



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

19 August 2020

Validity Period : 19.08.2020-19.08.2021

LIMITATIONS

This Corporate Governance Rating Report, issued by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. for Pegasus Hava Taşımacılığı A.Ş is compiled;

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

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

The Corporate Governance Compliance Rating Report issued by Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. is based on 70 copies of documents, data and files transmitted by the concerned firm electronically, including data open to general public and examinations made by our rating experts on site.

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

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

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

© All rights in this report belong to Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. This report cannot be printed in writing and electronically, reproduced and distributed without our permission.

TABLE OF CONTENTS

1.	Eight Period Revised Rating Result	3
2.	Company Profile and Changes in Last One Year	9
3.	Rating Methodology	17
4.	Corporate Governance Compliance Rating Grades and Their Description	19





PEGASUS HAVA TAŞIMACILIĞI A.Ş.

CMB CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE GRADE

9.63

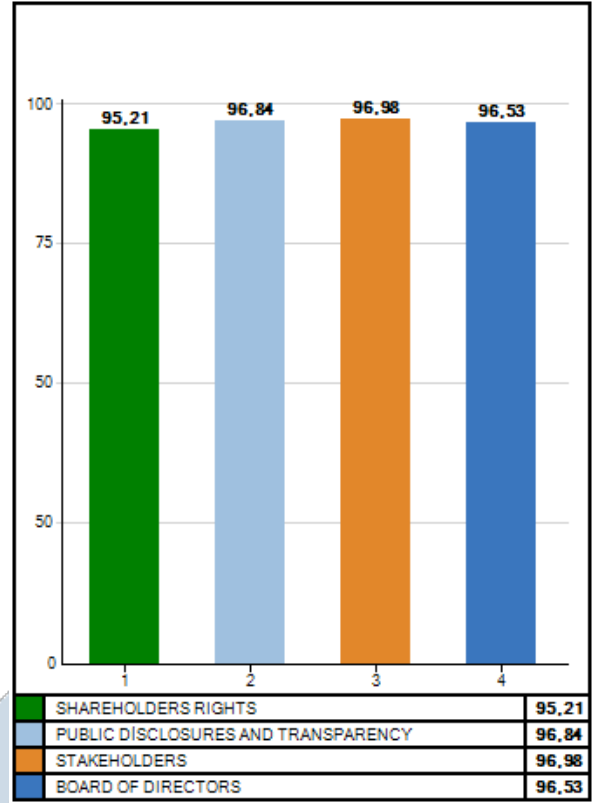
Kobirate Uluslararası Kredi Derecelendirme
ve Kurumsal Yönetim Hizmetleri A.Ş.

Contact:

Serap Çembertaş (216) 3305620 Pbx

serapcembertas@kobirate.com.tr

www.kobirate.com.tr



1. EIGHT PERIOD REVISED RATING RESULT

This report of rating of compliance of PEGASUS Hava Taşımacılığı A.Ş. with the Corporate Governance Principles has been concluded through onsite examinations of the documents, interviews held with executives and persons involved, disclosed information and of other reviews and observations. It has been prepared in accordance with the Corporate Governance Compliance Rating Methodology developed by Kobirate Uluslararası Kredi Derecelendirme ve Yönetim Hizmetleri A.Ş., based on CMB's Corporate Governance Principles directive no II-17,1 published by Official Gazette no 28871, dated January 3, 2014.

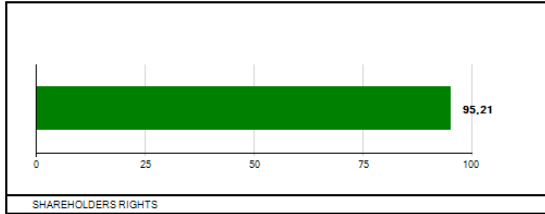
According to Capital Market Board decision dated 09.01.2020 tarih and numbered 4/54 PEGASUS Hava Taşımacılığı A.Ş. is included in the list of BIST First Group Companies. The company has been examined under the main

categories of Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors, in 408 criteria described by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş.'s methodology for "BIST First Group Companies. Its grade has been revised as **9.63**.

