



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

26 August 2016

Validity Period : 26.08.2016-26.08.2017

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.

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PEGASUS HAVA TAŞIMACILIĞI A.Ş.

BIST FIRST GROUP

CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

9.17

Kobirate Uluslararası Kredi Derecelendirme
ve Kurumsal Yönetim Hizmetleri A.Ş

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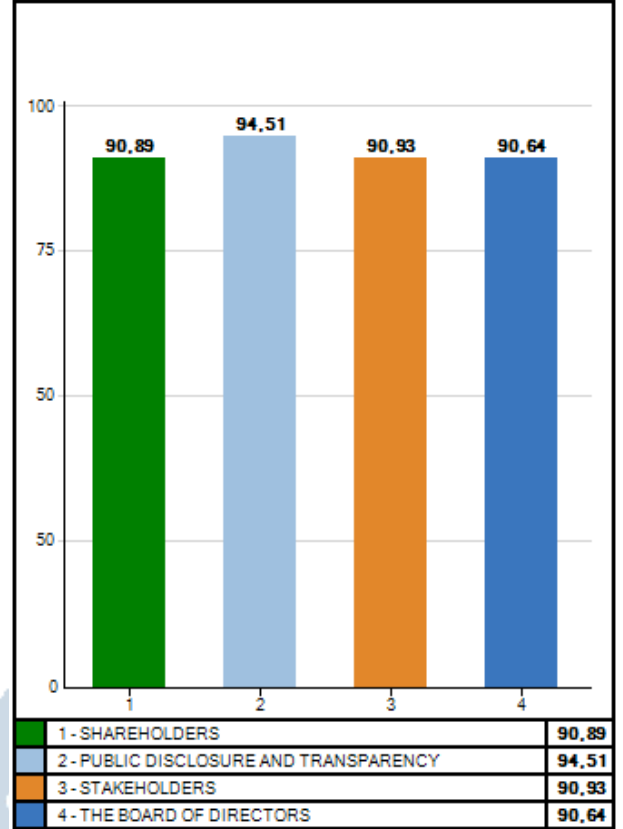
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1. RATING SUMMARY

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 issued on Official Gazette no 28871, dated January 3, 2014.

According to Capital Market Board decision dated 08.01.2016 and numbered 1/23,



PEGASUS Hava Taşımacılığı A.Ş. is included in the list of **BIST First Group Companies**. The company has been examined in 408 criteria described by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş.'s methodology for "BIST First Group Companies". Rating process has been conducted under the main headings of Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors and Corporate Governance Compliance Rating Grade of **PEGASUS Hava Taşımacılığı A.Ş.** has been determined as **9.17**.

This result signifies that **PEGASUS** has achieved a considerable compliance with CMB's Corporate Governance Principles. The grade shows that internal control systems

have been formed, possible risks for the Company have largely been determined and controlled and, rights of shareholders are treated fairly. It indicates that public disclosure and transparency activities are conducted at high level and rights of stakeholders are treated fairly. The structure and working conditions of board of directors are compliant with corporate governance principles. With this grade, the Company well deserves to be included in the BIST Corporate Governance Index.

Determined and willing approach that board of directors and top management showed in order to produce solutions for the areas which require improvement and their internalization of Corporate Governance Principles have been the most important factors in achieving the revised grade.

In view of rating process under main headings in brief;

It is seen that Pegasus has obtained the grade of **90.89** in Shareholders Section.

The company in general has achieved a rather good level of compliance with the CMB Corporate Governance Principles in this section. The existence of a properly operating Investors Relation Department, duly call for and convention of general assembly, preparation of a comprehensive briefing note to ensure shareholders' access to information about the agenda items and establishment and disclosure to public of a dividend policy, which has been presented to the approval of the general assembly are salient positive achievements. In accordance with CMB Directive no II.17-1, the Unit Director of Investors Relation Department has been appointed as Corporate Governance Committee member.

The Company has achieved the grade of **94.51** for the section Public Disclosure and Transparency. It conducts public disclosure activities in accordance its disclosure policy, which is published on its corporate website. It is deemed positive that access is provided to

several current data on the corporate internet website, which are specified in the principles and might be needed by the investors. It is seen that the Annual Report is sufficient in terms of content and information is strengthened with graphics. It is thought that due to such efforts the Company has achieved compliance with corporate governance principles to a significant degree in the field of public disclosure and transparency.

It is seen that the company has reached the grade of **90.93** for the Stakeholders' Section.

The Company has achieved considerable compliance with CMB's Corporate Governance Principles in this section. Management consultancy services that the Company has received are completed and all internal procedures that concern stakeholders and particularly employees have been updated. Human resources policy has been established; regulations are made and disclosed to the employees including recruitment, job descriptions, performance appraisal, promotion, awarding, leave and social benefits. Training policies and annual training programs have been prepared and disclosed to employees.

It has been observed that job processes and standards have been set forth and relevant parties are being informed of such processes.

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

Ethical Principles and Rules have been set forth and introduced to employees to act pursuant to such rules.

Compensation policy for employees has been prepared and approved by the Board of Directors. Compensation policy is published on the corporate website.

Company's corporate social responsibility and sustainability policies have been prepared and disclosed to public.

As for the Board of Directors Section, the Company's grade is **90.64**, representing a rather good level compliance with the CMB's Corporate Governance Principles.

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

The posts of Chairman of the Board and Chief Executive Officer are held by separate individuals.

It has been observed that the Board convenes regularly and procedures for meetings are incorporated in both the Articles of Association and internal directives.

Audit, Corporate Governance and Early Detection of Risk Committees, referred to in the Principles, have been formed and their working principles prepared in written documents. On the other hand, the fact that there are three (3) independent members in the Board of seven (7) members and that one woman has been appointed as Board member has strengthened compliance with principles. Guidelines for Compensation of the Directors and Top Executives have been determined, presented to shareholders as a separate item at the general assembly meeting and disclosed to public on the corporate website.

2. RATING METHODOLOGY

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

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

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

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

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

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

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

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

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

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

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

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

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.

In this report the following legends have the following meanings:

- ✓ Due / Correct Application of CMB's Corporate Governance Principles
- * Improper / Erroneous Application of CMB's Corporate Governance principles
- ✓/* Practices required to be improved in compliance with CMB's Corporate Governance Principles.

3. COMPANY PROFILE



Company Name	: PEGASUS Hava Tařımacılıđı A.ř.
Company Address	: AEROPARK Yenřehir Mah. Osmanlı Bulvarı No:11/A Kurtky 34912 Pendik İSTANBUL
Company Phone	: (0216) 5607000
Company Facsimile	: (0216) 5607400
Company Website	: www.flypgs.com
Date of Incorporation	: 12.01.1990
Registered Number	: 261186 Istanbul Trade Registry Office
Paid in Capital	: 102.272.000.-TL
Line of Business	: Air transportation
Company's Sector	: Transportation

Company's Representative in Charge of Rating:

