



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

19 August 2019

Validity Period : 19.08.2019-19.08.2020

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.

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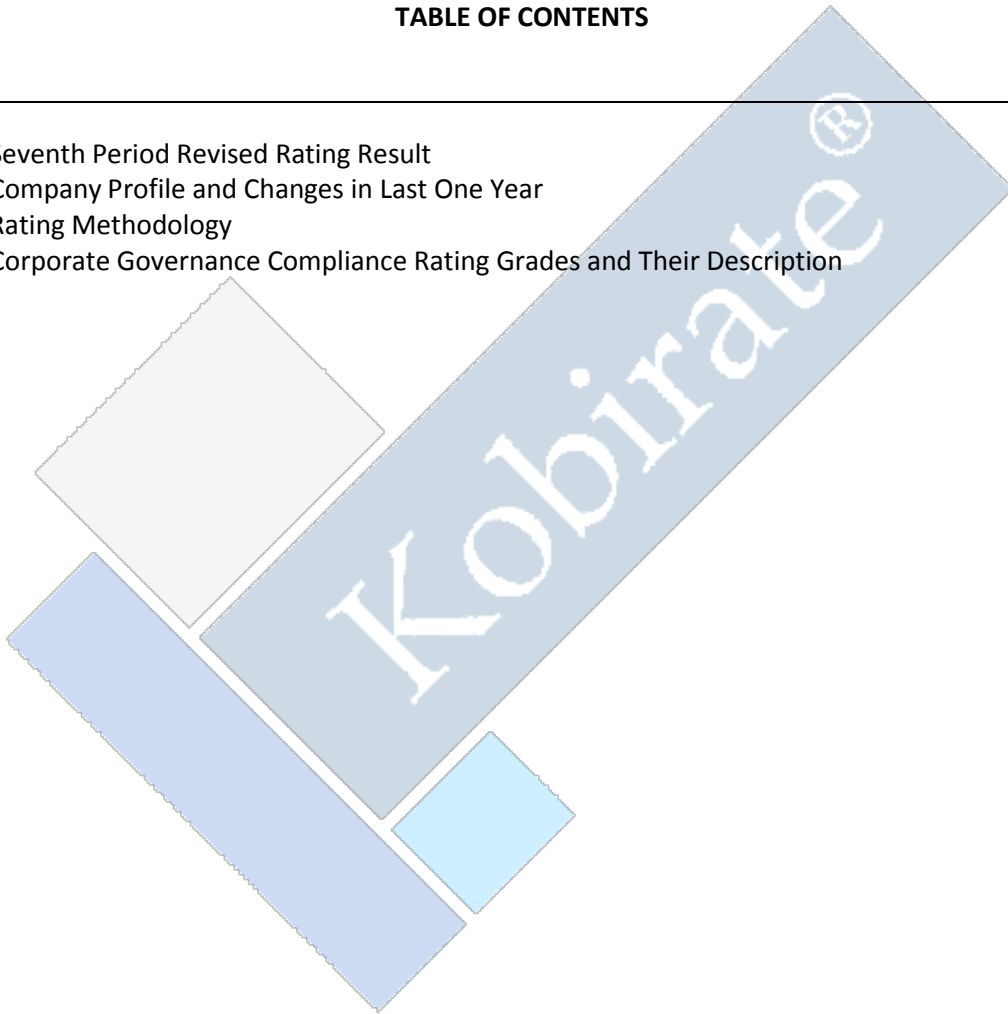
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PEGASUS HAVA TAŞIMACILIĞI A.Ş.

CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

9.62

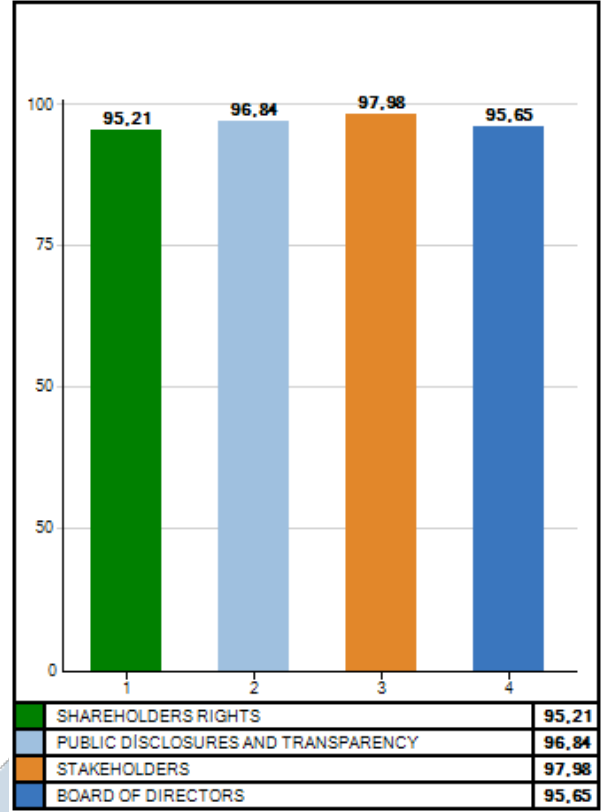
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1. SEVENTH PERIOD REVISED RATING RESULT

This report of rating of compliance of PEGASUS Hava Taşımıcılığı 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 10.01.2019 and numbered 2/51, PEGASUS Hava Taşımıcılığı 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 determined as **9.62**.

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

▪ In the section of Shareholders, Pegasus' grade has been revised 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. Main factors that ensured grade increase for the Company are summarized below.