This result signifies that the Company has achieved a considerable compliance with CMB's Corporate Governance Principles. Internal control systems have been formed and are working. All possible risks for the Company have been determined and are controlled. Public disclosure and transparency activities are conducted at high level. Rights of shareholders and stakeholders are treated fairly. The structure and working conditions of board of directors are generally compliant with corporate governance principles. In conclusion this grade indicates that the

Company highly deserves to be included in the BIST Corporate Governance Index at the high level.

▪ In the section of Shareholders, Pegasus' grade has been confirmed as **95.21**.



It has been observed that the Company continues its activities to inform the shareholders and to ensure use of basic shareholder rights with the same sensitivity and efficiency.

Relations with shareholders are conducted by Investor Relations Director Ömer Lütfü ÖMERBAŞ, who reports to Assistant General Manager for Financial Affairs M. Barbaros KUBATOĞLU.

In compliance with CMB Corporate Governance Communiqué II.17-1, Ömer Lütfü ÖMERBAŞ was appointed as member of Corporate Governance Committee on 22.07.2019. This appointment was disclosed to public with a Material Event Disclosure on 23.07.2019.

Investor Relations Department sent 4 (four) reports to the Corporate Governance Committee and Board of Directors in 2019 (March 14, May 29, August 28 and December 19) and 2 (two) as of June 2020.

The right of shareholders to obtain information and to examine has not been eliminated or restricted by the Articles of Association or by any Company departments. Company makes disclosures for shareholders and public in accordance with its "Disclosure Policy". The Policy is published on Company's corporate website.

The Ordinary General Assembly meeting to discuss operations of 2019 took place on

07.04.2020. Invitation for the meeting was made 3 (three) weeks before the meeting through page 352 of Turkish Trade Registry Gazette (TTSG) dated 12.03.2020, No 10035, Public Disclosure Platform (KAP) on 06.03.2020, Central Registry Agency E-General Assembly system (EGKS) and through corporate website in accordance with laws and Articles of Association.

Information kit prepared for the General Assembly meeting contained detailed information about distribution of Company shares, voting rights that these shares bring and privileges on voting rights. It also contained many other information required by CMB to be disclosed to public.

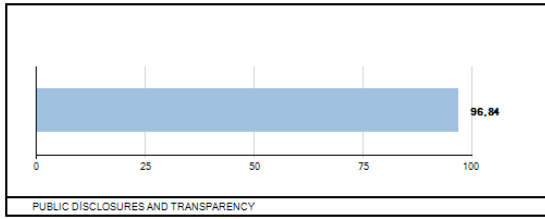
Agah UĞUR (Independent Member of Board), Mehmet Tevfik NANE (General Manager), M. Barbaros KUBATOĞLU (Assistant General Manager for Finance), Tamer YÜZÜAK (Finance and Fleet Director), Ali UZUN (Chief Legal Counsellor and Secretary General) and Sinem ARI ÖZ, representative of the independent audit company have attended the General Assembly meeting.

According to Company's Articles of Association, one share brings one voting right. There is no privilege in the exercise of this right.

As a result of 2019 activities the Company earned TRY 1,334,597,915 net period profit in accordance with CMB regulations (net distributable profit was TRY 1,333,165,948, with donations) and TRY 1,033,567,119 in accordance with items of Tax Procedural Law, No 213. Use of this profit is explained on page 15 of this report in the section titled, "ii. Dividend Distribution".

Board's recommendation on dividend distribution and dividend distribution statement were published on Public Disclosure Platform on 13.03.2020.

▪ In the section of Public Disclosure and Transparency, Pegasus' grade has been confirmed as **96.84**.



The Company's activities to inform shareholders and public and transparency continued with the same sensitivity and efficiency during the rating period.

The corporate website (www.pegasusyatirimciiliskileri.com and www.flypgs.com) includes all information and documents for last five (5) years, that the public, investors and other relevant parties want to reach. Corporate website has been designed as an easy – to – use and easily accessed structure. It has been seen that corporate website and annual reports are used efficiently as instruments for public disclosures.