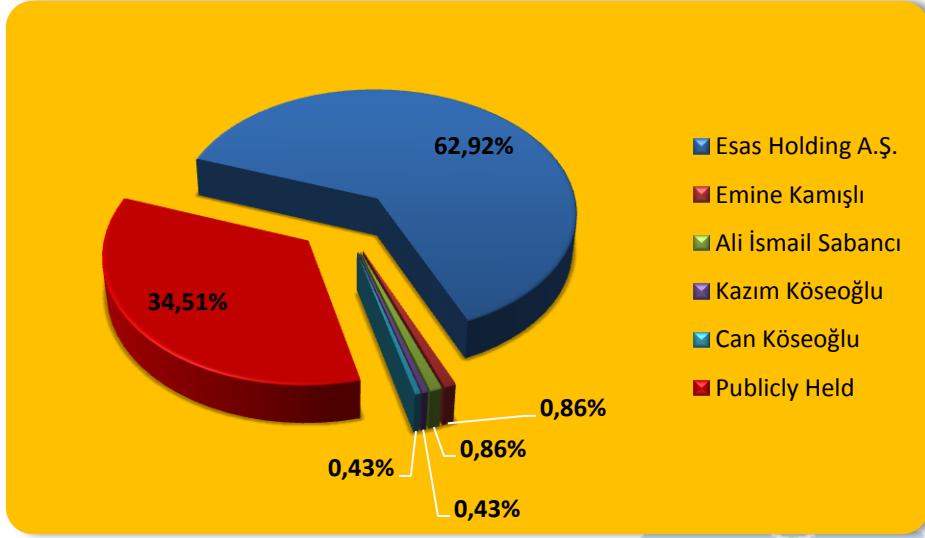
Verda Beste TAřAR

Investor Relations Director

beste.tasar@flypgs.com

0216 560 7580

Shareholding Structure of the Company



Source: www.pegasusyatirimciiliskileri.com

Shareholder Name	Share (TL)	Share (%)
Esas Holding A.Ş.	64.353.570	62,92
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	35.294.000	34,51
Total	102.272.000	100,00

Source: www.pegasusyatirimciiliskileri.com

Esas Holding A.Ş.

Shareholder Name	Share (%)
Emine KAMIŞLI	20,00
Ali İsmail SABANCI	20,00
Şevket SABANCI	16,44
Zerrin SABANCI	16,44
Kazım KÖSEOĞLU	11,19
Can KÖSEOĞLU	11,19
Fethi Ali KAMIŞLI	01,19
Kerem KAMIŞLI	01,19
Emrehan Şevket SABANCI	01,19
Kaan Ali SABANCI	01,19
Total	100,00

Source: www.pegasusyatirimciiliskileri.com

Real Person Ultimate Controlling Shareholders

Name/ Surname	Direct and Indirect Share (%)
Şevket SABANCI ve AİLESİ	65,49
Publicly Held	34,51
Total	100,00

Source: www.pegasusyatirimciiliskileri.com

Board of Directors

Name/ Surname	Title	Executive/ Non - Executive
Ali İsmail SABANCI	Chairman of Board of Directors	Executive
Hüseyin Çağatay ÖZDOĞRU	Deputy Chairman	Executive
Sertaç HAYBAT	Board Member	Non - Executive
Şükrü Emre BERKİN	Board Member	Non - Executive
Mehmet Cem KOZLU	Independent Board Member	Non - Executive
Saad H. HAMMAD	Independent Board Member	Non - Executive
Zeynep BODUR OKYAY	Independent Board Member	Non - Executive

Kaynak: www.kap.gov.tr

Committees formed within Board of Directors

Corporate Governance Committee

Name / Surname	Title	Duty
Saad H. HAMMAD	Independent Board Member	Committee Chairman
Mehmet Cem KOZLU	Independent Board Member	Committee Member
Şükrü Emre BERKİN	Board Member	Committee Member
Verda Beste TAŞAR	Investor Relations Director	Committee Member

Audit Committee

Name / Surname	Title	Duty
Mehmet Cem KOZLU	Independent Board Member	Committee Chairman
Saad H. HAMMAD	Independent Board Member	Committee Member

Early Detection of Risk Committee

Name / Surname	Title	Duty
Mehmet Cem KOZLU	Independent Board Member	Committee Chairman
Saad H. HAMMAD	Independent Board Member	Committee Member
İnan TANRIÖVER	Not Board Member (ESAS Holding CFO)	Committee Member

Safety Committee

Name / Surname	Title	Duty
Sertaç HAYBAT	Board Member	Committee Chairman
Mehmet Cem KOZLU	Independent Board Member	Committee Member

Top Management

Name / Surname	Title
Mehmet Tevfik NANE	General Manager
Serhan Ulga	EVP- Financial Affairs &CFO
Güliz Öztürk	EVP-Commerce
Nadir KABAŞ	EVP-Flight School
Nurçin ÖZSOY	EVP-Cabin Services
Reha ÖZDEMİR	EVP-Flight Operations
Servet Ulaşan	EVP- Technical
Boğaç UĞURLUTEĞİN	EVP - Ground Operations
Kemal Mustafa HELVACIOĞLU	Safety Management ve Quality Director
Doğan İNANÇ	Flight Instruction Director
Aycan KURTOĞLU	IT Director
Dilara OĞUR	HR Director
Mine Öztürk	Internal Audit Director
Ersel GEYİK	Support Services Director
Aydın YUMRUTAŞ	Flight Operations Director (Chief Pilot)
İpek DÖŞER	Cabin Services Director
Murat DEMİRBİLEK	Ground Operations Director
Tahsin İSTANBULLU	CAMO - PART M Director
Ergün DEMİRCİ	AMO - PART 145 Director
Ömer KAYA	Performance & CIT Director
Emre PEKESEN	Sales Director
Onur DEDEKÖYLÜ	Marketing Director
Turgut ATAY	Network Planning Director
Aydın ALPA	Cargo Director
Barbaros KUBATOĞLU	Budget and Financial Affairs Director
Tamer YÜZÜAK	Finance and Strategic Planning Director
Verda Beste TAŞAR	Investor Relations Director
Tayfun BORA	Security Manager

Investor Relations Department

Name / Surname	Title	Contact
Serhan ULGA	EVP- Financial Affairs	0216 560 7320 pegasuyatirimciiliskileri@flypgs.com
Verda Beste TAŞAR	Investor Relations Director	0216 560 7580 beste.tasar@flypgs.com

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

	2014/12	2015/12	Change %
Current Assets	1.488.894	1.833.732	23,16
Fixed Assets	2.025.869	2.264.365	11,77
Total Assets	3.514.762	4.098.097	16,60
Short Term Liabilities	842.823	991.846	17,68
Long Term Liabilities	1.510.779	1.653.520	9,45
Equity	1.161.160	1.452.732	25,11

Source: Pegasus Hava Taşımacılığı A.Ş. 2015 Independent Audit Report

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

	2014/12	2015/12	Değişim %
Revenue (Net)	3.081.728	3.488.271	13,19
Gross Profit	463.461	431.003	-7,00
Operational Profit	324.702	243.535	-25,00
Profit Before Tax	135.674	182.379	34,42
Net Profit/Loss	143.307	111.864	-21,94

Source: Pegasus Hava Taşımacılığı A.Ş. 2015 Independent Audit Report

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

- Star Market
- BIST 50 / BIST All / BIST 100 / BIST Istanbul / BIST Transportation / BIST Services / BIST 30 / BIST Corporate Governance

**The Bottom and Peak Closing Values of Company's Shares traded on the BIST in Last One Year
(01.08.2014/01.08.2015)**

Bottom (TL)	Peak (TL)
13,17- (13.06.2016)	25,20- (06.07.2015)

Source: Pegasus Hava Taşımacılığı A.Ş.

Brief History and Activities of the Company

Pegasus Hava Tařımacıliđı A.ř. started operations in 1990 with two aircrafts, as a joint venture company established by Aer Lingus Grup, Silkar Yatırım ve İnřaat Organizasyonu A.ř. and Net Holding

Pegasus was purchased by Esas Holding A.ř., owned by řevket Sabancı and his family, in 2005 the company started scheduled domestic flights and became the 4th scheduled airline operating in Turkey in month of November same year.

Having launched the “low cost model” practices right after starting scheduled flights, Pegasus believes that “travelling by air is everybody’s right”. Based on this vision, it provides affordable air transport for guests with a young fleet and high rates of on time departures.

The company which started with only 6 domestic scheduled flights has increased its flight network to 40 countries with 103 locations, 33 domestic and 70 overseas, as of today.

Maintaining its steady growth, Pegasus was shown as “Europe’s Fastest Growing Airline” by the Official Airline Guide report, which is ranking of Europe’s 25 largest airlines on seat capacity basis, in 2013 as in 2011 and 2012. In Turkish civil aviation sector which entered to a significant growth trend, Pegasus, with number of guests growing above the sector averages, showed that it meets a significant demand in the aviation sector.

