed by everyone with a "mind at peace."

When domestic sales during communication period were compared to sales of the same period of previous year, it was observed that brand showed 22% growth success (Source:



Olap, January 24 - February 28, 2016-2017).

SütaşTatlımmm, which has been regularly campaigning since October 2016, increased its spontaneous recognition by 26 points within a year (Source: Ipsos, Ready to Eat Pudding Brand Tracking Study, December).

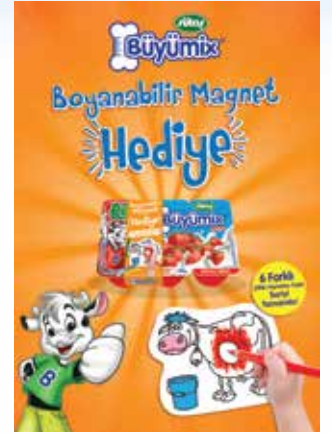


### Fun Educational Promotions from Sütaş Büyümix

Sütaş Büyümix brought children together with educational and fun promotions throughout the year. Takotak promotion, which children could get and collect, allowed children to have fun and show their creativity. Children shared photographs of toys which they made with Sütaş Büyümix takotaks on the website [www.takotaklaeglen.com](http://www.takotaklaeglen.com).



During the summer season, free colored ice cream sticks and animal shaped ice cream molds were given together with Sütaş Büyümix. Children were enabled to eat Sütaş Büyümix by freezing. Thus, Sütaş Büyümix was positioned as a healthy, nutritious, tasty and especially fun ice cream alternative during summer season. "Sütaş Büyümix Freeze and Eat"



promotion campaign was supported by visual materials at sales points besides TV commercials on kids channels throughout the summer season. Sütaş Büyümix sales increased by 22% during the promotion period and brand achieved Turkey's market leadership in August. (Source: Nielsen Children Fresh Cheese Market, Including Total Turkey & Discount Stores, August 2017)

During back to school period, Sütaş Büyümix was offered for sale with paintable magnet promotions having livestock concept with which children could improve their creativity while having fun. Sütaş Büyümix that is a leader in organized retail channel by a long way has strengthened its leadership with 43% of market share at the end of the year. (Source: Nielsen, Children Fresh Cheese Market, SPM, 2017)

### Sütaş Minimix's Fun Game: Pat PatBom

More than 80.000 children played "Minimix Pat Pat Bom" digital game, where Sütaş Minimix's popular





popping candies loved by children very much, were used. Chocolate popping candies that combine chocolate flavor loved by children very much with popping candy fun and only included by Minimix, were introduced with this game in a fun way.

### Two New Varieties from Sütaş Minimix



In September 2017, Minimix portfolio in supermarkets and traditional channels was renewed with strawberry and forest fruit varieties.

### New Taste from Sütaş Hüprik! Fluffy Cotton Sugar Launch

A new variety of Sütaş Hüprik, which leads in the category of milk products by bringing taste of Cotton Candy much loved by children with Hüprik fun together, was both supported by visual works



at sales points and was presented in digital media that mainly targets children and is heavily used by them.

Sütaş Hüprik grew by 23% in Turkey in 2017 with fluffy cotton candy launch. (Source: Nielsen Children Fresh Cheese Market, Including Total Turkey & Discount Stores, 2017)

### All of Sütaş Hüprik Tastes are Together with Hüprik Party Package

With 9-pack mixed party packages, containing all of Sütaş Hüprik flavors, children are allowed to share Hüprik fun with their friends. The design of Hüprik party package was renewed and made more fun and attractive, and hence increased brand's visibility on shelves.



### 1.1.3 Human Resources Activities

#### Training and Development

In Sütaş, through the approach of training and talent development, it is aimed to support institutional development and to increase the speed of learning. All development activities have been gathered under the roof of "Academy Sütaşkı". Within the scope of Akademi Sütaşkı, in order to improve expertise of the employees, increase their performances and support them to use their potential; development of employees was contributed by Being a Sütaş Member Orientation Program, Occupational Skill and Competence Development Program, and Leadership Development Programs.

In 2017, 80.875 hours of training was provided at Academy Sütaşkı. 17,5 hours of training was provided per person. 74% of trainings in the institution was provided by internal trainers. With trainings, it was continued to focus on professional development programs and institutional development that would increase mastery and expertise.

#### Sütaş Management School

Sütaş Management School aims to create a happy work environment by increasing mastery and expertise in team management and to maintain successful business results by ensuring continuity of human resources. Within this scope, leadership programs were organized in 3 different levels at Sütaş Management School.

##### 1. Executive Development Program

In Executive Development Program in 2017,



employees participated in a 2-day classroom training program and 2 sessions of one-to-one development coaching.

Throughout the program, issues such as achieving with team, creating common goal awareness, motivation management and feedback techniques were discussed within the framework of competencies of Leading Values and Leading Team in Sütaş Behavioral Model. Satisfaction score of the program in which 17 people participated in 2017, is 4,76.

##### 2. Manager Development Program

In Manager Development Program in 2017, employees participated in a 2-day classroom training program and 2 sessions of one-to-one development coaching. Throughout the program, competencies of Leading Values, Leading Future and Leading Team in Sütaş Behavioral Model were discussed. This year, 29 managers completed the training program. Satisfaction score of the training is 4,45.





### 3. Group Manager and Higher Level Development Program

"Leadership in the time of VUCA" program which we designed for Group Managers and executives working at higher positions, was designed as a development journey with a 4-day classroom training program and 3 sessions of one-to-one development coaching and individual development presentations. It was focused on competencies of Leading Values and Leading Future in Süttaş Behavioral Model. The program was completed with participation of 15 leaders and 4,22 satisfaction score.

### Süttaş Production School

#### Team Leader "LİDERLİĞ (LEADERLEAGUE)" Development Program

The first four modules of the Liderlig Development Program, which was prepared within the scope of Academy Süttaşkı in Production School for the purpose of developing managerial skills of team leaders,



were completed in 2017. Within the scope of modules completed in the program with participation of a total of 117 team leaders, contents designed to develop topics such as basic management skills, communication and relationship management, effective feedback and coaching techniques, and performance management were presented.



### Dairy Certification Program

2017 yılında, «Türkiye'nin Sütçüsüyüz» mottosundan yola çıkılarak, 43 yıllık deneyim ve mükemmellik arayışıyla, ustalık ve uzmanlığı derinleştirmek, üretimde mesleki beceri kalibrasyonunu artırmak, değişen teknoloji ve iş dünyasının dinamiklerine daha etkin uyum sağlamak hedefleriyle, "Sütçülük Sertifikası Programı"na başlanmıştır. Gerçekleştirilen eğitimlerde ortalama %17 bilgi gelişimi sağlanmıştır.

### Süttaş Satış Okulu

#### Field Sales Development Program

"Sales Development Program," designed within the scope of Sales School, whose target group was positions below sales manager position, continued in 2017 as well. The program, which was put into practice with the goals of ensuring implementation of Süttaş fieldwork model as a standard, increasing knowledge levels related to products and business processes, developing sales skills, consists of 4 different modules. Being a Süttaş Member Orientation Program, Süttaş Sales Steps, Return and Fund Management, Complaint Management, Product Training, Merchandising and Product Penetration



trainings are given within the scope of modules. In 2017, 3.012 people participated in trainings provided in sales areas and training satisfaction score is 4,6.

### Group Sütaşkı

Group Sütaşkı, which performs social activities both inside and outside of company in Sütaş, is a social activity group consisting of volunteer employees and aims to increase motivation of the employees.



Group Sütaşkı enables employees to give short breaks during busy schedules with hobby clubs, contests and various activities ranging from talent shows to karaoke parties planned within the company and also enables them to socialize together with participation of their families with culture trips planned outside the company.

Within the scope of the Group Sütaşkı activities, 28.930 employees came together in 175 events in 2017.

### Employment

In 2017, 200.378 job applications were submitted to Sütaş and 1.320 people were employed.

For all newly hired employees, "Being a Sütaş Member" program was organized; trainings to speed up the process of adapting to work and company, meetings with senior management and experience conversations were arranged. In 2017, participant evaluation survey average of the Orientation Program is 4,85.

### Internship Program

The 8-week internship program for undergra-

duate third and fourth year students includes "Being a Sütaş Member" orientation, workshop, "Professional Life Principles" personal development training, Dairy Center visit, meetings with senior management, career coaching, project work and presentations.

In 2017, 27 undergraduate students participated in summer internship program at Karacabey, Aksaray, Tire facilities and the Head Office.

### Means of Appreciation and Rewards

Sütaş Suggestion System allows all Sütaş employees to share their suggestions and ideas about working environment and business processes. 313 suggestions were made by employees in 2017.

Kaizen workshops regarded in a separate category were attended by 675 employees in 2017, and as result 1111 improvement works were carried out.

In addition, team members who make a difference with their works, are instantly appreciated and rewarded by their managers with "God Bless Your Hands and Mind Awards". Within this scope, "God Bless Your Hands and Mind Awards" were given to 254 people in 2017.

In 2017, 565 employees received seniority awards

### PERYÖN Human Management Awards



In 2017, Sütaş was participated Peryön Awards in "Leadership in Human Resources" category. As one of 3 finalist companies, Sütaş was awarded "Finalist Plaque".



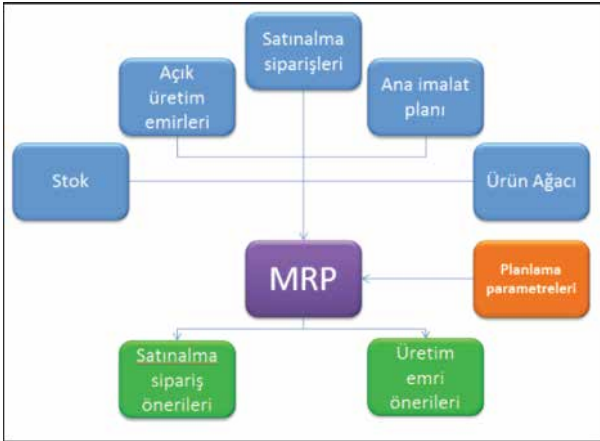




be transferred to ERP system immediately and both labor and paper savings were enabled.

### MRP Project

MRP system was put into service in order to enable rearrangement of complete planning, an effective material control and plans for changes that might occur, to keep level of inventory at minimum and to ensure that needed material is available at the desired location and time.



### Production Reports

Reports used in production units were enabled to be taken into Sütaş Reporting system by consolidating in line with the needs of use.

Data standardization was targeted by reporting reports through one channel.

### Master Data Management Project

By taking Sütaş Turkey Customer, Supplier, Product, Material and Recipe Master Data openings to eBA workflow system, master data was enabled to be processed through only one platform.

### System Management

#### User Computers in Production Environment of Tire Factory was Included in Desktop Virtualization System

Computers used in Tire factory during production were enabled to operate by using desktop virtualization technology. With this infrastructure, advantages were provided in terms of issues such as energy savings and physical environment in line with Sütaş's centralized management, easy installation, sustainability objectives.

### Information Security and Network

#### Internet and Data Lines Project was Completed

Current capacities of internet and data lines and the backup scenario were checked and it was decided to improve existing Internet and Data lines. In the first half of 2017, necessary works were done and operator change procedures of all lines were completed.