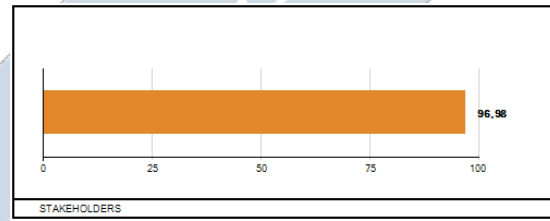
It has been understood that all stakeholders were informed adequately and rapidly about Company's activities and the measures it took during the pandemic, which took place during the rating period.

Barbaros KUBATOĞLU (Assistant General Manager for Finance), Abdullah ATACAN (Finance Director), Ali UZUN (Chief Legal Counsellor – Secretary General, H. Nur KARABACAK (Budget, Cost Control and Financial Reporting Group Manager), Ömer L. Ömerbaş (Investor Relations Department Manager) and Nurettin MANGIR (Senior Nudget Specialist and Certificate User) are the officials of Company responsible for public disclosures with signatory authority.

These officials are assigned with the duty of watching and monitoring every issue related to public disclosure.

Company's independent audit for 2019 was conducted by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). There are no cases where the independent audit avoided expressing opinion, expressed opinion with conditions or avoided signature in the reports. It has been learned from company officials that no event took place with the independent audit company or with its auditors that could damage this company's independence and there was no legal conflict with it. With Audit Committee's recommendation and General Assembly's approval, it was decided that 2020 audit to be carried out by the same company.

▪ In the section of Stakeholders, Pegasus' grade has been revised as **96.98**.



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

Procedures for recruitment, remuneration, health, leave rights, promotion, appointments, discipline, dismissal, death, resignation and retirement have been prepared and it's been observed that the company sticks to these policies in practice. Both during development of the policies and in practice we have the impression that equal opportunity is given to individuals under equal conditions.

It has been our impression that the company tries to be respectful to stakeholders' rights, specified in regulations and mutual agreements and it has been observed that many internal regulations have been prepared to this end.

Pegasus carried out some important policies, which were beneficial for shareholders, employees, customers and society in 2019. Some of them are listed below.

- New routes have been added to the flight network.
- Fleet has been extended and rejuvenated with new generation planes with environment-friendly engines.
- In time take-off performance has been increased by 4 points and became 85%.
- “Pegasus Pilot Training Program” has started its first courses in 2019 with its local and international partners in order to train pilots for future.
- An employee efficiency survey, based on the principle of privacy, has been carried out in all departments of the Company under the management of an independent consultant. Inside training, personal development and training programs, which were focused on certain groups have been improved and opened for access of wider employee segments.
- The corporate social responsibility project titled, “We are Flying to Tomorrows”, which was carried out in partnership of Pegasus, Community Volunteers Foundation (TOG) and Non-governmental Society Support Foundation continued in 2019. The Project aims to support Youth projects based on social solidarity and social benefits. Every year 20 different projects are supported within the scope of this program. As of the end of 2019, 93 young activists carried out their projects and about 2,500 people benefited from the projects.
- It has been one of the first airlines that signed “25by2025” initiative, started by IATA member airlines with the aim of increasing women’s presence in the sector 25% or at least 25% by 2025.

- It signed the UN Global Compact Agreement and became the first airline to do so in Turkey. With this Signature, it committed itself to comply with Ten Principles in the fields of human rights, labor standards, environment and fight against corruption.

These policies have won various awards internationally and domestically.

Company officials have reiterated that all opinions and suggestions of stakeholders are important and they take care to implement policies that improve Company’s activities.

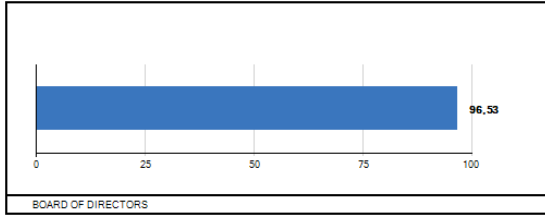
Requests, questions and complaints of stakeholders are received and assessed through communication channels on corporate website (<https://www.flypgs.com>) and Pegasus Call Center.

In order to encourage and support employees’ participation into management, following policies are implemented.