Pegasus has been continuously providing new services and products to create an enjoyable travel experience for its guests. In recent years, services that bring side income were put into service to support low cost carrier model. Parallel to the growth in sector the company also expanded its family and it employs 4,967 employees as of 31.12.2015.

While Turkish domestic market competition was limited with domestic airlines, Pegasus also competes with several operators in international markets. The main competitors in current domestic lines are Turkish Airlines, Anadolujet, SunExpress, Atlasjet and Onurair.

In 2015, Pegasus’ market share was 28.3 % on the basis of total number of passengers carried by domestic scheduled flights. Due to presence of many countries in the region, Turkey shows quite a fragmented picture in terms of both countries and airlines on the basis of international traffic to and from the country. In 2015, Pegasus’ market share was 9.8 % in terms of total number of passengers transported with scheduled flights to abroad.

Services / Income Sources:

Scheduled Passenger Services

Scheduled flights are basically performed from Sabiha Gökçen Airport in Istanbul which is the epicenter for both overseas and domestic operations. Since Nov.2005, approximately 78.4 million passengers (*) were transported with scheduled flights by Pegasus.

(*) Based on passenger figures as of end of June, 2014.

Side Income

PEGASUS offered various auxiliary services including additional products and services associated with its main service, airline passenger transportation and generate additional revenue from these services. Flight related services and income can be listed as follows;

- Service Charges
- Cancellation Fees
- Excess Baggage Fees
- Airport Check-in Fees
- Extra baggage allowance bought in advance
- Pre-ordered and in-flight Food and Beverage Sales
- Duty-Free Goods Sales In Overseas Flights;
- Seat Choosing Fees (Possibility to choose the desired seats by paying an extra charge)
- Reservation Change Fees
- Ads On Planes And In Flight Magazines
- Option Sales In Scheduled Flights (Fees passengers pay when booking for a certain price before a certain reservation time)
- Visa services
- Airport transfers
- Car rental services

Charter Operations

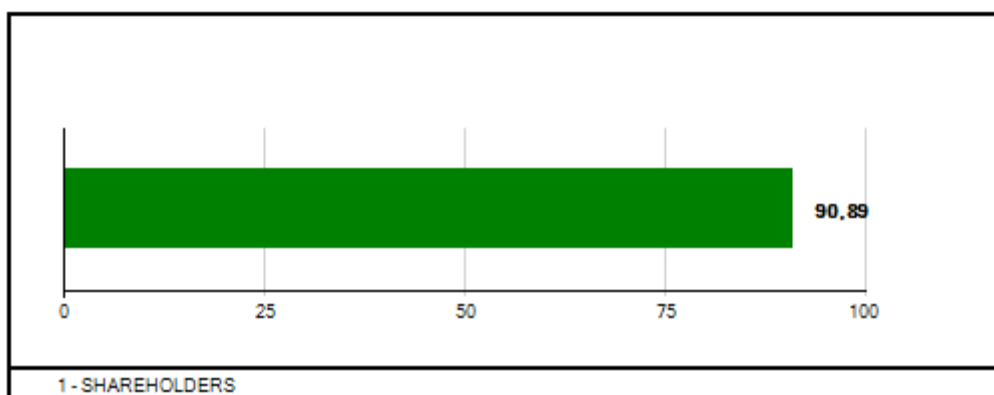
- Standart Charter
- Split Charter
- Wet lease and sub charter

Other Income

- Cargo Services
- Training

4. RATING SECTIONS

A. SHAREHOLDERS



Overview

- ✓ There is an Investor Relations Department and it does its duties concerning shareholders as required.
- ✓ Investor Relations Procedure has been prepared and put into effect.
- ✓ There are no regulations that make special audits difficult.
- ✓ General assembly meetings are held in accordance with laws, regulations and Articles of Association.
- ✓ It is stated in invitation for General Assembly that it is open to public and this issue has been regulated in Articles of Association.
- ✓ There are no regulations that make voting difficult and no upper limit policy on number of votes.
- ✓ Dividend policy has been created, presented to the approval of general assembly and disclosed to public.
- ✓ Donations and aid policy has been created, presented to the approval of general assembly and disclosed to public.

- ✓/* No information has been given to the shareholders at the general assembly meeting about the benefactors of donations and aids given in that period.
- ✓/* Adding a provision to the Articles of Association, extending minority

rights would strengthen compliance with Corporate Governance Principles.

In this section, as stated CMB's Corporate Governance Principles, the company was evaluated on 115 different criteria, including **Facilitation the Exercise of Shareholders' Rights, Shareholders' Right to Obtain and Examine Information**, shareholders' right to Attend the **General Assembly**, shareholders' **Voting Right**, shareholders' **Minority Rights**, shareholders' **Dividend Rights** and shareholders' right to **Transfer Shares** to whomever they want, whenever they want. The company's grade for this section is 90.89.

a. Facilitating the Exercise of Shareholders' Rights

Investor Relations Procedure, which is said to be prepared in the period of monitoring, was approved and put into effect on 31.03.2016. The procedure describes how the processes under responsibility of Investor Relations Directorate work. Upon examination of the document, it has been determined that it is in compliance with Corporate Governance Communiqué No II-17.1. Main duties of Investor Relations Department are listed as below:

a) Keeping healthy, safe and current records of shareholders and providing coordination within the Company on subjects related to shareholders,

b) Conducting promotion of Pegasus for individual and corporate investors in the country and abroad, preparing promotion tools correctly and fully, enabling shareholders to access to correct and full information by regularly updating the content of corporate website, as well as other presentations and disclosure means,

c) Organizing events to inform current and potential shareholders regularly on Pegasus' activities, financial situation and strategies, participating to conferences and investor meetings in order to regularly inform investors on Pegasus, sector, economic developments and developments in the capital market,

d) Meeting information requests by analysts who research Pegasus, rating companies and researchers, sharing important points and analysis methods in order to enlighten comments of analysts and communicating financial results to media after disclosure of financial data,

e) Preparing and coordinating publishing of financial reports and Pegasus Material Event Disclosures about important developments,

f) Conducting Pegasus' relations with regulatory boards like CMB and capital market organizations like BIST and MKK,

g) Determining those people with access to insider information who can get critical information, undisclosed to public, about Pegasus that can affect value of Company's shares and decisions of investors, updating the list of them and informing these people,

h) Ensuring General Assembly meeting to be conducted in compliance with regulations, Articles of Association and internal regulations, informing shareholders by preparing necessary documents for use of

them at the meeting, keeping the records of meeting and supporting Legal Counselor to publish reports about meeting's results over internet,

i) Keeping information on Pegasus current at other information platforms run by CMB and PDP,

j) Preparing annual financial media communication plan in coordination with Corporate Relations Department and increasing Company's visibility in financial media,

k) Cooperating and exchanging opinions with Legal Counselor and Corporate Relations Department to conduct abovementioned duties,

l) Determining annual Department targets and methods to achieve them for Investor Relations Directorate.

Investor Relation Directorate reports to Serhan ULGA, EVP- Financial Affairs & CFO. It has been determined that Investor Relations Director Verda Beste TAŞAR has Capital Market Activities Level 3 and Corporate Governance Rating Licenses. Thus, requirement of licenses put by CMB Corporate Governance Communiqué is met. Abovementioned Director works full time at the Company and she has been a member of Corporate Governance Committee since 25.04.2014 in compliance with CMB Communiqué No II-17.1.

It has been found that the department staff have adequate qualifications in terms of knowledge and experience required for the task, that they play an effective role in protection and facilitation of shareholders' rights, the right to obtain and examine information in particular.

Any information that might affect exercising shareholder rights is currently at disposal of shareholders on the corporate website.