#### Transfer Project of Sütaş Head Office, Milk Factories and Tarfaş Audio Lines was Completed

It was decided to transfer lines in order to lower audio line costs of Sütaş Head Office, Milk Factories and Tarfaş, to eliminate technical problems caused by analogue lines and transfer of all analogue lines in these locations was completed. As continuation of the project, it was decided to remove old centrals in all regions, to adopt central office structure and to transfer analogue lines.

### Smart Fax Project was Completed

In line with sustainability targets of Sütaş,





Smart Fax project was carried out in order to reduce paper usage, to eliminate the need for necessary fax equipment and to lower costs of fax lines. Within the scope of this project, 87 physical fax lines in all locations were transferred to Smart Fax system and 87 fax machines to which the lines were connected, were stopped being used so, it was made saving. With Smart Fax System, fax shopping service started to be given via e-mail and a considerable cost and time advantages were provided.

### **The 3rd Region of İstanbul European Side, Kırac Region was Opened**

Kırac Region which was included from the planning stage, was opened as a technically example zone with manageable network infrastructure, IP telephone connected to central office, up to date camera systems.

### **Reciprocal Authentication System was Put into Use for VPN Service**

In access to critical systems from outside the office, a secure tunnel had been opened by controlling user name and password and access had been provided. In order to minimize the risk of knowing user name and password, guessing it or not being a strong password, a second verification was started by sending an automatic second password to the person's mobile phone via SMS method. In order to tighten the security of access to our systems such as SAP, common area, intranet, etc., reciprocal authentication was started via SMS.

### **First Social Engineering Test was Performed**

The first social engineering test was conducted for the purpose of increasing awareness about information security of

users who were at the center of increasing cyber security attacks and were seen as the weakest link. According to test scenario, users were asked to write their user name and passwords via an e-mail sent to them; their results were recorded and analyzed. A presentation was prepared for the users about methods of protection from social engineering attacks and assigned as a training through Academy Sütaşkı.

### **Support Services**

Within the scope of Support Services, Technical Support Services took a total of 21.071 employee calls in 2017. With an average of 41,20 minutes duration per call for solution, 14.466 hours of solution work was done.

### **Industrial Development Activities**

A total of 1.111 improvement (Kaizen) projects were successfully completed with participation of 675 employees within the scope of Industrial Development activities in Sütaş. A total of 1.381 people participated in trainings provided by employees of Coordination Office of Industrial Development in the fields of Lean Production, Kaizen, 5S, Problem Solving, On the Job Training. Line, department and factory board meetings where performance indicators and actions were followed and field management practices, were put into practice with the titles of SQCDMN (Safety, Quality, Delivery, Cost, Morale, Nature ) in Aksaray, Karacabey and Tire factories.



## 1.2 Important Developments and Activities Abroad

The title of Balkan Dairy company, which has continued its activities in Macedonia in accordance with Süttaş's foreign markets vision, was changed as Euro Dairy in 2017. In order to increase the efficiency of the company in international markets as well as domestic markets, product development and marketing research for these markets were accelerated.

In 2017, Macedonian based significant sales targets in Balkan region were set and company organization has started to be strengthened to achieve these targets.

First steps have been taken by organizing a team with a high level of regional experience especially in sales and marketing. Starting with the target of market share growth in Macedonian market in the last quarter of 2017, our influence will be increased in the short term.

In November 2017, export to Albania started and Süttaş branded products were brought to consumers in this region. With Macedonia, Kosovo and Albania, Süttaş's regional influence increased.

Products were exported to Germany, Austria, England, Belgium and Hungary throughout the year, from the Macedonian plant that has a production permit certificate allowing export to European Union countries. Increasing the share of export to Europe within sales of the company is targeted and products will be exported to 14 countries in Europe.

### Communication Activities in Macedonia

Süttaş, having continued its regular communication activities for consumers in 2017, also reached large crowds with its ayran, yogurt and pavlaka communication activities alongside its main brand communication in the Balkans.



Within the scope of the communication campaign,



describing dynamic and fun world of Süttaş Ayran with the slogan of "When

you want to freshen, here you go, take Süttaş Ayran", there were outdoor and sales point activities besides national and local TV broadcasts and radio broadcasts.

Buses covered with Süttaş Yogurt and





Ayran visuals traveled all over Skopje in June.

Commercial film, which was prepared to strengthen Macedonian launch of Süttaş's new product called pavlaka, was shown in special advertising spaces. Süttaş pavlaka communication was supported by corporate commercial films about Süttaş's natural tastes and tasting events were organized in big hypermarkets.

Entertaining TV commercials introducing much loved chocolate milk in Macedonia were broadcasted on national channels. Commercials of Süttaş Hüpatrik, which was a new and popular flavor for children in Macedonia, were broadcasted on national channels and reached large masses through Youtube ads targeting consumers in Macedonia and Süttaşkı band activities. Süttaşkı Band met with consumers in Macedonia throughout 2017. By visiting kindergartens with the Cow mascot in Skopje, games were played with more than 5 thousand children and cow masks and painting activities were carried out.

Regular social media communication was carried out for consumers through Süttaş Macedonia Facebook page.

### 1.3 Export Activities

Determining its export target as "Becoming the leading milk and dairy products exporter in Turkey", Süttaş added Singapore, Bahrain, Yemen and Qatar markets to its country portfolio of export this year.

Iraq, Mauritania, Cyprus and United

Arab Emirates (BAE) markets where regular export activities are carried out currently, have come to the forefront with significant growth rates.

In 2017, regular exportation of fresh products to Russian Federation has started. Such export is in growth trend despite all difficult conditions regarding competition. Russian market will be at the center of targeted growth in 2018.

One of the most important agendas of 2017 was the Qatar market in terms of export. Only 24 hours after the crisis among Gulf countries, Süttaş products took their place in all Qatar markets and high volume and regular trade have been carried out both by air and by sea since that date.

After a long period, in 2017 Süttaş participated in 'GulFood' fair considered to be the most important food fair of the region, as a dairy producer and met with more approximately 250 potential buyers from more than 30 countries; thus Süttaş export portfolio was introduced to business people of relevant markets.



In 2017, products were sold to a total of 30 countries and significant growth was achieved with an export value of 25 million USD in comparison to 2016.



Although Ministry of Food, Agriculture and Livestock supports for the exportation of industrial products ended in 2016, total exports to Bangladesh, Pakistan, Kazakhstan, Palestine, Saudi Arabia, Macedonia and especially Russia reached a total of 7.888.150,00 USD.

Decrease in competitiveness due to increased raw material costs stands as the most significant obstacle curtaining the growth in export in 2017. Local/regional production in target geography on the one hand, high price competition against especially European-based competition on the other hand, made additional growth that could be achieved, difficult. In other respects, socio-political instability in close geographies such as Iraq, economic recession in oil exporter countries such as Azerbaijan and preventive measures for import in high potential countries such as Egypt also made potential growth difficult.

Within the year 2017, important steps were taken relating to growth especially in Gulf region and distributors were assigned in United Arab Emirates and Saudi Arabia in this respect. Positive results of these works will reflect on the outcomes of the year 2018.

With important contributions of Turquality program that Sütaş has participated in since 2016, Sütaş takes firm steps forward in order to be "Regional Dairy Farmer" by accelerating its advertising activities abroad and growing primarily in markets where it is located and then, in new geographies, especially in North Africa and the Gulf markets.

This process is also supported by product development activities for target markets. Sütaş will continue to act as the powerful brand that communicates with consumers, continues to give particular importance to freshness and naturalness and offers solutions with natural flavors addressing consumer needs in all target markets.





## 2. SÜTAŞ A.Ş. FINANCIAL REPORT AND EXPLANATIONS 2017

### 2.1 General Information

2.1.1	Accounting period of the report	01.01.2017-31.12.2017
2.1.2	Company's Trade Name	SÜTAŞ SÜT ÜRÜNLERİ ANONİM ŞİRKETİ
2.1.3	Company's Trade Registry Number	543
2.1.4	Head Office / Contact Information	Uluabat Köyü Karacabey BURSA / 0224 688 51 01
2.1.5	Company's Internet Address	www.sutas.com.tr
2.1.6	Company's Branches and Contact Information	Indicated in the table below

Sütaş A.Ş. Headquarters	0216 5723050	Bandırma Regional Sales Directorate	0266 7210152
Aksaray Factory	0382 2662001	Bingöl Regional Sales Directorate	0412 2518276
Karacabey Factory	0224 6885101	Bodrum Regional Sales Directorate	0252 3586183
Tire Factory	0232 2162700	Çorlu Regional Sales Management	0282 6865808
Ankara Regional Management	0312 3548715	Denizli Regional Sales Management	0258 2518910
Antalya Regional Management	0242 3404813	Diyarbakır Regional Sales Management	0412 2518276
Bursa Regional Management	0224 2114066	Eskişehir Regional Sales Management	0222 3304242
İst. Anatolian Side Regional Management	0216 5723050	İst. Kartal Regional Sales Management	0216 4277218
İst. European Side Kağıthane Regional Management	0212 2942601	Kayseri Regional Sales Management	0352 2402623
İst. European Side Merter Regional Management	0212 4830808	Keşan Regional Sales Directorate	0282 7152827
İst. Kırşehir Regional Management	0212 4036400	Konya Regional Sales Management	0332 3454736
İzmir Regional Management	0232 4353930	Mersin Regional Sales Management	0324 2353809
Kocaeli Regional Management	0262 3492206	Söke Regional Sales Directorate	0256 5188899
Adana Regional Sales Management	0322 4453296	Trabzon Regional Sales Management	0462 3412921
Aksaray Regional Sales Directorate	0382 2662001	Yalova Regional Sales Directorate	0226 8253350
Alanya Regional Sales Directorate	0242 5190448		

### 2.1.7 Company's Organizational Structure and Senior Management

Senior Management of Sütaş Group consists of 7 chairmanships.

Name and Surname	Chairmanship
<b>Murat Arat</b>	Chief Research, Development and Technology Officer
<b>Hüseyin Mustafa Çevik</b>	Chief Financial Officer
<b>Ergun Ermutlu</b>	Chief Marketing Officer
<b>Hasan Tulgar</b>	Chief Strategic Planning and Business Development Officer
<b>Aynur Duygu Yılmaz</b>	Chief Audit Officer
<b>Serpil Veral / By proxy</b>	Chief Human Resources Officer
<b>Serpil Veral / By proxy</b>	Chief Management Systems Officer

In parallel with Sütaş Süt Ürünleri A.Ş.'s target of undertaking a leading role in both domestic and international markets, dairy products activities were structured under the roof of "Dairy Products Business Unit" and Mr. Hüseyin Akın was appointed as Chief Executive Officer.

DAIRY PRODUCTS GROUP	
Name and Surname	Chairmanship
<b>Hüseyin Murat Akın</b>	Chief Executive Officer
<b>Emin Çolakoglu</b>	Deputy Chief Supply Chain Officer
<b>Not assigned yet</b>	Deputy Chief Financial Officer
<b>Not assigned yet</b>	Deputy Chief Marketing Officer

SÜTAŞ TURKEY	
Name and Surname	Chairmanship
<b>Funda Ak</b>	General Manager
<b>Fatih Büyükkutku</b>	Deputy General Manager - Financial Affairs
<b>Korel Tunay</b>	Deputy General Manager - Production
<b>Hüseyin Yılmaz</b>	Deputy General Manager - Sales Operations

As of 31.12.2017, the number of our employees is 4.142.