- All employees are guaranteed to have easy access to Pegasus top management, within the scope of Pegasus Moral Behavior Guide and this guarantee is actively carried out in the Company.
- Work to improve conditions on all subjects that affect Company’s profitability and work environment is conducted. Meeting minutes, progress reports, as well as other relevant information and documents are disclosed to employees through its intranet.

From November 2015 and October 2016 to 2019, Pegasus was on the BIST Sustainability Index. However as the Index moved into voluntary participation basis as part of reassessment of its corporate strategy, the Company was not listed on the Index between 01.11.2019 and 31.10.2020. It has been seen that work continues to rejoin the index and that Pegasus was among companies to be re-assessed for the Index.

- In the section of Board of Directors Pegasus' grade has been revised as **96.53**.



Pegasus has determined its mission and vision and conducts its activities to reach strategic targets determined by the Board of Directors.

Posts of Chairman and General Manager are carried out by different individuals and their powers have been described.

Audit, Corporate Governance and Early Detection of Risk Committees, as referred by the principles, have been established and their working principles have been prepared in writing. Draft agenda is shared with Board members one month before the Board meeting and suggestions for agenda are taken as part of preparation for meeting. The Board of Directors has 8 (eight) members. 2 (two) of them are executive and 6 (six) are non – executive members. 3 (three) of the non – executive members are independent members within the framework of CMB criteria.

Board of Directors convened 4 (four) times in 2019 on March 14, May 29, August 28 – 29 and December 19. Attendance at meeting was 96.9 %. By the end of June 2020, the Board of Directors held 2 (two) meetings on March 19 and May 29. 2 (two) more meetings are planned for this year, on August 27 and December 17.

The Audit Committee convened 4 (four) times in 2019, on February 28, May 9, August 8 and November 8 with participation of all members. As of end of June, it held 2 (two) meetings on March 2 and May 8. There are 2 (two) more meetings planned for August 11 and November 6.

Internal Audit Department, which reports to the Audit Committee, conducted 27 audits in 2019. It had been learned 11 audits have been completed by the end of June 2020. Internal Audit Department presented 4 (four) reports in 2019 to the Audit Committee about its audit results and it presented 2 (two) reports by the end of June 2020. Audit Committee presents reports to the Board of Directors at every quarter.

Corporate Governance Committee held 4 (four) meetings in 2019 on March 14, May 29, August 28 and December 19 with participation of all members. It convened 2 (twice) in 2020 on March 19 and May 28. There are 2 (two) more planned meetings until the end of the year, on August 27 and December 17.

Board performance review was conducted in 2019 and an action plan has been prepared and work for improvement has been started as a result of it. "Work Methods and Principles of Board" has been updated within this scope. It was discussed and approved at the Board meeting on 29.05.2020 and published on Company's corporate website (<http://www.pegasusyatirimciiliskileri.com>).

Early Detection of Risk Committee convened 4 (four) times in 2019 on March 12, May 28, August 27 and December 18, with full attendance of its members. It held 2 (two) meetings as of June 2020, on March 17 and May 28. 2 (two) more meetings on August 26 and November 19 are also planned. In compliance with Article 378 of Turkish Commercial Code, the Committee presented bimonthly reports to the Board of Directors about its activities and assessments.

Regular "Risk Review Board" meetings with the participation of top management , which started in 2018 with the aim of contributing to formation of a corporate perspective for top management on consolidated risks, continued in 2019.

All these committees report regularly to the Board of Directors about their activities.

Secretarial functions of all committees, which were required by Corporate Governance Principles, has been consolidated in the office of Chief Legal Consultancy and Secretariat – General and it has been seen the relevant documents are preserved.

Executive members of Board and General Manager are not assigned to Committees.

Guidelines on compensation of the Board members and top executives have been prepared and disclosed to public through Company's corporate website.

Corporate Governance Committee has cancelled the "Woman Member of Board Policy" and replaced it with "Representation Policy in the Board of Directors". This policy was discussed at the Board meeting on 19.12.2019 and approved. "Representation Policy in the Board of Directors" policy has determined a tangible target for the ratio of women members of the Board. With this policy, "Pegasus declares that it aims to increase the number of women Board members at least 25% by 2025".