The Company has achieved full compliance with the principles in this subsection.

b. Right to Obtain Information and to Examine

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

It has been learned that inquiries of shareholders within the period, made through phone, e – mail or in writing via other communication means have been replied. It has been seen that about 550 information requests were received and the information was given by replies over phone, e – mail or face to face meetings.

The “Disclosure Policy”, approved by the Board, is on the website. Shareholders’ right to obtain and examine information is comprehensively explained in this policy.

There is no regulation or practices by Articles of Association or any departments cancelling or restricting shareholders’ right to obtain and examine information.

There are no regulations and practices that make it difficult for shareholders to demand appointment of a special auditor from general assembly. Article 16 of Articles of Association states: “Turkish Commercial Act and Articles of Capital Market Act and regulations within the scope of these acts are applied in subjects about supervision of Company and other issues foreseen by related regulations, as well as shareholders’ natural and legal right of special audit. This article is referred to at the Corporate Governance Compliance Report and shareholders are informed about usage of special audit right.

In this subsection, Pegasus has achieved considerable compliance with corporate governance principles.

c. General Assembly

Due to the practices in the general assembly, Pegasus has achieved a rather good compliance with many principles in this subsection.

It has been learned that announcement of General Assembly meeting is made at least three weeks before the meeting and as much means of communication as possible are used to reach maximum number of shareholders possible. The General Assembly meeting to discuss operations of 2015 took place on 07.04.2015. The meeting was announced with Public Disclosure Platform statement on 03.03.2016, EGKS and corporate website. It was also published in Turkish Trade Registry Gazette dated 14.03.2016, No 9031.

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

Alongside with announcement of ordinary and extra ordinary General Assembly meetings, the Company prepared a document containing detailed information about general assembly process, agenda items and other issues, enabling shareholders to have opinion about the meeting. The document also contained information about total number of shares and voting right, reflecting shareholding structure of the Company as of the date of announcement, whether there were privileged shares or not, important changes in activities and management of Pegasus and its subsidiaries.

It has been seen upon examination of the document that the board of directors took into consideration the items that

shareholders wanted to add on the agenda, if they are sent in writing.

It has also been seen that special care was given to express the items clearly in order not to cause different interpretations and to avoid using expressions like “other” or “various”.

Meetings have been open to stakeholders and public, including media and this policy has been regulated with Article 17 / e of Articles of Association.

General Assembly meetings take place in a suitable place in such a fashion that enables shareholders to attend with least possible costs and avoid inequalities among them.

It has been seen that suggested chairman of the General Assembly has made necessary preparations before the meeting in order to conduct it in compliance with CMB communiqués and relevant regulations and given necessary information about the agenda by the managers.

Ali Sabancı (Chairman of Board), Mehmet Tefik Nane (CEO), Serhan Ulga (CFO), Barbaros Kubatoğlu (Budget and Financial Affairs Director), Tamer Yüzüak (Finance and Strategic Planning Director), Verda Beste Taşar (Investor Relations Director), Ali UZUN (Legal Counselor), Cem TOVİL (Independent Audit Company Representative) and other officials attended the General Assembly meeting on 07.04.2016.

It has been determined that agenda items were separately voted and results of voting were announced to shareholders before the end of the meeting.

It has been noted that the chairman of the meeting has taken great care to have the issues of the agenda expressed objectively, comprehensively, clearly and simply. Shareholders were able to express their opinions and ask questions under equal circumstances. Shareholders’ questions were generally answered during the meeting.

Articles 10 and 11 of Articles of Association were changed at the General Assembly meeting for activities of 2015. Previous and changed versions of Articles of Association, as well as reasons for the change were put in the general assembly announcement and information document.

Information about Dividend Policy and Donation and Aid Policy, which were approved at the meeting on 31.03.2014, was given to participants of the meeting. Information about the amount of all donations and aids provided within the period was also given and the upper limit for donations of next year was presented for the approval of shareholders. However, giving information at the meeting about beneficiaries of donations would strengthen compliance with principles.

At the same meeting:

The shareholders were informed that majority shareholders, board members, managers with administrative responsibilities, their spouses and first and second degree relatives did not make any major transactions that might have caused conflict of interest with the company or its subsidiaries and they did not join another company that operates in the same line of business area, as unlimited partners.

Information was also given about transactions that took place with relevant parties in 2015 and guarantees, pledges and mortgages given to third parties.

Examination of general assembly meeting minutes and observations of our experts who attended the meeting has shown that the Company manages general assembly processes very well. With its policies in this subsection, Pegasus has achieved high level compliance with the principles.

d. Voting Right

Neither Articles of Association nor internal procedures contain any difficulties to exercise the voting right and opportunity to exercise it

in the easiest and most convenient manner is given to each shareholder.

It is possible for the shareholders to exercise their voting right in person or by proxies, whether member or not at the general assembly; the members are provided with the specimen proxies to be used for this purpose at the Company's head office, on corporate internet website and ad supplement.

Voting at the general assembly, appointing proxy and equality one share with one vote have been regulated in Article 17 / c of Articles of Association. Before discussion of agenda items, participants were informed about voting method.

There is no privilege in voting right for any group of shareholders.

The company doesn't have a subsidiary with mutual relationship which brings sovereignty.

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

e. Minority Rights

There has not been any violation of exercising minority shareholders' rights, such as attendance to the general assembly meeting, representation by proxy, imposition of no upper limit for voting rights. In this manner it has been found that care is given to the exercise of minority rights.

However, there is no regulation to widen the scope of minority rights in the Articles of Association and to give same rights to shareholders with less than one twentieth of the capital.

f. Dividend Right

Pursuant to the criteria laid down by CMB directives and by the Turkish Commercial Act, the Company has prepared its Dividend Policy and disclosed it to public in electronic environment. The policy was presented for

the approval of shareholders at the general assembly on 31.03.2014.

It has been determined that the policy contains minimum data enabling the investors to foresee the procedures and guidelines for distribution of profit to be generated by the company in future.

There are no privileges in the distribution of dividend. Article 21 of Articles of Association states: "Existing shares will get dividends equally without the principle of per diem deduction".

It has also been indicated in the same policy that in case of not distributing dividend proposed by the Board of Directors in the general assembly, its reason and information on the usage of undistributed profit will be presented to the shareholders in the general assembly.

According to financial statements prepared in compliance with TFRS, the Company made a net distributable profit of TRY 107,316,646 from its activities in 2015. All of this profit has been allocated as extra ordinary reserves. The reason for not distributing the profit and its usage was explained in detail at the general assembly meeting on 07.04.2016 as item 5 / b of the meeting agenda.

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

g. Transfer of Shares

According to Article 7 of company's Articles of Association;

"The transfer of company shares is subject to Turkish Commercial Act, SEA (Securities Exchange Act), Turkish Civil Aviation Act and related regulations in this context including provisions of Articles of Association.

Taking into consideration 3rd paragraph of Article 137 in SEA, transfer of registered shares under below mentioned conditions can

only become effective for the Company with the approval of Board of Directors.