### 2.1.8 Company's Shareholding Structure

Company's shareholding structure is as follows.

Company's Shareholders	Capital Amount [TL]	Capital Share [%]
Yılmaz Holding A.Ş.	20.527.333,33	50,07
Muharrem Yılmaz	20.307.361,99	49,53
Others	165.304,68	0,40
<b>Total:</b>	<b>41.000.000,00</b>	<b>100</b>

No privileged share or privileged voting right is available in our Company.

### 2.1.9 Information Regarding Company's Direct or Indirect Participations and Share Rates

#### 2.1.9.1 Affiliates:

Affiliate's Trade Name	Field of Activity	Registered Capital [TL]	Paid in Capital [TL]	Amount of Contributions to The Capital [TL]	Capital Rate [%]
Paksüt Süt San ve Ticaret A.Ş.	Milk and Dairy Production	100.000	100.000	24.860	24,86

Paksüt A.Ş.'s Head Office is located in Uluabat Village, Karacabey, Bursa.

#### 2.1.9.2 Subsidiaries:

Subsidiaries's Trade Name	Field of Activity	Registered Capital [Euro]	Paid in Capital	Amount of Contributions to The Capital [Euro]	Capital Rate [%]
Euro Dairy DOOEL / Macedonia	Milk and Dairy Production, Sales and Distribution	7.000.000	7.000.000	7.000.000	100
Euro Dairy SRL / Romania	Milk and Dairy Production, Sales and Distribution	10.000.000	10.000.000	10.000.000	100
Euro Dairy G.m.b.h. / Germany	Milk and Dairy Sales and Distribution	500.000	225.000	225.000	100
Balkan Dairy Shpk / Albania	Milk and Dairy Sales and Distribution	50.000	50.000	50.000	100
Balkan Dairy Shpk / Kosovo	Milk and Dairy Sales and Distribution	50.000	50.000	50.000	100
Balkan Dairy Farm Dooel / Macedonia	Plant Production	5.000	5.000	5.000	100



### 2.1.10 Company's Board of Directors:

Name and Surname	Position	Starting Date of Duty
<b>Muharrem Yılmaz</b>	Chairman and CEO	22.04.2017
<b>Selim Tarık Tezel</b>	Vice Chairman	22.04.2017
<b>Serpil Veral</b>	Vice Chairman	22.04.2017
<b>Murat Arat</b>	Member	22.04.2017
<b>Hüseyin Mustafa Çevik</b>	Member	22.04.2017
<b>Ergun Ermutlu</b>	Member	22.04.2017
<b>Mürvet Tezel</b>	Member	22.04.2017
<b>Hasan Tulgar</b>	Member	22.04.2017
<b>Aynur Duygu Yılmaz</b>	Member	22.04.2017
<b>Haydar Yılmaz</b>	Member	22.04.2017
<b>İlhan İl</b>	Independent Member	22.04.2017
<b>İzzet Karaca</b>	Independent Member	22.04.2017

Decisions regarding representing and binding the Company were taken on 28.04.2016 and necessary announcements were made. The Company is represented by two authorized signatories for its external transactions.

Limits of authority indicating the external representation and binding of the Company are shown in the signatory circular issued by the Üsküdar 17th Notary Public's document dated 01.06.2016 and no. 19006.

### 2.1.11 Committees of the Board of Directors

#### 2.1.11.1 Audit and Risk Committee

The Audit and Risk Committee consists of the following members. Committee held meeting six times during January-December 2017 period.

Name and Surname	Position	Starting Date of Duty
<b>İlhan İl</b>	Chairman	22.04.2017
<b>Aynur Duygu Yılmaz</b>	Member	22.04.2017
<b>İzzet Karaca</b>	Member	22.04.2017





#### 2.1.11.2 Business Ethics Committee

The Business Ethics Committee consists of the following members. Committee holds regular meetings every week.

Name and Surname	Position	Starting Date of Duty
Mürvet Tezel	Chairman	22.04.2017
Serpil Veral	Member	22.04.2017
Aynur Duygu Yılmaz	Member	22.04.2017

#### 2.1.11.3 Sustainability Committee

The Sustainability Committee consists of a board member, a consultant and a corporate communication executive and is led under the chairmanship of Board Member Aynur Duygu Yılmaz. The Sustainability Committee holds regular weekly meetings.

#### 2.1.11.4 Corporate Governance Committee

The Committee consists of the following members. It held four meetings during January-December 2017 period.

Name and Surname	Position	Starting Date of Duty
Aynur Duygu Yılmaz	Chairman	22.04.2017
İlhan İl	Member	22.04.2017
Serpil Veral	Member	22.04.2017

#### 2.1.12 Information Regarding Activities of Members of the Board of Directors within the Scope of Noncompetition

Members of the Board of Directors did not engage in a transaction regarding the company and did not act in a competitive manner in January-December 2017 activity period.

#### 2.1.13 Financial Rights Provided to Members of the Board of Directors and Senior Management

In January-December 2017 activity period, the total amount of benefits such as attendance fee, wage, premium, bonus, and dividend provided to the members of the Board of Directors and senior management is 15.170.299 TL.



#### 2.1.14 Company's Research and Development Activities

In January-December 2017 activity period, Sütaş Süt Ürünleri A.Ş. ("Company") spent 9.888.815 TL in technology and R&D as a part of its environmental awareness and efficiency activities.

#### 2.1.15 Company's Domestic and Foreign Investments

In January-December 2017 period, the Company made a total of 123.274.885 TL investment.

#### 2.1.16 Private and Public Audits

In January-December 2017 period, regular audits were carried out by public institutions and as a result of the fact that Sütaş Inc.'s 2012 accounts were audited by Tax Inspector, on the grounds that commercial wastages hadn't been reported to valuation commission in order to be valued, 2.864.247 TL corporate tax and 4.296.371 TL tax fine were imposed and notified on 29.11.2017. Within the scope of the same audit, 509.360 TL Value Added Tax and 595.199 TL tax fine were imposed and notified. Company requested settlement for this assessment. But, settlement day hasn't been determined yet. Since corporate tax assessment for 2005 in relation to the same subject was found unjustified and nullified by Central Reconciliation Commission, Company expects that 2012 assessment will be removed in this direction. Company and tax advisors expect that this dispute will be concluded in favor of the Company by jurisdiction because it is contrary to views and practices of Ministry of Finance if it becomes subject matter of a lawsuit. Therefore, Company has not made any provision in its financial statements for this fine.

#### 2.1.17 Important Lawsuits

There is no lawsuit filed against the Company significant enough to have an impact on its financial situation or operations in January-December 2017 period.

#### 2.1.18 Judicial and Administrative Sanctions

There is no administrative or judicial sanction imposed on the Company or its management members due to regulatory violations within its activity year.

#### 2.1.19 Donations and Aids

In January-December 2017 period, our Company made various donations and granted aids to various entities at the amount of 1.058.146 TL.

#### 2.1.20 Relations with Controlling Company

Our Company has not take any action, which requires offsetting and which would be in favor of other group companies by being directed by the holding company in its relations with the parent company Yılmaz Holding A.Ş. and other group companies except standard commercial activities.





## 2.2. Corporate Governance

### 2.2.1 Board of Directors



**MUHARREM YILMAZ**  
CHAIRMAN OF THE BOARD

Muharrem Yılmaz was born in 1957 in Karacabey district of Bursa. After completing his secondary education at Galatasaray High School, he graduated from the Faculty of Economics and Administrative Sciences of Uludağ University in 1980. Having started working at the family company Süttaş since the undergraduate years, Yılmaz was appointed as General Manager in 1989. He has been serving as the Chairman of the Board of Directors of Süttaş since 2005.

Muharrem Yılmaz has also undertaken active roles in non-governmental organizations besides his business life. Between 1999 and 2002, he served as the Chairman of the Board of Directors of Young Businessmen

Association of Turkey. He served two 2-year terms on TÜGİAD's Board of Directors, first as a Member of Board of Directors between 2009-2010, as the Vice Chairman between 2011-2012 and then as the Chairman between 2013-2014. Carrying out parallel duties in business organizations during his Board Membership in TUSİAD, he served as the Chairman of Board of Directors of Corporate Governance Association of Turkey (TKYD). In the same period, he served as the Vice Chairman of Board of Directors of the territorial and sectorial partners of TUSİAD, both Turkish Enterprise and Business Confederation (TÜRKON-FED) and Federation of Sectoral Associations (SEDE-FED), respectively.



**S. TARIK TEZEL**  
VICE CHAIRMAN OF THE BOARD

Born on November 13, 1961, Selim Tarık Tezel graduated from Interior Architecture Department of State Academy of Fine Arts (Mimar Sinan University) in 1987. After working abroad for a while, he completed his postgraduate education upon his return to Turkey. Working at his own architectural office between 1989 and 1994, Tezel became the Advertising and Public Relations Manager of Süttaş in 1994. He served as the Vice General Manager of Purcha-

sing and Logistics in Süttaş between 1998 and 2007 and as Supply Chain Director between 2007 and 2012. Tezel who was appointed as General Manager of Tarfaş A.Ş. in 2011, serves as the Vice Chairman of Board of Directors of both Süttaş A.Ş. and Tarfaş A.Ş.



**SERPİL VERAL**  
VICE CHAIRMAN OF THE BOARD

Serpil Veral, who was born on March 9, 1966, graduated from Ege University, Department of Food Engineering in 1989. She started her career in 1988 at Süttaş Süt Ürünleri A.Ş. She worked as Production Manager, Quality Assurance Coordinator, Deputy Technical General Manager and Management Systems Director respectively. Veral who worked as General Manager of Süttaş Süt

Ürünleri A.Ş. between 2010 and 2016, continues to serve as the Vice Chairman of the Board of Directors.



**MURAT ARAT**  
MEMBER OF THE BOARD

He was born on February 19, 1970 in İstanbul. Completing his primary, secondary and high school education in Bursa, Arat graduated from METU Department of Food Engineering in 1992. He completed his MBA degree at İstanbul University in 1993. He worked as Planning Specialist and Planning Manager at Mis Süt Sanayi A.Ş. between 1993 and 1996. He started to work at Süttaş as Assistant to the General Manager in 1996. He served as Investment Coordinator

between 1998 and 2006. He served as Deputy General Manager Responsible for Production between 2006 and 2008. He has been serving as the Chief R&D and Technology Officer since 2008. In addition to these duties, he has been serving as Vice Chairman of the Board of Directors of Enfaş A.Ş. which is Energy Activities Company of Süttaş Group since 2013.





**H. MUSTAFA ÇEVİK**  
MEMBER OF THE BOARD

H. Mustafa Çevik, who was born on December 12, 1958, graduated from Uludağ University, Faculty of Economics and Social Sciences, Department of Economics in 1980. In the same year, he started his career as Deputy Inspector at Pamukbank and served as Head of Inspection Board, Branch Manager and Deputy General Manager. At Sütaş A.Ş., where he started to serve as Deputy Chief Financial Officer in 2002, M. Çevik became the Chief Financial Officer in 2004. In addition to

this, he continues to serve as a member of the Board of Directors of Sütaş Süt Ürünleri A.Ş.