The performance of Board Members is evaluated on objective criteria, getting professional help. However there is no practice of rewarding or sacking board members on the basis of this evaluation's results.

Manager Liability Insurance against defects of Board Members duties have not been renewed for 2020 due to new market developments after COVID-19 pandemic. Although the Company has disclosed that it foresees to provide a similar insurance protection, depending on normalization of market conditions, this situation is a deficiency in terms of both Company risk and compliance with Corporate Governance Principles.

Policies that ensured grade increase for the Company in this section are below.

- "Board's Work Methods and Principles" have been updated.

- Representation Policy in the Board of Directors" brings a tangible target for the ratio of women members of the Board.

2. COMPANY PROFILE AND CHANGES IN LAST ONE YEAR

A. Company Profile:



Company Name	: PEGASUS Hava Tařımacılıęı A.ř.
Company Address	: AEROPARK Yeniřehir Mah. Osmanlı Bulvarı No:11/A Kurtky 34912 Pendik İSTANBUL
Company Phone	: (0216) 5607000
Company Facsimile	: (0216) 5607090
Company Website	: www.flypgs.com
Date of Incorporation	: 12.01.1990
Registered Number	: 261186 Istanbul Trade Registry Office
Paid in Capital	: 102.299.707.-TL
Line of Business	: Air transportation
Company's Sector	: Transportation

Company's Representative in Charge of Rating:

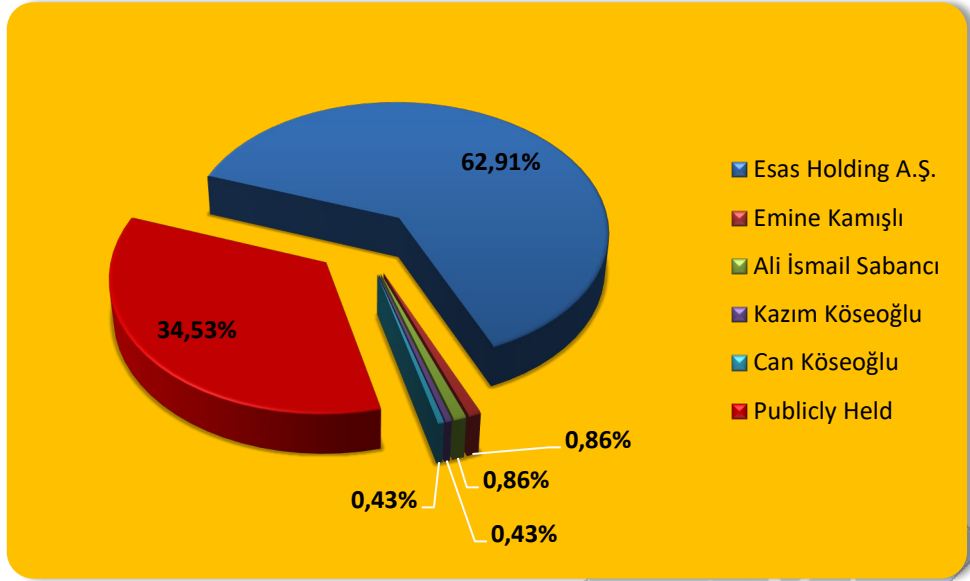
mer Ltf MERBAř

Investor Relations Manager

ir@flypgs.com

0216 560 7542

Company's Shareholder Structure



Source: www.pegasusyatirimciliskileri.com

Shareholder Name	Share(TL)	Share(%)
Esas Holding A.Ş.	64.353.570	62,91
Emine KAMIŞLI	874.810	0,86
Ali İsmail SABANCI	874.810	0,86
Kazım KÖSEOĞLU	437.405	0,43
Can KÖSEOĞLU	437.405	0,43
Publicly Held	35.321.707	34,53
Total	102.299.707	100,00

Source: www.pegasusyatirimciliskileri.com

Real Person Ultimate Controlling Shareholders

Shareholder Name	Direct and Indirect Share (%)
Şevket SABANCI ve HIS FAMILY	65,47
Offered to Public	34,53
Total	100,00