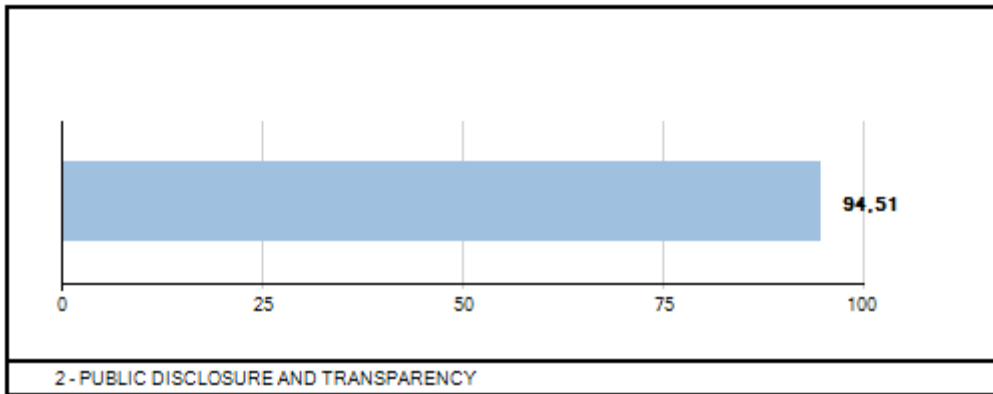
In accordance with the Turkish Civil Aviation Act and relevant civil aviation legislation, in order to ensure continuity of company activities and prevent possible damages, Board of Directors can refuse transfer of shares that may result in 50 % and above of issued share capital getting into hands of foreign shareholders. The company's Board of Directors has the right to ask foreign shareholders for disposal of shares that exceeds the mentioned capital ratio, within a determined period, within 7 days that they have learned of such transfer of shares. Board of Directors is also authorized to perform any of below mentioned steps in case the shares are not disposed within specified period:

1. Reducing capital with redemption of foreign shares which results with exceeding of above mentioned shareholding ratio;
2. Increasing capital and restricting pre-emptive rights of foreign shareholders to keep their share under the above mentioned foreign shareholding ratio;
3. Acquisition of foreign shares that exceeds the above mentioned shareholding ratio under Turkish Commercial Act, SEA and relevant secondary legislation.

Transfers of shares are entered to shares register after approval by the Board of Directors, as referred to in this article. Board of Directors has all the right and authority to refuse transfer of shares and not to recognize transferee as shareholders under relevant provisions of Turkish Commercial Act, except conditions mentioned in this article"

Apart from these restrictions, which originate from legal regulations that the company has to comply with because of its line of business, there is no difficulty for transferring shares freely.

B. PUBLIC DISCLOSURE AND TRANSPARENCY



Overview

- ✓ Disclosure activities are implemented within the scope of disclosure policies.
- ✓ Corporate website contains information/documents that are referred by the principles and it is current.
- ✓ Last 5 years' information/documents are published on the corporate website.
- ✓ Information on the website is also published in English.
- ✓ Table of ultimate majority real person shareholders of the company is published on the website.
- ✓ Content of the annual reports is in compliance with the principles and other legal regulations.
- ✓/* It will be appropriate to give information in the annual reports about whether there are any plans to make changes in partnership's management policies in future within the scope of corporate governance principles.

As for this section, the Company has been assessed by **88** different criteria under the headings of **Corporate Website** and **Annual Report** as laid down in the Corporate Governance Principles of the Capital Market Board and it has deserved the grade of **94.51**.

Pegasus conducts its public announcements within the frame of its Public Disclosure

Policy developed by the board of directors and disclosed to public.

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

Disclosure policy contains principles on disclosure of information for future. In cases disclosing information for future to public, it has been observed that assumptions and data they are based on are also disclosed and information doesn't contain exaggerated predictions. Furthermore, the assumptions are in line with company's financial situation and results.

Company's disclosure policy has been revised according to CMB's Special Cases Communiqué, No II.15.1, which came into effect after published in Official Gazette no 28891, dated 23.01.2014. It was presented to shareholders at the general assembly on 31.03.2014.

a. Corporate Website

The corporate internet website (www.flypgs.com and www.pegasusyatirimciiliskileri.com;) serves as an active and effective platform for public

disclosure and its content is continuously updated. The information on the corporate website is consistent with statements made pursuant to the relevant regulation and doesn't contain conflicting and missing information.

The corporate website contains commercial registry details, latest shareholding and management structure, the final text of company's Articles of Association and numbers and dates of trade registry gazettees that changes have been published, the material event disclosures, financial reports, annual reports, agendas of general assembly meetings, lists of attendees, proceedings of the meetings, the specimen Proxy, internal guidelines, dividend policy, disclosure policy, remuneration and compensation policy, Company's policy to repurchase its shares, donations and aids policy, corporate social responsibility and sustainability policies, woman member of board of directors policy, human resources policy, ethical rules developed by the Company and information requests, questions under frequently-asked questions heading, as well as answers given to them, in addition to the information that is mandatory to disclose pursuant to the legislation.

Shareholding structure of the Company has been disclosed to the public, after eliminating indirect and mutual participation relationships, including names, share amounts, ratios and privileges of real person shareholders with more than 5 % of shares.

Content of the corporate website has also been prepared in English as well in order to ensure that international investors benefit from it.

In this subsection **Pegasus** has achieved a very good level compliance with the principles.

b. Annual Report

It is clear that board of directors prepares the annual report about Company's activities comprehensively, providing complete and

correct information. Annual reports of last five years are shared with the shareholders and the public through electronic media.

The content of annual reports comprises;

- Résumés and tenures of board members and top executives,
- Information about the sector that company operates in and about the its position within the sector,
- Information about company's financial resources, qualifications and amounts of its issued capital market instruments,
- Information about changes made in the Articles of Association during the period and their reasons,
- Corporate Governance Principles Compliance Report,
- Information on related party transactions and balances, which is obligatory to disclose according to the regulations,
- Independent audit report on annual report.

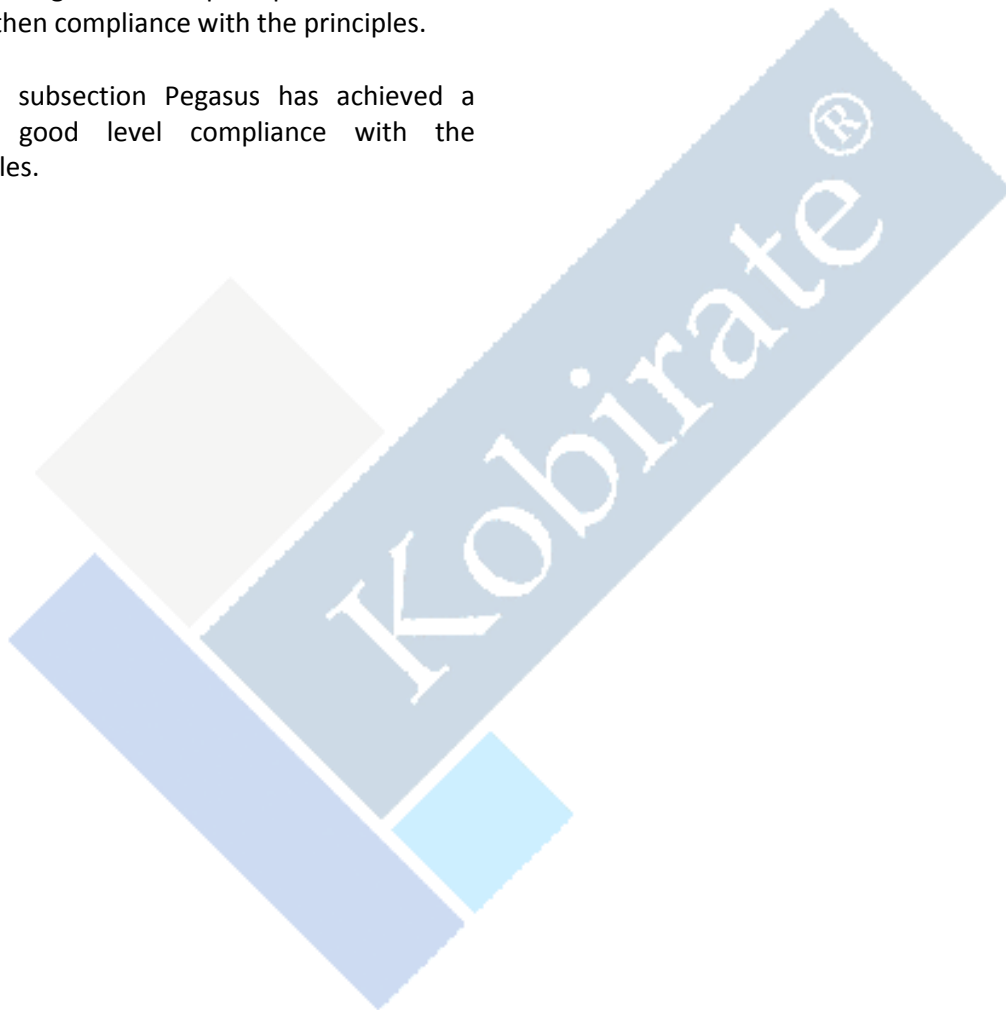
In addition to subjects quoted in regulations and other parts of corporate governance principles, annual reports also include information on;