**ERGUN ERMUTLU**  
MEMBER OF THE BOARD

Ergun Ermutlu, born in 1958, completed his secondary education at Galatasaray High School and then started his university education at METU, Department of Business Administration and later graduated from Boğaziçi University, Department of Economics. He completed his MBA at Marmara University. Ergun Ermutlu who started his career as Marketing Officer at Erbak Uludağ A.Ş. in 1975, worked as Marketing Director between 1993 and 1995 at Total Group. He served

as Franchising Director at Boyner Group between 1995 and 2000. He joined Sütaş as the Marketing Adviser in 2001. He currently serves as Marketing Director and Member of the Board of Directors at Sütaş Group.



**MÜRVET TEZEL**  
MEMBER OF THE BOARD

Mürvet Tezel, who was born on November 28, 1961, graduated from Uludağ University Balıkesir Necati Bey Faculty of Education, Department of Biology - Chemistry. Tezel who started her career at Sütaş in 1995, worked at accounting departments of Istanbul and Bursa Regional Directorates until 2004. Mürvet Tezel had served as a member of Sütaş Audit Committee between 2005 and

2015, and continues to serve as Member of the Board of Directors of Sütaş Süt Ürünleri A.Ş. and the Chairman of Business Ethics Committee.



**HASAN TULGAR**  
MEMBER OF THE BOARD

Hasan Tulgar who graduated from Boğaziçi University, Department of Mechanical Engineering and Department of Physics in 1979, also completed his MA in Mechanical Engineering degree at the same university. Tulgar also graduated from Istanbul University Institute of Business Economics Department of Business Administration in 1986. Tulgar, who started his career at Demirören Group in 1982, worked at Efes Pilsen and Sinai Yatırım ve Kalkınma Bankası in the following years. Tulgar continued his senior management career which he started in 1988 at Marsa Margarin Sanayi A.Ş. as Business Development and Investments Manager, and as Business

Development and Finance Group Manager at MarsaKraft Jacobs Suchard.

Tulgar who served as Deputy Technical and Financial General Manager at FrukoTamek (Pepsi Cola) for a short period of time, joined Koç Group in 1995. Hasan Tulgar served as SEK (Dairy Industry Institution) General Manager and Member of the Board of Directors from 1997 until 2003, and then transferred to Sabancı Holding in the same year and became GıdaSA Farm Business Unit General Manager. Tulgar who continued his career as Sütaş General Manager between 2007 and 2010, serves as the Chief Strategic Planning and Business Development Officer and Member of the Board of Directors.







**A. DUYGU YILMAZ**  
MEMBER OF THE BOARD

Duygu Yılmaz, who was born in Bursa in 1976, graduated from Boğaziçi University, Faculty of Business Administration in 1998. She started her career at PriceWaterhouse-Coopers in Turkey in 1998. She served as the Group Manager at Yapı Kredi Bank between 2005 and 2008. She has been serving as Chief Audit Officer and member of the Board of Directors since 2011 at Sütaş where she started to

work as Internal Audit Coordinator in 2008. She is also Chairman of Corporate Governance Committee and Sustainability Committee.



**HAYDAR YILMAZ**  
MEMBER OF THE BOARD

Haydar Yılmaz, who was born on February 2, 1958, started his career at Sütaş in 1990. He served as Collective Consumption Sales Chief between 1990 and 1991, as Istanbul Regional Manager between 1991 and 2000, as Special Customer Sales Coordinator between 2000 and 2004, as Deputy General Manager Responsible for Sales between 2004 and 2006, HORECA Food and Consumption Services Group Manager between 2006 and 2010. Yılmaz, who has been Member of the

Board of Directors since 2010, became General Manager of Sütaş's operation in Macedonia as of 2015.



**İLHAN İL**  
INDEPENDENT MEMBER OF THE BOARD

İlhan İl, who graduated from Ankara University Faculty of Political Sciences Department of Finance in 1983, did his master's degree at West of England University in the field of International Business Economics in England in 1994. He started his career in 1984 as a Public Accountant at the Ministry of Finance. He was appointed as Advisor to State Minister in Charge of Economy in 1994 and Deputy General Manager of Economic Research and Assessment of Prime Ministry Undersecretariat of Foreign Trade in 1995. İlhan İl who joined Bilkent

Holding in 1997, served as Member of Bilkent Holding Coordination Committee, Chairman of the Board of Directors of Tepe Home, Tepe Betopan, Tepe Prefabrik, Vice Chairman of the Board of Directors of Bilkent Cyberpark until 2015. İlhan İl took the position of independent member at Sütaş Group's Board of Directors in April 2015. İlhan İl still continues to serve as Chairman of the Board of Directors of Traveler Turkey, independent member of the Board of Directors of Trakya Cam Sanayi A.Ş. and Anadolu Cam Sanayi A.Ş., both affiliated with Şişecam Group.



**İZZET KARACA**  
INDEPENDENT MEMBER OF THE BOARD

İzzet Karaca, who was born in 1954 graduated from Boğaziçi University, Department of Industrial Engineering in 1977. Karaca who started his career at Koç Research and Development Center in 1977, served as Industrial Engineering and Information Technologies Manager until 1985. İzzet Karaca who served as System and Organization Director at Ford Otosan between 1985 and 1988, has served as Internal Audit Group Manager, Logistics Manager, Commercial Director, General Manager at Unilever including Germany, Turkey and Baltic countries

from 1988 onwards. İzzet Karaca also served as President of International Investors' Association between 2011 and 2013. Karaca also served as Chief Executive Officer of Unilever Turkey and Unilever North Africa, Middle East, Russia, Ukraine and Belarus regions and member of Unilever CEO Forum. İzzet Karaca still continues to serve as independent member at Sütaş Group's Board of Directors.



### 2.2.2 Rules of Procedures of the Board of Directors

It is the strategic decision making, directing, supervision and representation body at the highest level of the company.

Besides having authority to take decision about every subject except issues left specifically for the decision of General Assembly in accordance with relevant laws and Articles of Association of the Company, Board of Directors may hand over its authorities to Committees of the Board of Directors, Chief Executive Officer (CEO), Executive Board and Executive Board members within the restrictions and limits deemed appropriate. In this context, the authorities given may be revoked, changed and reorganized partially or completely from time to time.

When Members of the Board of Directors do not perform tasks given to them by regulation, articles of association and general assembly intentionally or negligently, they shall be severally responsible for the results.

Members of the Board of Directors (except for independent members) shall not take on any task outside the company that may cause conflict of interest or cause them to neglect their duties in the company.

As a matter of principle, Members of the Board of Directors shall not compete and transact with the company. If such a situation arises, Member of the Board of Directors informs the Board of Directors immediately in writing. In the first General Assembly meeting to be held, shareholders are informed about this issue and it is written in the annual report. Members of the Board of Directors can transact and compete with the Company only with the approval of  $\frac{3}{4}$  of the shareholders. This issue is set out in the Company's Articles of Association.

Board of Directors gathers regularly and monthly as planned previously; if necessary,

without depending on this duration and without delay. Board of Directors holds its meetings in İstanbul; but they may hold meeting at another place where it is deemed appropriate with the approval of more than half of the members. A secretariat is formed under the command of Chairman of the Board of Directors to serve all members of the Board of Directors in order to keep documents related to the Board meetings regularly.

Board of Directors held a total of 22 meetings between 01.01.2017 and 31.12.2017. Meetings were held with the participation of all members. Meetings were held at the company's head office and members were invited by telephone and by e-mail. Decisions taken at the meetings of the Board of Directors were taken unanimously and there was no member of the Board of Directors who opposed the decisions taken.

### 2.2.3 Committee Evaluation of Board of Directors

Board of Directors determined that committees worked according to rules of procedures and their meeting frequency in January-December 2017 period. Records related to the results of meetings were reported to the Board of Directors. It was determined that committees carried out their duties effectively. In addition, Audit and Risk Management Committee gave written notice to the Board of Directors once in 2017.

### 2.2.4 Internal Control and Internal Audit Activities of the Company

Activities such as the establishment and implementation of the systems necessary for accounting, internal audit, risk management and financial planning; operation, compatibility and proficiency of the systems; determination of authorizations and liabilities related to these within the company are conducted via "Audit and Risk Committee" founded by the Board of Directors.





While fulfilling its duty in this respect, Audit and Risk Committee utilizes the data of the Audit Department and the institutions which carries out approval processes within the scope of independent and certified councillorship.

Within the scope of its risk- based annual audit plan, Audit Department reviews regularly the risk management and internal control system of the company in a way to reach the below listed purposes and reports directly to the Audit Committee:

- Accuracy and reliability of the financial and operational information
- Efficiency and effectiveness of the operations
- Protecting Company's assets
- Compliance with applicable laws, regulations and contracts

Company's Audit function determines the effectiveness of the internal control systems and makes recommendations for the improvement of existing systems and for the establishment of new systems where needed.

### 2.2.5 Risk Management

Risk management strategy of the company is based on the development and monitoring of practices for the identification and minimization of existing and probable risks.

Audit and Risk Committee works on risk management as well as on measures to be taken against risks that may endanger the existence, the development and sustainability of the company.

Existing and probable risks that the Company is exposed to are evaluated as follows:

- Company's all production activities are carried out in accordance with food safety and provisions of the relevant legislation and audited with food safety management systems.

Operational processes have become more effective, following the integration of ISO 9001:2008 (Quality Management System Standard), FSSC 22000 (Food Safety Management System Standard), ISO 50001 (Energy Management System Standard), ISO 14001:2004 (Environmental Management System Standard), OHSAS 18001 (Occupational Health and Safety Management System Standard) systems and ISO/IEC 27001 (Information Security Management System Standard) into our existing management system. All these systems established are kept alive with internal and external audits carried out every year.

- Capital/liability relation, foreign exchange rate risk and other financial risk factors which may have a direct impact on the Company's financial situation are controlled by business departments in weekly/monthly periods.

- "Guarantee - Risk Management System" is used to monitor customer risks. Thus, in case of limit excess compared to our customers' limits, our systems do not permit output of goods.

- SAP system used is an important technological tool that allows the company to minimize existing risks and support decision support processes in this respect. Monitoring operational results instantly through this tool, human errors are eliminated and efficiency of internal control systems is improved.

Company's assets are insured against natural risks; fire, earthquake and other similar natural disasters. These processes are carried out by getting support of competent insurance brokers and in compliance with the real values of the assets.