Source: www.pegasusyatirimciliskileri.com

Board of Directors

<i>Name/ Surname</i>	<i>Title</i>	<i>Executive/ Non-Executive</i>
Ali İsmail SABANCI	Chairman of Board of Directors	Executive
Hüseyin Çağatay ÖZDOĞRU	Deputy Chairman	Executive
Mehmet Cem KOZLU	Member of Board	Non - Executive
Sertaç HAYBAT	Member of Board	Non - Executive
Michael Glyn POWELL	Member of Board	Non - Executive
Agah UĞUR	Independent Member of Board	Non - Executive
Hatice Zeynep Bodur OKYAY	Independent Member of Board	Non - Executive
Stephen Mark GRİFFİTHS	Independent Member of Board	Non - Executive

Source: www.kap.gov.tr

Committees formed within Board of Directors

Corporate Governance Committee

<i>Name / Surname</i>	<i>Title</i>	<i>Duty</i>
Stephen Mark GRİFFİTHS	Independent Member of Board	Committee Chairman
Mehmet Cem KÖZLU	Member of Board	Committee Member
Michael G. POWELL	Member of Board	Committee Member
Ömer Lütfü ÖMERBAŞ	Investor Relations Manager	Committee Member

Audit Committee

<i>Name / Surname</i>	<i>Title</i>	<i>Duty</i>
H. Zeynep Bodur OKYAY	Independent Member of Board	Committee Chairman
Agah UĞUR	Independent Member of Board	Committee Member

Early Detection of Risk Committee

<i>Name / Surname</i>	<i>Title</i>	<i>Duty</i>
Agah UĞUR	Independent Member of Board	Committee Chairman
Sertaç HAYBAT	Member of Board	Committee Member
Mustafa TERCAN	Esas Holding AŞ-CFO	Committee Member

Safety Committee

Name / Surname	Title	Duty
Sertaç HAYBAT	Member of Board	Committee Chairman
Mehmet Cem KOZLU	Member of Board	Committee Member
Mehmet Tevfik NANE	General Manager	Committee Member

Top Management

Name/ Surname	Title
Mehmet Tevfik NANE	General Manager
Güliz ÖZTÜRK	EVP - Commerce
M. Barbaros KUBATOĞLU	EVP - Finance
Nasuh N. ÇETİN	EVP- Operation
Gençer KARATEPE	EVP – Flight Operations
Yavuz Selim ÖZMEN	Director-Flight Academy
Boğaç UĞURLUTEKİN	Director - Ground Operations
Barış FINDIK	Director - IT
Dilara OĞUR	Director - HR
Murat TÜNAY	Director - Safety and Emergency Response Management
Ergün DEMİRCİ	Director -Technical
Ersel GEYİK	Director - Cabin Services
Sinan Onur ÖZTUNA	Quality and Compliance Monitoring Manager
Ali UZUN	Chief Legal Counsellor and Secretary General
Özgür DİNÇER	Head of Internal Audit

Source: www.pegasusyatirimciiliskileri.com

Investor Relations Department

Name/ Surname	Title	Contact
Ömer Lütfü ÖMERBAŞ	Investor Relations Manager	0216 560 7542 ir@flypgs.com

**Balance-Sheet Comparison of Company's Certain Selected Items as of Last Two Yearends
(000 TL)**

	2018/12	2019/12	Change %
Current Assets	4.412.080	6.088.952	38,00
Fixed Assets	9.252.807	14.970.369	61,79
Total Assets	13.664.888	21.059.321	54,11
Short Term Liabilities	3.554.371	4.765.227	34,07
Long Term Liabilities	6.395.069	10.951.925	71,26
Equity	3.715.448	5.342.169	43,78

Source: Independent Audit Report dated 31.12.2019

**Revenue Statement Comparison of Company's Certain Selected Items as of Last Two Yearends
(000 TL)**

	2018/12	2019/12	Change %
Revenue	8.296.736	11.025.225	32,89
Gross Profit	1.263.178	2.699.044	113,67
Operational Profit	791.722	2.061.983	160,44
Net Period Profit/Loss	502.117	1.334.568	165,79