- Ongoing jobs of board members' and top executives outside the company,
- Declarations of independent board members on their independence,
- Members of committees within board of directors and meeting frequencies of these committees,
- Changes of regulations, which might significantly affect company operations,
- Important law suits against the company and their possible conclusions,
- Social rights and professional training of employees, other company activities that have social and environmental impacts and corporate social responsibility activities,
- The need for permission of the general assembly for majority shareholders, board members, top executives with administrative responsibilities, their spouses and first and second degree relatives to have transactions that might cause conflict of interest with the

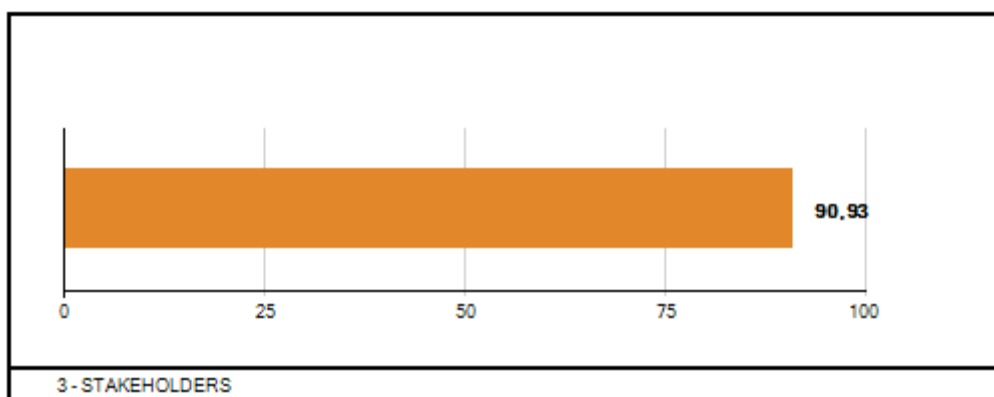
company or its subsidiaries or to engage in competitive commercial activities and whether or not such a procedure has taken place.

It would be appropriate for the Company to provide more comprehensive information on measures to prevent conflict of interest between the company and service suppliers in the fields like investment consultancy and rating. Having information in the annual report on whether or not there are plans to make changes in future within the scope of corporate governance principles would also strengthen compliance with the principles.

In this subsection Pegasus has achieved a rather good level compliance with the principles.



C. STAKEHOLDERS



Overview

- ✓ Ethical Rules have been formed, presented to the general assembly and disclosed through electronic means.
 - ✓ There are no regulations that make exercising stakeholders' rights difficult.
 - ✓ Employees are provided with a safe and pleasant working environment.
 - ✓ There are no complaints by employees about discrimination or not being able to use their rights.
 - ✓ A comprehensive human resources policy and training policy have been formed.
 - ✓ There are guidelines on recruiting, promotions, rewards and discipline and the Company sticks to these guidelines in practice.
 - ✓ Corporate social responsibility and sustainability policies have been prepared and disclosed to public.
 - ✓ Care is given to confidentiality of information about customers and suppliers on trade secret basis.
 - ✓ Through internal regulations, mechanisms and models have been developed to enable employees participate to company management.
- ✓/* Employees are not unionized.

As for this section, the Company has been assessed by 57 different criteria under the headings of **Corporate Policies on Stakeholders, Supporting Stakeholders'**

Participation in Company Management, Company Policy on Human Resources, Relations with Customers and Suppliers, Ethical Rules and Social Responsibility as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of **90,93**.

a. Corporate Policies on Stakeholders

Corporate Governance Principles describe the stakeholders as an individual, organization or interest group as employees, creditors, customers, suppliers, trade unions, various non-governmental organizations having an interest in attainment of company's objectives or in its operations. It has been concluded that, in its activities and transactions, Pegasus protects stakeholders' rights specified in regulations and mutual agreements.

It has been concluded that the company respects stakeholders' rights, specified in regulations and mutual agreements. The impression is that in case of lack of any regulation, the company respects stakeholders' rights within goodwill rules and company's reputation. It has been observed that many internal regulations have been made to this end.

It is thought that an efficient and fast way of compensation has been provided in cases of violation of stakeholders' rights, specified in regulations and contracts. The Company enables stakeholders to use mechanisms like compensation, which are provided to them pursuant relevant regulations, easily. Compensation Policy for employees has been developed, presented to the shareholders at general assembly and disclosed to public via corporate website.

Stakeholders are adequately informed on company policies and procedures to protect their rights, necessary mechanisms have been established to put across ethically improper actions and operations contrary to company's regulations to the attention of Corporate Governance and Audit Committees.

In this subsection **Pegasus** has achieved a significant level compliance with the principles.

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

Pegasus supports and encourages all employees' participation in company management processes. Within this scope:

- The Company regularly conducts "Corporate Climate Survey" for employees; results and the actions taken under management's initiative are disclosed to all employees via corporate website,

- In compliance with Pegasus Business Ethic Rules, the Company is committed to ensure easy access for all employees to their immediate superiors and this practice is actively implemented,

- Some of the cost reducing or income raising ideas of employees are put into vote of all employees every year by top management; they are rewarded and put into practice as much as possible,

- Improvement work is conducted under the coordination of Directorate of Performance and Continuous Development in all subjects that directly affect Company's

profitability. Meeting minutes, progress reports, as well as other relevant information and documents are shared with all employees through corporate website,

- The Company conducts "Customer Satisfaction Survey" once a year and measures to increase satisfaction are taken in accordance with the feedback of the survey.

These models that support employees' participation to company management are currently put into practice. However it would be appropriate to develop them further and to put them in Articles of Association and internal regulations.

c. Human Resources Policy of the Corporation

There are 4,967 employees as of 31.12.2015.

Procedures on recruitment, working conditions, register files, disciplinary practices, power and responsibilities of employees, remuneration, health rights, leave rights, promotions, task alterations and dismissal, death, resignation, retirement and training has been developed and it's been observed that the company sticks to these policies in practice. Both during preparation of the policies and in their implementation we got the impression that equal opportunity is given to individuals under the equal conditions.

Recruitment and career planning procedures have been prepared and tradition of complying with these procedures has been developed.

Performance, reward and income sharing criteria have been established and disclosed to employees; in determining benefits for employees the abovementioned criteria are followed.

With consultancy service support provided since August 2015, personal performance evaluation has been reassessed and put into practice within the scope of *Balanced Scorecard Project*

The company implements training programs to increase knowledge, capability and experience of the employees. As of July 2016, 4,173 employees have received 31,376 hours of training, excluding obligatory civil aviation training.

It has been learned that adequate information is given to employees on subjects such as financial situation of the company, remuneration, career, education and health. On the other hand, the company's business ethics rules feature that all employees have easy access to their immediate superiors and top management to get information and share problems.

It is thought that company's organization chart has been formed according to work conditions. Units, numbers of people to be employed in these units and their qualifications have been written down in internal regulations.

Through impressions received at the Company and interviews with employees, we have reached the information that the employees are provided with a safe working environment and conditions and there exists no discrimination among employees in terms of race, religion, language and gender.

The employees are not unionized.

Employee stock-options schemes are not developed.