## 2.3 Financial Situation

Consolidated Financial Statements of activity results for 2016 and 2017 prepared within the scope of Turkish Commercial Code in accordance with Turkish Accounting Standards are as follows:

### 2.3.1 Consolidated Balance Sheet dated January-December 2017:

<b>Assets</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Current Assets</b>		
Cash and cash equivalents	135.520.938	71.668.203
Financial investments	2.949	2.284
Trade receivables:	300.206.628	243.227.720
-Trade receivables due from related parties	-	8.825
-Trade receivables due from non-related parties	300.206.628	243.218.895
Inventories	237.547.498	309.761.597
Prepaid expenses	22.023.266	7.270.855
Other current assets	62.948.304	62.219.181
<b>Total current assets</b>	<b>758.249.583</b>	<b>694.149.840</b>
<b>Non-current assets</b>		
Trade receivables:	62.708	60.677
-Trade receivables due from non-related parties	62.708	60.677
Financial investments	186.450	186.450
Investment properties	4.879.802	4.909.536
Tangible fixed assets	544.493.533	487.981.810
Intangible fixed assets	12.670.730	6.405.275
Deferred tax assets	22.452.307	22.585.148
Prepaid expenses	11.023.511	15.353.931
Other non-current assets	-	275
<b>Total non-current</b>	<b>595.769.041</b>	<b>537.483.102</b>
<b>TOTAL ASSETS</b>	<b>1.354.018.624</b>	<b>1.231.632.942</b>





<b>Liabilities</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Short term liabilities</b>		
Trade payables:	291.910.973	240.956.652
-Trade payables to related parties	45.896.135	35.575.837
-Trade payables to non-related parties	246.014.838	205.380.815
Short term borrowings	321.021.552	333.619.174
Current installments of long term liabilities	28.422.710	26.019.179
Liabilities within the scope of employee benefits	16.912.614	18.951.151
Other liabilities	7.208.966	7.126.902
Deferred income	1.365.522	303.708
Tax Liability due to the profit for the period	-	-
Short term provisions:	17.301.206	13.187.554
- Short term provisions for employee benefits	9.777.420	9.086.595
- Other short term provisions	7.523.786	4.100.959
<b>Total short term liabilities</b>	<b>684.143.543</b>	<b>640.164.320</b>
<b>Long term liabilities</b>		
Long term borrowings	26.563.275	30.223.801
Deferred income	2.120.398	634.949
Long term provisions for employee benefits	24.429.677	23.280.807
Deferred tax liability	-	-
<b>Total long term liabilities</b>	<b>53.113.350</b>	<b>54.139.557</b>
<b>SHAREHOLDERS EQUITY</b>		
<b>Main partner's equity</b>		
Paid in capital	41.000.000	41.000.000
Other comprehensive income or expense to be reclassified according to profit or loss	10.979.327	11.011.513
- Available for sale financial assets fair value fund		
-Foreign currency conversion adjustment	939	219
Accumulated earnings	10.978.388	11.011.294
Actuarial loss	431.639.869	360.339.726
Reserves on retained earnings	-11.547.316	-11.857.994
Net profit for the period	33.535.677	30.540.677
<b>Total shareholders equity</b>	<b>111.154.174</b>	<b>106.295.143</b>
	<b>616.761.731</b>	<b>537.329.065</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>1.354.018.624</b>	<b>1.231.632.942</b>



**2.3.2. Consolidated Profit or Loss and Other Comprehensive Income  
Statement of Period January 1 - December 31, 2017**

	1 January-31 December 2017	1 January-31 December 2016
<b>Activities carried out</b>		
Earnings	2.574.256.632	2.073.111.689
Cost of sales	-2.020.233.676	-1.585.280.486
<b>Gross Profit</b>	<b>554.022.956</b>	<b>487.831.203</b>
General administrative expenses (-)	-121.298.105	-108.310.870
Marketing, selling and distribution expenses (-)	-277.559.094	-239.227.932
Research and development expenses (-)	-9.888.815	-10.972.745
Other real operating income	35.093.559	28.191.952
Other real operating expenses (-)	-15.459.277	-9.787.693
<b>Operating Income</b>	<b>164.911.224</b>	<b>147.723.915</b>
Income from investments	7.270.088	3.099.049
Expenses born from investments (-)	-413.125	-318.989
<b>Operating profit before financial expense</b>	<b>171.768.187</b>	<b>150.503.975</b>
Financial expenses, net	-59.565.565	-45.092.371
<b>Income before tax</b>	<b>112.202.622</b>	<b>105.411.604</b>
Operations tax income/(expense)	-1.048.448	883.539
Period's tax expense	-993.457	-7.695.499
Deferred tax income	-54.991	8.579.038
<b>NET PERIOD PROFIT FROM OPERATIONS</b>	<b>111.154.174</b>	<b>106.295.143</b>
<b>Other comprehensive income</b>		
<b>Items not to be reclassified as profit or loss</b>		
Actuarial loss due to employee benefits	388.348	-4.128.622
Taxes related to other comprehensive income not to be reclassified in profit or loss	-77.670	825.724
<b>Items to be reclassified as profit or loss</b>		
Foreign currency conversion adjustment	-32.908	1.775.576
Reassessment (loss)/profits of financial assets ready for sale	720	54
<b>Other comprehensive (expense)/ income</b>	<b>278.490</b>	<b>-1.527.268</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>111.432.664</b>	<b>104.767.875</b>



### 2.3.3 Events after the Period of January-December 2017

In January-December 2017 period, the results were in line with our strategic growth objectives, our predictions and expectations. Our total assets which were 1231,6 million TL in 2016, reached 1354 million TL as of 31.12.2017. Our net sales were at the amount of 2.57 billion TL and our net period profit was 111 million TL.

### 2.3.4 Basic Indicators Regarding Financial Results

BASIC INDICATORS	2017(%)	2016(%)
Current Ratio	1,11	1,08
Debt Collection Period	38,5	39,5
Stock Turnover Period	49,4	59,7
Total Liabilities/ Total Assets	54	56
Gross Sales Margin	22	24
Net Profit Rate	4	5

### 2.3.5 Financial Situation Evaluation of the Management

In January-December 2017 period, the results were in line with our strategic growth objectives, our predictions and expectations. Our total assets which were 1231,6 million TL in 2016, reached 1354 million TL as of 31.12.2017. Our net sales were at the amount of 2.57 billion TL and our net period profit was 111 million TL.

### 2.3.6 Dividend Policy and Dividend Distribution

In determining distribution of profit; provisions of Turkish Commercial Code, tax regulations and other related regulations and items related to profit distribution in Company's Articles of Association are taken into consideration by our Company. In accordance with the CMB's Corporate Governance Principles, a balanced and consistent policy is followed between shareholders and Company interests and profit distribution is made. It is intended to

distribute at least 20% of the net distributable profit for the accounting period, calculated according to Turkish Commercial Code and other relevant legislation, in cash and/or bonus shares as dividends.

However, this policy is reevaluated annually by the Board of Directors by considering investment strategies required by long term growth, economic environment, market expectations, financing needs and profitability and cash status, and presented to the General Assembly's approval. Unless otherwise agreed in General Assembly meeting; dividends are distributed until the end of the year when General Assembly meeting is held at the latest. General Assembly or if authorized, Board of Directors may decide to distribute dividends as equal or varying installments in accordance with the provisions of the legislation in force. Our Company's Articles of Association is suitable for distribution of advance dividend and Board of Directors may decide to distribute advance dividends as limited to the relevant accounting period provided that it is authorized by General Assembly and complies with the provisions of the legislation in force.

Net assets consisting of company's paid capital, capital reserves and undistributed profits, reached 616.761.731 TL as of 31.12.2017.



**SÜTAŞ SÜT ÜRÜNLERİ ANONİM ŞİRKETİ BOARD OF DIRECTORS**

**Muharrem Yılmaz**  
Chairman  
of the Board of Directors

**Selim Tarık Tezel**  
Vice Chairman  
of the Board of Directors

**Serpil Veral**  
Vice Chairman  
of the Board of Directors

**Murat Arat**  
Member

**Hüseyin Mustafa Çevik**  
Member

**Ergun Ermutlu**  
Member

**Mürvet Tezel**  
Member

**Hasan Tuglar**  
Member

**Aynur Duygu Yılmaz**  
Member

**Haydar Yılmaz**  
Member

**İlhan İl**  
Independent Member

**İzzet Karaca**  
Independent Member



### 3. Corporate Governance Compliance Report

#### 1.1. Corporate Governance Compliance Declaration

Sütaş Süt Ürünleri A.Ş. takes utmost care to comply with all legal regulations and adopted the equity, transparency, accountability and responsibility concepts of Corporate Governance Principles published by the Capital Markets Board of Turkey (SPK).

Therefore, it gives great importance to measurement and rating works of independent organizations for continuous improvement and development of corporate governance practices.

“Corporate Governance Rating Periodical Revision Report” was completed by international rating agency SAHA Corporate Governance Rating Services Inc. having official authorization for rating in accordance with the CMB Corporate Governance Principles in Turkey. Our Corporate Governance Rating which was 94,21 (9,42 out of 10) in December 27, 2016, was revised as 9,51 on December 29, 2017 after the continuous improvement work performed. Distribution of corporate governance rating as subtitles is as follows.

Subtitles	Weight	Rating
Shareholders	%25	95,29
Public Disclosure and Transparency	%25	97,81
Stakeholders	%15	97,84
Board of Directors	%35	91,81
<b>Total</b>	<b>%100</b>	<b>95,08</b>

Activities to improve corporate governance practices are continued by Corporate Governance Committee. However, full compliance has not been achieved yet due to implementation difficulties in adapting to some principles both in our country and in the international arena and the current structure of the company is not completely suitable for some other principles.

**Duygu Yılmaz**  
Corporate Governance  
Committee  
Chairman

**İlhan İl**  
Corporate  
Governance  
Committee Member

**Serpil Veral**  
Corporate  
Governance  
Committee Member



## PART I – SHAREHOLDERS

### 2. 2. Shareholder Relations Unit

Shareholder Relations Unit was established to monitor the relations between the partners and the Company, to ensure communication between the shareholders and the Board of Directors and to fulfill the information requests of shareholders in full, in line with Corporate Governance Principles.

In Shareholders Relations Unit, Mr. Murat Özdalga, Mr. Murat Coşkun and Mrs. Dilara Köktürk serve. Mr. Murat Özdalga is the manager of the unit.

The contact information of people working at relevant unit are as follows:

Name Surname	Telephone No	Electronic Address
Murat Özdalga	0 224 688 51 01	mozdalga@sutas.com.tr
Murat Coşkun	0 224 688 51 01	mcoskun@sutas.com.tr
Dilara Köktürk	0216 572 30 50	dkokturk@sutas.com.tr

Shareholders Relations Unit essentially;

- Ensures healthy, reliable and current monitoring of Shareholder records,
- Responds to the written information requests of shareholders about the company according to the legislation, Articles of Association, Corporate Governance Principles and the Disclosure Policy, except for matters undisclosed to the public, confidential and/or trade secrets,
- Ensures that the General Assembly Meeting is conducted according to the legislation in force, Articles of Association and other intra company regulations,
- Prepares the documents that can be beneficial to shareholders in General Assembly Meeting,
- Helps the meeting chairman and carries out the necessary work to keep meeting minutes properly, to record voting results and to prepare reports about the results,
- Offers recommendations to ensure that annual reports are prepared according to the legislation and Corporate Governance Principles.

### 3. Use of Shareholders' Rights to be Informed

All the information requests of our shareholders received by our Shareholders Relations Unit during the period were answered, except those that were undisclosed to the public, confidential and/or trade secrets.

Our Company has taken necessary measures to ensure that information requests are evaluated

and answered by our Shareholders Relations Unit immediately, completely and accurately.

Explanations that our shareholders frequently need and developments that may significantly affect the exercise of their rights are posted on our web site at [www.sutas.com.tr](http://www.sutas.com.tr).

All information necessary for our shareholders to exercise their rights in full is provided on our web site, in our annual report and in the replies to individual requests.

#### **4. General Assembly Information**

General Assembly Meeting to discuss the 2017 business results was planned to be held on April 21, 2018 at 11:00 in Süttaş Milk Products Incorporated's address, Karacabey İlçesi, Uluabat Mahallesi, Bursa.

The first announcement for the meeting was issued in the Turkish Trade Registry Gazette dated March 29, 2018. Moreover, the meeting was also announced on our web site and in the local newspaper, and a notice stating the date, place and agenda of the meeting was sent to the shareholders who have specified their addresses by mail.