Source: Independent Audit Report dated 31.12.2019

Subsidiaries, Financial Fixed Assets and Financial Investments

Commercial Title	Line of Business	Paid in/Issued Capital	Company's Share in Capital	Currency	Company's Share in Capital (%)	Relation with Company
Pegasus Uçuş Eğitim Merkezi A.Ş.	Training with Simulator	200.000	98.800	TRY	49,4	Affiliated Company
Hitit Bilgisayar Hizmetleri A.Ş.	IT Solutions	200.000	100.000	TRY	50	Affiliated Company
Pegasus Havaçılık Teknolojileri ve Ticaret A.Ş.	Synthetic Flight Training Equipment Service Training Services	100.000	100.000	TRY	100	Subsidiary

Source: www.kap.org.tr

The Market where the Capital Market Instrument is Traded and the Indexes that the Company is Included

- STAR MARKET -*GROUP 1*
- *BIST 50 / BIST LIQUID 10 / BIST 100 / BIST ISTANBUL / BIST TRANSPORTATION / BIST SERVICES / BIST STAR / BIST 30 / BIST CORPORATE GOVERNANCE*

**Bottom and Peak The Closing Values of Company's Shares traded on the BIST in Last One Year
(15.08.2019/15.08.2020)**

<i>Bottom (TL)</i>	<i>Top (TL)</i>
23,62- (23.03.2020)	86,40- (31.12.2019)

Source: Pegasus Hava Taşımacılığı A.Ş.

B. Changes in Last One Year:

i. Changes in Capital and Articles of Association:

There have been mno changes in Company's Capital structure and Articles of Association.

ii. Changes in Management and Organization

- According to Company's Material Event Disclosure dated 29.08.2019:

Saad H. HAMMAD, who has been serving as a member of our Board of Directors has resigned as independent director, effective as of August 29, 2019. Based on the proposal of the Corporate Governance Committee, our Board of Directors resolved on the appointment of Mr. Agah UĞUR to succeed Mr. HAMMAD for the remainder of his term of office, subject to the approval of our shareholders at the next General Assembly meeting, in accordance with the provisions of Article 363 of the Turkish Commercial Code.

Since independent Board membership of Agâh UĞUR is subject to CMB approval within the framework of CMB corporate governance regulations, application will be made within the legal timeline to receive CMB's opinion on this appointment. Depending on this opinion, Agâh UĞUR will also take over the positions of Chair of Early Detection of Risk Committee and membership of Audit Committee, which were both vacated by Saad H. HAMMAD.

- According to Company's Material Event Disclosure dated 07.10.2019:

We had previously disclosed on 29.08.2019 that Mr. Agah UĞUR's appointment by our Board of Directors as an independent board member in accordance with Article 363 of the Turkish Commercial Code was subject to a non-objection from the Capital Markets Board. Further to our application in this

regard, the Capital Markets Board response dated 27.09.2019 did not raise any objections to Mr. UĞUR's appointment as an independent board member.

- Within the scope of CMB corporate governance regulations, Article 10 of Articles of Association and in accordance with opinions of Corporate Governance Committee, Board of Directors has determined Hatice Zeynep Bodur OKYAY, Stephen Mark GRIFFITHS and Agâh UĞUR as candidates for independent Board membership with its decision dated 30.01.2019, No 676. No objections were expressed on CMB's memos dated 07.04.2019 and 07.10.2019.

These individuals have been elected as Independent Members of Board for 1 (one) year at the General Assembly meeting on 07.04.2020.

- With the Board decision dated 23.06.2020, it was decided; to appoint Mustafa TERCAN – effective as of the date of Board decision - as Member of Early Detection of Risk Committee, which was vacated by resignation of İnan TANRIÖVER. Mustafa TERCAN is CFO of Esas Holding A.Ş.

iii. Dividend Distribution:

According to legal records prepared in compliance with CMB regulations, TRY 1,332,650,261 net distributable profit (TRY 1,333,165,948 net distributable profit with donations added) was made as a result of activities in 2019. According to legal records prepared in compliance with Tax Procedure Law No 213, TRY 1,033,567,119 net distributable profit was earned in the same period. At the Board meeting on 13.03.2020, following decision has been taken: "Within the framework of Article 21 of Articles of Association and items of dividend distribution policy, it has been decided to present the shareholders at the General Assembly meeting with the recommendation of transferring all distributable net profit into extraordinary reserves in order to strengthen liquidity and increase activities in line with Company's growth strategy policy, thus creating value for shareholders in the long term."