In this subsection Pegasus has achieved a rather good level compliance with the principles.

d. Relations with Customers and Suppliers

Information and documents received from customers and suppliers during the activities are kept confidential within the scope of trade secret security and put under protection to ensure they can't be reached by unrelated individuals.

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

Pegasus is an airline company that bases its operations on "Low Cost Network Carrier" business model. It aims to provide easily accessible, safe and lean services. With this aspect; the company ensures fair price, on-time departure, additional services and offers many other services, details of which are provided via www.flypgs.com corporate website, which is easily accessible by customers and suppliers. As of July 2016, the Company has a fleet of 73 planes. 60 of them are Boeing 737-800 NG's with an average age of 5.6. On the other hand, the company intends to increase customer satisfaction with programs like Pegasus Plus Loyalty Program and Pegasus Plus Card.

As a result of these efforts the company has been awarded many times in various categories.

Some of the awards that Pegasus has received are below:

- Silver MIXX Award in Online-Offline Integration category with World's Most Beautiful Gift Project at international digital communication competition, MIXX,
- Golden Mixx Award in the search engine category with usage of Google Customer Match at MIXX competition,
- "Best Developing Airlines" award at Vecihi Hürkuş Aeronautical Awards, organized by University of Turkish Aeronautical Association,
- First award in "Corporate Website" category, first award in "Tourism and Journey" category, third award in "Service" category and People's Favorite award in "Corporate Website" category at 14th Golden Spider Web Awards.

In this subsection Pegasus has achieved a rather good level compliance with the principles.

e. Ethical Rules and Social Responsibility

Business Ethic Rules required to be complied by all employees have been laid down approved by the Board of Directors and appears on the corporate website. Disciplinary and penalty sanctions to be applied in case of unethical behaviours have been set forth in disciplinary guidelines and work contracts.

Within the scope of company's "Business Ethic Rules" an "Ethic Information Line", through which employees can report unethical issues is in operation. It is accessible on intranet and it upholds privacy principle.

Business Ethic Rules were accepted with the Board decision no 405 on November 31st 2014, while Corporate Social Responsibility Policy was accepted with the Board decision No 403 on November 20th 2013. Both have been disclosed on Public Enlightenment Platform. Business Ethic Rules are accessible at Investor Relations section of the website.

Pegasus has prepared Corporate Social Responsibility and Sustainability Policies. It gives information to public on the corporate website about the methods and practices the Company will adopt within the frame of these policies. "Environmental Aims", "Security Quality, Environment, "Health and Safety at Work" policies, all national and international rules and laws and "Top Management Commitment", which guarantees that the Company will act in accordance with requirements of environmental protection, work health and safety, are all accessible on the corporate website.

Within the scope of "Green Airport Project" launched by Directorate General of Civil Aviation, Pegasus received "Green Company" certificate by meeting required conditions at İstanbul Sabiha Gökçen and İzmir Adnan Menderes airports.

Pegasus also has;

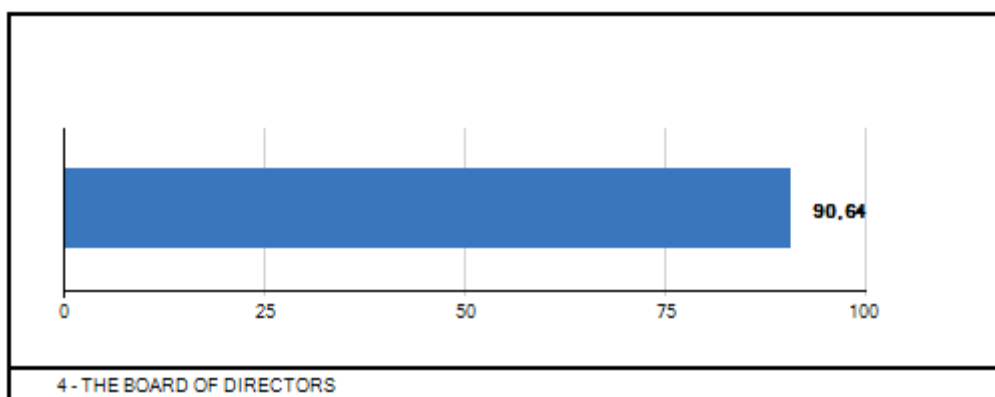
- Environment Management System Certificate, which documents that it has a Environment Management System in compliance with TS EN ISO 14001-2004 standards,

- TS EN ISO 14064-1 2007 Greenhouse Inventory Confirmation Statement Document,

- OHSAS 18001:2007 Work Health and Safety Standard Certificate.

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

D. BOARD OF DIRECTORS



Overview

- ✓ Company's strategic targets, human and financial sources it requires are determined by the Board of Directors.
- ✓ The posts of Chairman and CEO are carried out by separate individuals and there isn't any person in the company with solely unlimited authority.
- ✓ The number of Board Members is adequate to work productively and constructively.
- ✓ Majority of Board Members are non-executives.
- ✓ 3 of non-executive Board Members are independent members.
- ✓ Every Member has one vote in the Board of Directors.
- ✓ There isn't any loan/credit involvement between Board Members and Company.
- ✓ Corporate Governance, Audit and Early Detection of Risk Committees have been established and their working principles have been determined.
- ✓ Internal Audit Department works efficiently and reports to the Audit Committee periodically.
- * Although there is practice of self-criticism and performance evaluation for Board Members, there is yet no

practice of rewarding or sacking them in the light of these evaluations

- ✓/* It would be appropriate to disclose remuneration and other interests provided for managers with administrative responsibilities on individual basis.

In this section, the Company has been evaluated by 148 different criteria under the headings of **Function of Board of Directors, Principles of Activity of Board of Directors, Structure of Board of Directors, Procedure of Board of Directors Meetings, Committees Formed within the Structure of Board of Directors, Financial Rights Provided for Members of Board of Directors and Executives** as laid down by the Capital Market Board's Corporate Governance Principles, for which the Company received the grade of 90,64.

a. Function of the Board of Directors

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

Pegasus Board of Directors supervises company activities to ensure their compliance with regulations, Articles of Association, internal procedures and policies and audits management performance.

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

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

b. Principles of Activity of the Board of Directors

Board of Directors conducts its activities in an open, accountable, fair and responsible fashion.

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

The Board of Directors has developed internal control systems including risk management and IT systems to minimize effects of risk and processes on stakeholders, starting with shareholders. It has been learned that the Board reviews the effectiveness of risk management and internal control systems at least once a year.

No one in the Company has the authority to decide solely and unrestricted. Posts of Chairman of the Board and CEO are held by different individuals.

Our impression is that the Board plays a leading role in the maintenance of effective communication and in easing and resolving disputes that might arise between the company and the shareholders. To this end, the Board is in close cooperation with the Corporate Governance Committee and Investor Relations Department. It has been observed that the Board is in continuous and effective cooperation with managers, while

fulfilling its duties and responsibilities, and they attend Board meetings whenever necessary.

Manager Liability Insurance against defects of Board Members duties has been made. However it does not amount to over 25% of the capital and has not been disclosed on Public Disclosure Platform.

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

c. Structure of the Board of Directors

Company's Board of Directors comprises seven (7) persons, including one (1) chairperson and six (6) members. Thus, minimum number of members required by principles is met and it is sufficient for members to work effectively and constructively and to establish and organize activities of committees.

The statement of "Board of Directors comprises minimum 5 and maximum 8 persons" in Article 10 of Articles of Association was changed at the General Assembly meeting on 07.04.2016 and the upper limit was cancelled. The explanation for this change was given in the General Assembly information document as; "to protect the minimum number of Board members, which is required by CMB Corporate Governance Principles and create flexibility for the General Assembly in forming Board of Directors."

As five (5) members of Board of Directors are non – executive, compliance of Board's structure with the principles has been achieved. Three (3) non-executive directors are independent members. Independent Directors have presented their written declarations to the Corporate Governance Committee that they are independent under the legislation, Articles of Association and the criteria laid down by the Principles.