Announcements for the invitation to the Company's General Assembly Meeting are made according to the relevant provisions of Turkish Commercial Code, regulations and notifications issued under that Act, and other relevant legislation, as provided under Article 20 "Announcement" of the Articles of Association.

Financial statements and reports including the annual report, informational documents prepared about General Assembly agenda items (if needed), final version of the Articles of Association and the amendment texts and justifications (if amendments will be made on the Articles of Association) have been held open to inspection by our Shareholders in our Company Headquarters and specified branch offices from the date of the invitation announcement for the General Assembly Meeting. If there are any changes to the Articles of Association, both the old and amended copies are available.

Our shareholders can also directly access the information and documents about the ordinary General Assembly Meeting through our corporate web site at [www.sutas.com.tr](http://www.sutas.com.tr).

If a question asked in the General Assembly is irrelevant to the agenda or so broad that it cannot be answered instantly, the question will be answered at the latest within 30 business days by the Shareholder Relations Unit in writing.

#### **5. Voting Rights and Minority Rights**

General Assembly Meetings and the quorum at the meetings are subject to the provisions of Turkish Commercial Code.

Shareholders or their proxies present at ordinary and extraordinary General Assembly Meetings have one vote right per share.

Votes are cast by raising hands in the General Assembly Meetings.

Casting a secret vote is possible upon request of the shareholders having one tenth of the capital represented by all the shareholders present at the General Assembly Meeting.

Shareholders may not vote in meetings concerning personal matters or litigations between themselves or their spouses or their relatives and the Company.

The shareholders may choose to make themselves represented in the General Assembly Meetings by other shareholders or an exterior proxy that they will assign in line with the provisions of Turkish Commercial Code concerning voting by proxy. Proxies who are themselves shareholders of the Company are authorized to use the votes of the shareholder they represent in addition to their own votes.

Our shareholders and our Company have a reciprocal shareholding relationship and the capital of Paksüt Industry and Trading Inc. which is a subsidiary of our Company, is 100.000 TL. 24,86% of that capital belongs to our Company and 40% belongs to Mr. Muharrem Yılmaz who is one of the partners of our Company.

## **6. Dividend Distribution Policy**

In determining the distribution of profit; provisions of Turkish Commercial Code, tax regulations and other related regulations and items related to profit distribution in Company's Articles of Association are taken into consideration by our Company. In accordance with the CMB's Corporate Governance Principles, a balanced and consistent policy is followed between shareholders and Company interests and profit distribution is made.

It is intended to distribute at least 20% of the net distributable profit for the accounting period, calculated according to Turkish Commercial Code and other relevant legislation, in cash and/or bonus shares as dividends. However, this policy is reevaluated annually by the Board of Directors by considering investment strategies required by long term growth, economic environment, market expectations, financing needs and profitability and cash status, and presented to the General Assembly's approval.

Unless otherwise agreed in General Assembly meeting; dividends are distributed until the end of the year when General Assembly meeting is held at the latest. General Assembly or if authorized, Board of Directors may decide to distribute dividends as equal or varying installments in accordance with the provisions of the legislation in force. Our Company's Articles of Association is suitable for distribution of advance dividend and Board of Directors may decide to distribute advance dividends as limited to the relevant accounting period provided that it is authorized by General Assembly and complies with the provisions of the legislation in force.

Net assets consisting of company's paid capital, capital reserves and undistributed profits, reached 616.761.731 TL as of 31.12.2017.

## **7. Share Transfer**

There is no provision in the Company's Articles of Association restricting the transfer of shares. Shares are transferred according to the relevant provisions of Turkish Commercial Code.



## PART II – PUBLIC DISCLOSURE AND TRANSPARENCY

### 8. Company Disclosure Policy

The main purpose of Süttaş Milk Products Inc. ("Süttaş" or "Company") Disclosure Policy is to provide timely, accurate, complete and understandable information to shareholders and stakeholders, to define the principles of oral and written communication. This disclosure policy is established based on Turkish Commercial Code ("TCC"), other legal regulations and Corporate Governance Principles.

Corporate Governance Committee assigned by the Board of Directors is responsible for the establishment and development of the Disclosure Policy, and for monitoring its processes.

Our Company uses the following methods and tools while implementing its public information and disclosure policy:

#### i) Disclosure to Shareholders:

- Our regular General Assembly meetings are held in legal periods annually and information required for Shareholders' participation in the General Assembly and announcements related to capital increase and dividend payments are made through the Turkish Trade Registry Gazette, by mail and e-mail.
- The Company's financial statements and footnotes, prepared according to Turkish Accounting Standards ("TAS") and Turkish Financial Reporting Standards ("TFRS") - along with a suitability opinion from the Audit and Risk Committee- and the independent audit reports are announced to shareholders in line with TCC regulations.
- Our annual reports and any information and documentation required within the framework of legal regulations are available for shareholders. Annual report approved by the Board of Directors is announced to the public in English and Turkish on the web site.
- All opinion, information and meeting requests made by shareholders are evaluated by "Shareholder Relations Unit".

#### ii) Disclosures through the Corporate Website

- Under the title of Corporate Governance Principles on website site [www.sutas.com.tr](http://www.sutas.com.tr), there are details about the Company, current and historical data. Major titles on the web site can be summarized as follows:
- Our mission, vision and values
- Information regarding Corporate Governance
- Articles of Association
- Trade Registry Information

- Company's Shareholding Structure
- Members of the Board of Directors
- Committees of the Board of Directors
- Corporate Governance Policies
- Code of Ethics
- Corporate Governance Compliance Report
- General Assembly Reports (meeting date, agenda and attendance sheet of the General Assembly)
- Annual Reports
- Frequently asked questions
- Press Releases
- Information about corporate social responsibility activities
- Information about the field of activity and products

iii) Disclosure through press and monitoring news in the press

- Press releases containing operating results of our Company, including year-end operating results, its performance, developments during accounting period and future plans and/or press conferences are held. The aforementioned works carried out through the press, and replies to information requests from the press are conducted by the Corporate Communications Office. The announced press releases are published on the web site and are kept up to date.
- A Company Spokesperson who will represent our company in all information channels including the press, is assigned by the Chief Executive Officer.
- All kinds of news about the Company published on all local, national or international media organs including TV, printed press, internet and radio are monitored by the Corporate Communications Office. Senior management is enabled to benefit from this information.
- If nonfactual news about the Company is encountered, this issue is evaluated with the Chief Executive Officer.

iv) Disclosures to other stakeholders:

- When previously undisclosed information needs to be disclosed in reply to questions posed to our Company by shareholders and stakeholders, the issue is handled by a Group consisting of the Chief Executive Officer, Shareholders Relations Unit Manager and the Corporate Communications Coordinator under the coordination of the Corporate Governance Committee and evaluated according to the Disclosure Policy.

▪ Requests and questions reaching the Sütas Consumer Hotline through communication tools such as phone, e-mail, fax etc. from the customers, suppliers and consumers are replied within 24 hours at the latest and the applicant is informed. If more time is needed for solution, the applicant is informed at every stage of the process. Resolution duration is considered as performance evaluation criterion of the relevant manager.

## 9. Company's Website and Its Contents

Website of SÜTAŞ MILK PRODUCTS INCORPORATED [www.sutas.com.tr](http://www.sutas.com.tr) is actively used to inform the public, as prescribed by the Turkish Commercial Code.

All disclosures made by SÜTAŞ MILK PRODUCTS INCORPORATED to the public can be accessed on the website. Website is structured and sectioned suitably for this purpose. Important topics that can be seen on the website are as follows:

- Corporate Identity Information
- Members of the Board of Directors
- Shareholding Structure
- Company's Articles of Association
- Trade Registry Information
- Financial Statements
- Annual Reports
- General Assembly Meeting Date
- Corporate Governance Compliance Report
- Disclosure Policy
- Frequently Asked Questions Section
- Contact Information

Address of our website is indicated on our company letterhead.

## 10. Disclosing Ultimate Controlling Shareholder Real Person(s)

Our company has real and legal persons as shareholders. Current shareholder structure of our company is as follows:

PARTNERS	SHARE AMOUNT (TL)	SHARE RATE (%)
YILMAZ HOLDING INC.	20.527.333,33	20.527.333,33
MUHARREM YILMAZ	20.307.361,99	20.307.361,99
OTHER	165.304,68	165.304,68
<b>Total</b>	<b>41.000.000,00</b>	<b>41.000.000,00</b>

No privileged share or privileged voting right is available in our Company



## **PART III - STAKEHOLDERS**

### **11. Disclosure to Stakeholders**

Our Stakeholders consist of our Shareholders, Employees, Customers and Suppliers. Care is given to supply information about issues concerning our company and the relevant stakeholders regularly and to regulate relationships with them through written contracts as much as possible.

Where the stakeholders' rights are not regulated with legislation or contracts, stakeholders' rights are protected within the framework of good faith rules and Company's possibilities considering also the Company's reputation.

Sütaş doesn't get investment counseling services. Rights are guaranteed by signing mutual contracts with the institutions from which the company gets service related to some issues such as rating in order to prevent possible conflicts of interest. The company doesn't have conflict with institutions that provide consultancy services.

### **12. Participation of Stakeholders in Management**

Our Company is in communication with its stakeholders constantly. Their feedback is presented for the evaluation of the senior management after going through certain phases depending on company's internal procedures, solution suggestions and policies are developed.

Practices concerning quality, efficiency and institutionalization have great importance for our Company.

### **13. Human Resources Policy**

Our Human Resources vision is to establish a family that has adopted the mission to spread the goodness and abundance of milk and become passionate about it, and consists of good people, good citizens who have achieved a high level of awareness and responsibility, good milkmen who became experts and masters of their work, and to make Sütaş a strong employee brand respected for its mission.

#### **Recruitment Policy**

Our recruitment policy is to bring potential and talented human resource in our company by using tools and techniques that provide equal opportunities to the candidates and employ them in the most correct manner.

Within this scope, candidates that we contact via various sources undergo an evaluation process based on the position. In the evaluation process, there are personality analysis, English proficiency and general aptitude tests and case studies depending on the level and requirements of the positions in addition to interviews.

#### **Employee Orientation Policy**

Our orientation process aims the adoption of Sütaş values by our new employees and allows them to be ready for their position.

In this process, our employees are informed about S  taş's vision, mission, values and business manner and they get technical training required to perform their tasks.

### **Performance Management Policy**

A goal and competency based performance management system is implemented to direct our employees to common goals, to increase efficiency and to reward successes. Succession and career plans are established based on performance. Salary and fringe benefit processes are managed.

### **Training Policy**

We consider the training of our employees as an important aspect of our company's development and we constantly invest in our human resources. Our Training Policy is to support our employees with need-based trainings that will enable them to continue to work with a high motivation and performance.

With this perspective, our employees are provided with self-development trainings, specialty trainings according to the task/position and technical trainings to improve business conduct.

### **Career Management Policy**

The basis of our career policy is to support sustainability of our Company and to prepare our employees to their future roles. In our company, priority is given to our employees on career opportunities and their development is monitored in line with this perspective.

### **Reward Policy**

Ideas adding value to our Company are rewarded within the scope of suggestion system in order to ensure participation of our employees, to encourage creative and innovative ideas that make a difference and to celebrate success together,

### **Equal Opportunity Policy**

Equal opportunity is the basis of our code of ethics, human resources policy and practices. All kinds of discriminations such as gender, ethnicity, etc. are strictly unacceptable in our Company. No employee may propagandize his/her religious and political opinions at work, or give decisions on the basis of those opinions. All of our employees may report to the Ethics Committee without disclosing their names if they face issues such as gender inequality, mobbing and sexual harassment at work.