Board recommendation has been presented to shareholders at the General Assembly meeting on 07.04.2020 as Item 5 of the agenda and approved.

iv. Policies, Internal Regulations:

- Corporate Governance Committee has cancelled the "Woman Member of Board Policy" and replaced it with "Representation Policy in the Board of Directors". This policy was discussed at the Board meeting on 19.12.2019 and approved. "Representation Policy in the Board of Directors" policy has determined a tangible target for the ratio of women members of the Board. With this policy, "Pegasus declares that it aims to increase the number of women Board members at least 25% by 2025".

- "Board's Work Methods and Principles" has been updated and it was discussed and approved at the Board meeting on 29.05.2020. It was published on Company's corporate website (<http://www.pegasusyatirimciiliskileri.com>).

There have been no other changes during the rating period that are described by Corporate Governance Principles and need to be disclosed to public.

v. Changes in *Affiliated Companies and Subsidiaries:*

- According to Company's Material Event Disclosure dated 13.09.2019:

"Pursuant to the resolution of our Board of Directors dated September 12, 2019, the Company executed an agreement on the same date with AviaTrade Corp. LP operating in the United Kingdom for the sale of our entire 49% participation interest in our subsidiary Air Manas Air Company LLC operating domestic scheduled flights in the Kyrgyz Republic. Air Manas is fully consolidated by the Company and the transaction is not expected to have a material impact on our operations or financial results. The share transfer shall be consummated upon registration of the sale with the authorities in the Kyrgyz Republic. Another disclosure on this subject will be made after completion of registration procedure."

- According to Company's Material Event Disclosure dated 15.10.2019:

"In our previous Material Event Disclosure dated September 13, 2019, we had announced that, pursuant to the resolution of our Board of Directors dated September 12, 2019, the Company executed an agreement with the same date with AviaTrade Corp. LP operating in the United Kingdom for the sale of our entire 49% participation interest in our subsidiary Air Manas Air Company LLC operating domestic scheduled flights in the Kyrgyz Republic; that Air Manas is fully consolidated by the Company and the transaction is not expected to have a material impact on our operations or financial results and that the share transfer shall be consummated upon registration of the sale with the authorities in the Kyrgyz Republic. Registration of the sale and share transfer have been completed as of October 14, 2019 and registration certificate has been received on October 15, 2019."

vi. Changes of Regulations and Other:

Information about important legal changes that may affect Company activities have been given on page 18 of the Annual Report prepared for the period between 01.01.2019 and 31.12.2019.

3. RATING METHODOLOGY

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

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

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

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

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

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

Turkey has been closely monitoring these developments. A working group, established

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

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

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

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

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

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

408 criteria are used in the rating process for BIST First Group companies in order to measure the compliance of firms with corporate governance principles. These criteria are translated into Corporate Governance Rating Question Sets through Kobirate A.S.'s unique software.

The weighting scheme for the four main sections in the new Corporate Governance

Compliance Rating, determined by CMB's memorandum dated 12.04.2013 and numbered 36231672-410.99 (KBRT)-267/3854, is applied completely by Kobirate A.Ş. The weightings are as below:

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

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

In the 2014/2 revised corporate governance compliance rating methodology, created by our company, the grade that can be given to a related criterion in that subsection for meeting minimum requirements of corporate governance principles, stated by CMB Communiqué of Corporate Governance published on 03.01.2014, numbered II-17.1, is restricted to 85 % of the full points. Remaining 15 % is reached by measuring company's efficiency in applying CMB's Corporate Governance Principles, degree to which the company is internalized these practices and the value that these internalized practices create for the company. The existence of those practices that are not included in CMB's Corporate Governance Principles, but determined as good corporate practices by Kobirate A.Ş. Corporate Governance Compliance Rating Methodology are also

considered as part of the remaining 15 % and affect the company's grade.

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

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

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

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