It has been seen that the Board of Directors prepares the list of independent candidates from the report of nomination committee, in

accordance with CMB Directive no: II.17-1, and, sends it together with the report and Board decision, to CMB, 60 days before the general assembly. There are no independent members of board on the independent members list, whose candidacy has not been accepted by CMB.

Articles of Association state that members of Board of Directors continue their duties for 3 years maximum and they can be reelected after this period.

Upon examination of CV's of Audit Committee members it is seen that they are in compliance with criteria laid down by the principles.

The Company has prepared a policy to assign woman member for the Board of Directors and disclosed it to public on the corporate website. Within the scope of this policy, a woman member was assigned to the Board of Directors on 14.07.2016. Our impression is that work and assessments on this subject will continue.

In this subsection, Pegasus has achieved rather good level of compliance with the principles.

d. Procedure of Board of Directors Meetings

Thanks to the consultancy service the Company received since 2015, structures of Board of Directors and committees, procedure of meetings have been determined and performance evaluation of Board and balance scorecard system to help the Board prepare company strategies have introduced. As the work gradually becomes more efficient and with the methods used, it is obvious that significant contributions will be made to Company's growth, profitability, productivity, as well shareholders and all other stakeholders.

According to Article 12 of Articles of Association, the Board of Directors convenes whenever company affairs and operations

require it. However, it is obligatory for the Board to convene at least 4 times a year. Within the rating period (01.08.2015-01.08.2016), Board of Directors held 4 meetings on 13.08.2015, 18.12.2015, 17.03.2016 and 12.05.2016.

Location of the Board meeting, participation by electronic means and quorum of decisions are also stated in the same article of Articles of Association.

Procedure of the Board meetings has been written down in company internal regulations.

"Working Principles and Procedures of the Board of Directors" includes following provisions;

- Meeting invitations and preparation procedures for Board Members are defined,
- The Board of Directors will convene as required at least 4 times a year,
- Preparation method for meeting agenda,
- Rule that information and documents related on the topics of the agenda to be presented for the examination of members at least five (5) days before the meeting,
- Each member is entitled one vote,
- Obligation of Board Members to provide information to each other and managers' obligation to provide information to the Board,
- Commitment to comply with mandatory Corporate Governance Principles, introduced by Capital Market Board regulations, in Company's all related party and third party transactions, such as guaranties, pledges and mortgages considered important in terms of Corporate Governance Principles,
- Participation to meetings in electronic environment,
- Secretariat of the Board of Directors.

Many more topics mentioned in the principles are clarified in "Working Principles and Procedures of the Board of Directors"

and the Company complies with this regulation in practice.

The Secretariat functions of the Board are conducted by Company's Legal Consultant lawyer ALİ UZUN.

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

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

In order for the Board to fulfill its duties and responsibilities soundly, Auditing Committee, Corporate Governance Committee and Early Detection of Risk Committees have been established; but because of the Board's structure, separate Nomination and Remuneration Committees haven't been established. Working principles of Corporate Governance Committee is determined accordingly. Moreover, because of the industrial requirement the company operates a Safety Committee within the Board.

Board of Directors has determined the committees' duties, working principles and qualifications of members in written documents; these documents have been approved by the general assembly and disclosed to public via electronic means. Committees' members have been disclosed in the Public Disclosure Platform.

All members of the Audit Committee and minimum the Chairman of other committees are appointed from independent members. The General Manager has no assignment in any committee.

Audit Committee consists of two (2) independent board members. All assignments have been made from within Board of Directors. Within the rating period (01.08.2015-01.08.2016), the Committee held five (5) meetings on 12.08.2015, 06.11.2015, 17.12.2015, 02.03 2016 and 10.05.2016. It has been determined that 5 reports were presented to the Board of Directors about results of these meetings. Secretariat

functions of the Committee are conducted by Mine ÖZTÜRK, Director of Internal Audit Unit.

Internal Audit Directorate, operating under Audit Committee, prepares reports for the Board of Directors about its activities and results. The Directorate prepared 5 reports in 2015 and 2 as of July 2016. This department comprises 4 employees (2 senior auditors and 1 auditor) under the direction of Mine Öztürk.

Corporate Governance Committee consists of 4 members with 2 independent members (chairman and one member) and one of the other two is non – executive board member. The Director of Investor Relations Department has been appointed as a member of Corporate Governance Committee, in accordance with CMB Communiqué no: II.17-1. Within the period of rating (01.08.2015-01.08.2016), the Committee held 5 meetings on 13.08.2015, 16.10.2015, 18.12.2015, 17.03.2016 and 12.05.2016 and it has been found that it sent 5 reports to the Board of Directors. Secretariat functions of the Committee are conducted by V. Beste TAŞAR, Investor Relations Director.

Early Detection of Risk Committee has been established within the Board of Directors, in order to monitor possible risks that the Company might face and develop necessary policies to implement risk management processes. The chairman of Early Detection of Risk Committee has an independent membership status. One member is executive and the other one is a professional manager in a group company.

Early Detection of Risk Committee has established a working group to conduct the hedge transactions in order to manage the basic risks determined by the Committee at its first meeting on September 23, 2013, no: 2013/1. The Hedge Committee consists of board member Sertaç HAYBAT and board member / early detection of risk committee member İnan TANRIÖVER. The responsibility to implement the decisions of the Hedge Committee belongs to Serhan ULGA, Executive

Vice President for Finance (CFO) and Tamer YÜZÜAK, Director for Strategic Planning and Finance. Early Detection of Risk Committee aims to ensure the required flexibility for daily management of hedge transactions and risks with the support of this working group. The main hedging policy of the Company is determined by the Board and implemented by the Hedge Committee under the supervision of Early Detection of Risk Committee.

Within the rating period (01.08.2015-01.08.2016), Early Detection of Risk Committee held six (6) meetings on 31.07.2015, 03.11.2015, 14.12.2015, 15.03.2016, 11.05.2016 and 26.07.2016. Committee holds 6 meetings annually and sends 6 reports to the board of directors. Secretariat functions of the Committee are conducted by Serhan ULGA, Executive Vice President for Finance (CFO).

Committees invite appropriate executives that they deem necessary to their meetings in order to benefit from their opinions. All activities in the committees are recorded in writing.

The committees comprise following members:

Audit Committee

Name Surname	
M. Cem KOZLU	Chairman (Member of Board - Independent)
Saad H. HAMMAD	Member (Member of Board - Independent)

Corporate Governance Committee

Name Surname	
Saad H. HAMMAD	Chairman (Member of Board - Independent)
M. Cem KOZLU	Member (Member of Board - Independent)
Şükrü Emre BERKİN	Member (Member of Board - Non - Executive)
Verda Beste TAŞAR	Member (Director of IRD)

Early Detection of Risk Committee

Adı Soyadı	
Saad H. HAMMAD	Chairman (Member of Board - Independent)
Sertaç HAYBAT	Member of Board
İnan TANRIÖVER	Member

In this subsection the company has achieved very good level of compliance with the Corporate Governance Principles of CMB.

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

Guidelines on compensation of the Directors and top executives have been written, presented to the general assembly and disclosed to public via electronic means.

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

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

The performance of Board Members is evaluated by objective criteria, getting professional help. However there is no practice of rewarding or sacking board members, based on evaluation results. This situation is seen as an area in need of regulating for this subsection.

On the other hand, remuneration and other benefits that are provided for board members and top executives are explained in the annual report, although not on individual basis. It would be appropriate to meet the requirement of disclosing this information on individual basis.

5. 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 recognised and controlled effectively. The rights of the shareholders are impartially taken care of. The level of public disclosure and transparency are high. Interests of the stakeholders are fairly considered. The structure and the working conditions of the Board of Directors are in full compliance with the Corporate Governance Principles. The Company is eligible for inclusion in the BIST corporate governance index.</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 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>