### **Compliance with the Code of Ethics**

All our employees are obligated to comply with our code of ethics. Within the scope of the employee orientation program which is carried out when they start to work, our employees are informed of our code of ethics, things that can be done to promote compliance with the code, ethics committee, charter of the ethics committee, manner of application and processes followed in case of violation of code of ethics both verbally and in writing, and in detail.

Evaluations and actions of the ethics committee are put into practice in line with the relevant laws and regulations.

### Salary Policy

Salary policy adopted at Sütaş Inc. is designed to enable our Company to be competitive in the labor market and to promote sustainable performance of our employees.

Within the scope of this policy, our company has salary system based on business values and governed by a grading degree structure. In line with this system, our total salary package consists of base salary, premiums, bonuses and fringe benefits. These components of our salary package vary according to the position, degree of responsibility, value of the position in the market, personal performance and qualities of the employee, inflation and conditions of the sector.

Base salary is increased based on predetermined criteria. Bonuses are paid at predetermined times in the year and at predetermined rates based on base salary. Performance premiums are paid annually, sales premiums are paid monthly according to the achievement results of the goals set for the employees in 3-month periods and in compliance with our premium system. In addition to this, we also have a task based premium system.

### Compensation Policy

Our compensation policy is created according to the provisions of Labor Code Nr. 4857. In this context;

- Severance Payment is paid to the employee whose employment contract is terminated under circumstances requiring a severance payment as stipulated in Labor Law nr. 4857, and who has been employed in our Company for a minimum of one year, or to his/her legal heirs in the event of the employee's death, based on the employee's employment duration and salary, within the upper limits determined for severance payments by the law.
- Notice Payment is implemented by granting permission to seek new employment for a period as stipulated in the law after notifying the employee that his/her employment contract will be terminated or by paying the amount that accrues by the end of the notice period in cash according to the seniority of the employee in accordance with article 17 of Labor Law nr. 4857.

### 14. Information Related to Customer and Supplier Relations

Our company is in continuous and regular commercial relations with its suppliers and customers either directly or through distributors assigned.

To maintain this relationship in compliance with business ethics, the customer and supplier relations is extensively discussed in our handbook titled "Being a Sütaş Member" including our code of ethics.

Sütaş A.Ş. prioritizes customer satisfaction in all its business operations. Customer satisfaction is guaranteed with after sales follow-up, practices for products on shelves, procedures for handling returned products and confidential business information of customers and suppliers are respected. Many channels through which our suppliers, customers or final customers (consumer) may send comments, suggestions or complaints about our products or services, are followed closely, solutions are found for the problems; performance of the organization established for this purpose is constantly evaluated electronically, using determined criteria.



Our suppliers, customers or consumers can reach us through our phone and e-mail addresses: 444 4 SÜT (788), 216 573 45 41, [tuketici@sutas.com.tr](mailto:tuketici@sutas.com.tr), [kurumsaliletisim@sutas.com.tr](mailto:kurumsaliletisim@sutas.com.tr). All communications channels are listed prominently on our product packaging, our website and our advertising channels.

All written messages are responded definitely in writing. Forms that allow suppliers to request business relations with Sütas Inc. are available at [www.sutas.com.tr](http://www.sutas.com.tr). Time for responding to the messages reaching is determined as maximum 24 hours. Our consumer hotline receives many "thank you" messages.

Information belonging to all our suppliers and customers is stored in a regularly updated database.

Our suppliers and customers are reached on special occasions such as World Milk Day, New Year's Eve and holidays to celebrate.

Satisfaction of our suppliers, customers and consumers are periodically measured through surveys conducted by independent research companies, and necessary improvements are made.

## 15. Social Responsibility

SÜTAŞ A.Ş. is the company that performs the production and distribution activities of SÜTAŞ GROUP. SÜTAŞ GROUP perceives its activities in milk and dairy production as its social responsibility at the same time. SÜTAŞ GROUP developed an integrated business model called "From Farm to Table" to ensure the quality and naturalness of the products it offers through SÜTAŞ Inc. It maintains its agricultural and energy recycling operations that are carried out within the scope of this model, with two different companies in cooperation with SÜTAŞ A.Ş.

SÜTAŞ A.Ş., while offering products that contribute to the healthy nutrition and growth of the public and future generations, also contributes to the society's wealth by sharing the blessings of milk with producers, along with the other activities of its parent company. It conducts all these activities with an environment-friendly manner aiming to return what it has taken from the nature.

### Training Activities:

The most important part of the "From Farm to Table" business model that provides the opportunity to manage and audit all the process from the grass that the cows eat to the dairy products that reach the tables is the training activities. Training activities are carried by another company of the group which includes SÜTAŞ A.Ş. Within the scope of training activities, SÜTAŞ GROUP provided free training on dairy farming to 20 thousand milk producers and students and free consultancy services to 30 thousand producers and entrepreneurs from all over the country in training centers, one of them is in Karacabey (established in 2000) and the other is in Aksaray (established in 2010). With the training activities conducted, SÜTAŞ aims to improve the quality and amount of milk produced by dairy farmers and thus contribute to their state of welfare, to enable consumers to access healthier and higher quality dairy products and introduce qualified employees to the sector.

SÜTAŞ GROUP conducts its training activities in collaboration with the Vocational Schools of Higher Education in Uludağ, Aksaray and Bingöl Universities and the Ministry of Food, Agriculture and Livestock. The trainees who complete their trainings are entitled to a Ministry approved certificate.

In order to train qualified people needed for the industry, SÜTAŞ GROUP gives scholarship to the successful students studying in “Dairy and Husbandry”, “Milk and Dairy Products Technology”, “Laboratory Technician and Veterinary Health” and “Feed Technology and Animal Feeding” programs of Vocational Schools of Higher Education in universities with which it collaborates. SÜTAŞ GROUP covers food and social activity expenses of the students as well as education and accommodation expenses.

Within the scope of our new scholarship program, including personal development and career coaching, that we started to bring the most successful engineering students of Turkey in our sector in 2017, 47 students were supported.

(See [www.sutas.com.tr](http://www.sutas.com.tr) for additional information)

### **Environmental Activities:**

SÜTAŞ GROUP considers all natural resources as borrowed from the nature and uses these resources in the most efficient way in every stage of production and guarantees recycling.

In water treatment plants which is constantly improved by investments, 100% of water used in 2017 is treated water.

All the organic waste generated from production processes, manure generated from dairy cattle breeding farms in the group, product wastes and factory wastes are converted into biogas, then to electricity and heat in energy recycling plants established as part of SÜTAŞ GROUP integrated facilities.

Biogas and electricity generating plants established in Aksaray in 2013 and in Karacabey in October 2014, supplied 89% of total annual electricity consumption need of dairy plants in 2017.

It is ensured that the social responsibility and sustainable environmental management projects financed by the Company comply with all the relevant legislation on environment and public health.

### **Sponsorships**

SÜTAŞ GROUP sponsors conferences, seminars and activities organized by various non-profit organizations to contribute to the growth of milk and dairy products industry.

In 2017, SÜTAŞ A.Ş. supported “Local Market Chains Meet” organization organized by the Turkish Retailers Federation by being the main sponsor of it as in previous years.

## PART IV - BOARD OF DIRECTORS

### 16. Structure of the Board of Directors, its Composition and Independent Members

Board of Directors is the organ that manages and monitors the company at the highest level by exercising its powers and responsibilities subject to legislations, Articles of Association, company regulations and policies, in line with the authority given it by the shareholders in the General Assembly.

According to our Articles of Association, Board of Directors is authorized to decide and execute decisions in all matters that do not fall under the exclusive authority of the General Assembly according to the Turkish Commercial Code and the relevant legislation.

Board of Directors is elected by the General Assembly for a term of not more than 3 years. A member who completes his/her term of office may be re-elected. Members of the Board of Directors may be replaced if deemed necessary by the General Assembly. It is important to select female members at the rate of minimum 25%.

There are executive and non-executive members in the Board of Directors. Non-executive Board member is a member who do not assume any other administrative duty in the Company except for their Board membership and do not have any executive unit and do not intervene in the Company's daily work flow and ordinary activities.

Chairman of the Board of Directors and General Manager in our Company are not the same person. Board of Directors takes a leading part in maintaining efficient communications between the Company and its shareholders, settling conflicts and finding solution.

Two members of the Board of Directors are independent members appointed according to Corporate Governance Principles. Independence statements of the members of our Board of Directors and their biographies including their duties outside of the company are available on our corporate website.

There is no restriction on the independent members of the Board of Directors in terms of taking other tasks outside of the company.

Information about our Members of the Board of Directors and our General Manager are as follows.

Name Surname	Position	Executive/Independent/Non-Executive	Employed At
Muharrem Yılmaz	Chairman - Executive Director	Executive/Not Independent	SÜTAŞ A.Ş.
Selim Tarık Tezel	Vice Chairman of Board of Directors	Executive/Not Independent	SÜTAŞ A.Ş.
Serpil Veral	Vice Chairman of Board of Directors	Executive/Not Independent	SÜTAŞ A.Ş.
Murat Arat	Member	Executive/Not Independent	SÜTAŞ A.Ş.
Hüseyin Mustafa Çevik	Member	Executive/Not Independent	SÜTAŞ A.Ş.
Ergun Ermutlu	Member	Executive/Not Independent	SÜTAŞ A.Ş.
Mürvet Tezel	Member	Non-Executive/Not Independent	SÜTAŞ A.Ş.
Hasan Tulgar	Member	Executive/Not Independent	SÜTAŞ A.Ş.
Aynur Duygu Yılmaz	Member	Non-Executive/Not Independent	SÜTAŞ A.Ş.
Haydar Yılmaz	Member	Executive/Not Independent	SÜTAŞ A.Ş.
İlhan İl	Member	Non-Executive/ Independent	
İzzet Karaca	Member	Non-Executive/Independent	



## **17. Powers and Responsibilities of Members of the Board of Directors and Managers**

Powers of our Board of Directors are specified in the relevant clauses of our Articles of Association.

According to our Articles of Association, Board of Directors is authorized to decide and execute decisions in all matters that do not fall under the exclusive authority of the General Assembly according to the Turkish Commercial Code and other legislation.

Management and external representation of the Company are the responsibility of the Board of Directors. All documents and contracts to be signed by the company must be signed by the people authorized to represent and bind the company and the signatures must be presented under the company stamp.

Board of Directors may divide administrative and representative tasks among its members according to the relevant provisions of the Turkish Commercial Code or may transfer these tasks to an executive committee it will establish among its members or to executive member(s), to director(s) who are or are not shareholder(s) or to third parties with an internal directive.

When Members of the Board of Directors do not perform tasks given to them by regulation, articles of association and general assembly intentionally or negligently, they shall be severally responsible for the results.

## **18. Qualifications of Members of the Board of Directors**

Qualifications required by the relevant legislation and those specified in the Corporate Governance Principles must be considered while electing members for the Board of Directors. Board of Directors is created by selecting people having these qualifications in a manner that they will provide the highest level of authority and efficiency.

In addition to these qualifications, it is considered that candidates to be assigned as a member of the Board of Directors have basic knowledge about the operations about the company's field of activity and the relevant legal and judiciary regulations.

## **19. Operating Principles of the Board of Directors**

Board of Directors gathers regularly and monthly as planned previously; if necessary, without depending on this duration and without delay.

The first meeting of the Board of Directors takes place on the day when members of the Board of Directors are assigned by the General Assembly. Chairman of the Board of Directors and at least one Vice-Chairman are selected in the first meeting besides decisions on the distribution of tasks.

Agenda of the meeting is set by the Chairman of the Board of Directors. Agenda is announced to the members prior to the meeting. If needed, before the meeting, members are provided with information and documents about the issues listed on the agenda of the Board meeting. Agenda may be modified by the decision of the Board of Directors.

Invitation to the meeting is made in writing, via telephone and e-mail. Board of Directors convenes upon the invitation of the Chairman of the Board of Directors or the invitation of the Vice Chairman in the Chairman's absence. Moreover, Chairman or Vice Chairman (in the Chairman's absence) may invite the Board of Directors to a meeting upon written request of any Member of the Board

Provisions of Article 390, paragraph 4 of Turkish Commercial Code are reserved.

Board of Directors may convene if 2/3 of its members are present and takes decision if 2/3 of its members gives positive vote. Every member has the right of one vote in the Board of Directors. Our members do not have weighed voting rights and veto rights. In case the votes are equal on decisions of the Board of Directors, the matter is postponed to the next meeting. If the votes are also equal in the next meeting, the proposal is deemed to be rejected.

A secretariat is formed under the command of Chairman of the Board of Directors to serve all members of the Board of Directors in order to keep documents related to the Board meetings regularly.

Board of Directors held a total of 22 meetings between 01.01.2017 and 31.12.2017. Meetings were held with the participation of all members. Meetings were held at the company's head office and members were invited by telephone and by e-mail. Decisions taken at the meetings of the Board of Directors were taken unanimously and there was no member of the Board of Directors who opposed the decisions taken.

## **20. Prohibition to Transact with the Company and Non-competition**

Prohibition to transact with the company and non-competition for the Members of the Board of Directors is evaluated by our General Assembly during Ordinary General Assembly Meetings according to Articles 395 and 396 of the Turkish Commercial Code, and the necessary powers and permissions are granted for the period.

## **21. Number, Structure and Independence of Committees Established under the Board of Directors**

Audit and Risk Management Committee, Sustainability Committee and Corporate Governance Committee and Ethics Committee are established in order to enable Board of Directors to fulfill its duties and responsibilities effectively and these committees and board function according to the working principles defined by the Board of Directors.

Chairmen of the committees are elected from independent members of the Board of Directors. Decisions made as a result of the independent works of our Committees are submitted to the Board of Directors and final decision is made by the Board of Directors.

Areas of activities of the committees, their charters and members are determined by the Board of Directors. Chief Executive Officer and General Manager cannot be assigned to committees. All resources and supports that are necessary for the Committees to perform their tasks, are provided by the Board of Directors. Committees may invite the person(s) who may be deemed necessary to the meetings and may take their opinions. Committees put all their works in writing and keep their records and submit minutiae to the Board of Directors. Committees convene as often as required to fulfill their responsibilities efficiently and as speci-

fied in their charter. They submit reports containing information about their activities and their meeting results to the Board of Directors. Efficiencies of the committees are evaluated by the Board of Directors.

### **Audit and Risk Committee:**

#### **Concerning Audits;**

It is responsible for auditing accuracy and transparency of annual financial statements and other financial information and their compliance with the legislation and international accounting standards. Selection of independent audit firm, preparation of audit contracts and thus initiation of independent audit process and activities of the independent audit firm in every stage are performed under the supervision of this committee. It reviews activities of internal audit function, its organizational structure and quality, makes suggestions and evaluations to the Board of Directors. These evaluations include matters such as the responsibilities of the company's internal audit function, budget of the Audit Department and its staffing. Committee also approves the annual audit plan prepared by Audit Department and changes where necessary. Audit Committee determines methods and procedures for the revision and conclusion of complaints received by the company on accounting, internal control systems and independent auditing matters, as well as for evaluation of reports of the company's employees regarding accounting or independent auditing matters of the company within the framework of confidentiality principles.

#### **Concerning Risk Management;**

It performs works in order to detect strategic, operational, financial, legal and other risks that may endanger the existence, development and sustainability of the company early, to take necessary measures against identified risks and to manage the risk. It performs works in order to identify the risk map of the company in accordance with the opinions of the board of directors and reviews the works as and when necessary. It sets Risk Management Policies and methods and oversees their implementation.

It may request reports, information and opinion from related departments in order to ensure the efficient implementation of risk monitoring function.

It reviews Risk Management Systems at least once a year.

Audit and Risk Committee consists of 3 members, Committee Chairman is elected from independent members of the Board of Directors and committee meets one week before the meetings of the Board of Directors, not less than 4 times a year. At least one Committee member must have a minimum of 10 years of experience in audit /accounting and finance.

Information about the Audit and Risk Management Committee of our Company is as follows:

#### **Corporate Governance Committee**

Name Surname	Position in the Committee	Position in the Board of Directors
İlhan İL	Chairman	Independent Member
Aynur Duygu YILMAZ	Member	Member
İzzet KARACA	Member	Independent Member



Determines whether corporate governance principles are applied or not, its reason if it is not applied and conflicts of interest arising from the failure to fully comply with these principles, and makes recommendations to the Board of Directors about improving corporate governance practices. Reviews "Corporate Governance Compliance Report" to be disclosed to the public and evaluates the accuracy and consistency of the information contained therein according to information that the Committee possesses.

Ensures the development, adoption and implementation of Corporate Governance Principles within the Company, examines the areas that they cannot be implemented and makes recommendations to the Board of Directors in order to improve the level of compliance.

Follows the Corporate Governance Principles around the world and makes recommendations to the Board of Directors to implement the necessary issues within the Company.

In addition, Corporate Governance Committee performs also duties of the "Nomination Committee" and the "Compensation Committee".

Corporate Governance Committee consists of 3 members and convenes not less than 4 times a year.

Information about the Corporate Governance Committee of our Company is as follows:

Name Surname	Position in the Committee	Position in the Board of Directors
AynurDuygu YILMAZ	Chairman	Member
İlhan İL	Member	Independent Member
Serpil VERAL	Member	Member

### Business Ethics Board

Declares the code of ethics and the administration of the code to the employees and offers regular trainings. Ensures adoption and development of a business ethics culture.

Updates the code of ethics and the Committee's implementation processes according to changing circumstances and opinions and suggestions submitted to the Committee, and submits them to the Board of Directors for approval.

Unless it convenes with a special agenda, Ethics Committee convenes at least once a month, examines applications submitted to the Committee about code violations, and decides whether an investigation will be conducted and whether an issue exists that should be submitted for the information of Disciplinary Committee.

Ethics Committee is responsible for conducting the necessary inquiries and investigations about claims of code violations, either ex officio or based on filed complaints and it is responsible for resolving it. Decision about an application is declared with reference to the relevant clause of the code. Committee decisions are immediately put in action.

Committee members act independently of the organizational hierarchy while performing their duties.

Business Ethics Committee may refer to the opinions of experts on the subject matter and may invite them to meetings as adviser.

Information about the Business Ethics Committee of our Company is as follows:

Name Surname	Position in the Committee	Position in the Board of Directors
Mürvet TEZEL	Chairman	Member
Serpil VERAL	Member	Member
Aynur Duygu YILMAZ	Member	Member

## 22. Risk Management and Internal Audit Mechanism

The risk management strategy of the company is based on the development and monitoring of practices for the identification and minimization of existing and probable risks.

Audit and Risk Management Committee works on risk management as well as on measures to be taken against risks that may endanger the existence, the development and sustainability of the company.

Existing and probable risks that the Company is exposed to are evaluated as follows:

- Company's all production activities are carried out in accordance with food safety and provisions of the relevant legislation and audited with food safety management systems. Operational processes have become more effective, following the integration of ISO 9001:2008 (Quality Management System Standard), FSSC 22000 (Food Safety Management System Standard), ISO 50001 (Energy Management System Standard), ISO 14001:2004 (Environmental Management System Standard), OHSAS 18001 (Occupational Health and Safety Management System Standard) systems and ISO/IEC 27001 (Information Security Management System Standard) into our existing management system. All these systems established are kept alive with internal and external audits carried out every year.
- Capital/liability relation, foreign exchange rate risk and other financial risk factors which may have a direct impact on the Company's financial situation are controlled by business departments in weekly/monthly periods.
- "Guarantee – Risk Management System" is used to monitor customer risks. Thus, in case of limit excess compared to our customers' limits, our systems do not permit output of goods.
- SAP system used is an important technological tool that allows the company to minimize existing risks and support decision support processes in this respect. Monitoring operational results instantly through this tool, human errors are eliminated and efficiency of internal control systems is improved.

- Company's assets are insured against natural risks; fire, earthquake and other similar natural disasters. These processes are carried out by getting support of competent insurance brokers and in compliance with the real values of the assets.

Activities such as the establishment and implementation of the systems necessary for accounting, internal audit, risk management and financial planning; operation, compatibility and proficiency of the systems; determination of authorizations and liabilities related to these within the company are conducted via "Audit and Risk Committee" founded by the Board of Directors.

While fulfilling its duty in this respect, Audit and Risk Management Committee utilizes the data of the Audit Department and the institutions which carries out approval processes within the scope of independent and certified councillorship.

Within the scope of its risk-based annual audit plan, Audit and Risk Department reviews regularly the risk management and internal control system of the company in a way to reach the below listed purposes and reports directly to the Audit Committee:

- Accuracy and reliability of the financial and operational information
- Efficiency and effectiveness of the operations
- Protecting Company's assets
- Compliance with applicable laws, regulations and contracts

Audit function determines the effectiveness of the internal control systems and makes recommendations for the improvement of existing systems and for the establishment of new systems where needed.

### **23. Mission, Vision and Strategic Goals of the Company**

Strategic goals of our company are determined by the company executives considering economic parameters, market and competition conditions, short- and long-term goals of our company and submitted to the Board of Directors for approval.

Those strategies and goals are reviewed and evaluated by our Board of Directors.

Annual budget approved in the meetings of the Board of Directors and its level of realization are evaluated considering the sector of the company and its position in the sector, its performance rate for the period, financial situation of the company and previous performance rates.

SÜTAŞ Inc. conducts all of its activities with its mission "With the passion of spreading the goodness and abundance of milk, to offer natural and delicious dairy products which improve people's quality of life, health and bring happiness."

Company's vision is "In all markets where it exists, to be the most loved brand of the milk



industry, the most trusted corporation and the leading company”.

SÜTAŞ Inc. which has been the leading brand in the milk and dairy products industry in Turkey for the last 12 years, aims to multiply its business volume by 4 in its 50th year and to become one of the top 25 dairy companies in the world in 2025. Its local and foreign investments are planned in this direction.

SÜTAŞ Inc.’s mission and vision are declared to the public at the website [www.sutas.com.tr](http://www.sutas.com.tr).

#### **24. Financial Rights of the Board of Directors**

Members of the Board of Directors are paid monthly a sum that is determined by the General Assembly. Members of the Board of Directors do not have a loan or credit relationship with the company.



**We do not compromise on naturalness  
We do not give up freshness  
It's always been this way  
And it always will be**