- Attendance form for General Assembly meeting on 17.04.2019 has been prepared in compliance with corporate governance compliance reporting and disclosing rules determined by decision CMB dated 10.01.2019, No 2/49.

- Successful investor relations management has positively affected company shares and PGSUS share has been the most winning share for investors in BIST-30.

- As a result of right policies, which were put into practice according to determined priorities and efficient work of investor relations department, share of foreign investors has increased and a balanced portfolio has emerged in listed shareholder structure. As of reporting date, the Company has achieved its targeted ratios.

It has been determined that during the process of changing Investor Relations Department Manager within the rating period, the Company stuck to the timetable required by Corporate Governance Principles and PDP disclosures were made timely.

Relations with shareholders are conducted by Investor Relations Manager Ömer Lütfü ÖMERBAŞ, who reports to Chief Financial Officer 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 2018 and 2 (two) as of June 2019.

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 2018 took place on 17.04.2019. Invitation for the meeting was made 3 (three) weeks before the meeting through Turkish Trade Registry Gazette (TTSG) dated 26.03.2019, No 9795, Public Disclosure Platform (KAP) on 20.03.2019, 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.

H. Çağatay ÖZDOĞRU (Deputy Chairman of Board and Non – Executive Board Member), Mehmet Tevfik NANE (CEO), M. Barbaros KUBATOĞLU (Chief Financial Officer), Emre

AL and Erman SUNAR, representatives of 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 2018 activities the Company earned TRY 488,591,034 (donations added net distributable profit was TRY 489,045171) net distributable profit in accordance with CMB regulations and TRY 256,993,631.12 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 profit distribution and profit distribution statement were published on Public Disclosure Platform on 20.03.2019, same date with General Assembly meeting invitation.

▪ In the section of Public Disclosure and Transparency, Pegasus' grade has been revised 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. Main factors that ensured grade increase for the Company are summarized below.

- The Company has prepared its annual Corporate Governance Compliance Report on 01.01.2019 using templates published in CMB Bulletin No 2019/2. Explanations for principles that it deviated or partly complied as well as for principles that it fully complied or found itself exempt or irrelevant have been made. Therefore the Company has carried out rather transparent policy.

- The Annual Report included information on changing regulations that may significantly affect Company's activities.

The corporate website (www.flypgs.com and www.pegasusyatirimciiliskileri.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 tools for public disclosures. The Company renewed its corporate website in 2018 and won "Best Website of the Year" award and became he winner in "Service" category at the 16th Golden Spider Web Awards.

Barbaros KUBATOĞLU (Chief Financial Officer), Abdullah ATACAN (Finance Director), Ali UZUN (Head of Legal and Corporate Secreteriat (General Counsel)), H. Nur KARABACAK (Budget, Cost Control and Financial Reporting Group Manager) and Nurettin Mangır (Senior Budget Specialist - 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 2018 was conducted by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (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 2019 audit to be carried out by the same company.

▪ In the section of Stakeholders, Pegasus' grade has been revised as **97.98**.

Pegasus prepares detailed Sustainability Reports every year since 2015. 2018 Sustainability Report has been prepared and published on the corporate website. Since November 2015 – October 2016 period, the Company has been included in BIST Sustainability Index.

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. Many improvements have been made during the rating period. Some of the factors that ensured grade increase for the Company are below.

- "Moral Behavior Guide", which is binding for all Pegasus employees has been updated, approved by Board decision dated 16.08.2018, No 633 and disclosed to public through Public Disclosure Platform.

- "Information Security Policy" has been prepared in accordance with CMB's Information Systems Management Rules, No VII-128.9. It has been approved with Board decision dated 04.09.2018, No 639 and put into implementation.

- Employee Efficiency Survey has been carried out on in all departments of the Company in November 2018 under the management of an independent consultant.

- Policies to ensure effective participation of employees into the preparation of Company strategy have been improved at values workshop organized in June 2018.

- Work on Pegasus values has been carried out with the participation of top management as basis of the strategy document, which included vision, mission, motto and priorities of Pegasus and presented for the approval of Board of Directors in August 2018.

More than hundred values have emerged as a result of this work and 5 of them were chosen as common Company values. Thus employees have effectively participated in determining Company strategy.

- The WHIP Project, which is another stage of Process Management Project started 2 years ago, was put into operation.

- Many innovative policies have been put into implementation to improve work environment of employees and to increase the service quality for Pegasus guests.

- Many projects have been launched for training of employees at every level.

- With the Project titled, "We are Flying to Tomorrows", Pegasus aimed to support youth to implement their projects based on social benefit and solidarity.

At the first application stage of this Project, a total of 270 project idea applications have been made (45 from NGO's and 225 from youth groups).

Applications were made from 41 provinces of Turkey by 393 women and 344 men (738 in total).

10 project idea has been put into implementation.

Second application period started in February 2019 and Project continues successfully.

- As a result of all these developments Pegasus has received many local and international Awards.

More information on this subject can be found on the corporate website.

▪ In the section of Board of Directors Pegasus' grade has been revised as Yönetim Kurulu bölümünde ise Pegasus'un notu **95.65**.

Company's strategic targets are described and the strategy presentation was updated in 2018. Within this framework, sector and market information containing strategic options in line with Company targets and prepared with efficient participation of employees at managerial and higher levels is presented for the information and approval of 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. 4 (four) of the non – executive members are independent members within the scope of CMB criteria.

Board of Directors convened 4 (four) times in 2018 on March 20, May 24, August 16 – 17 and December 11. Attendance at meeting was 96.9 %. By the end of June 2019, the Board of Directors held 2 (two) meetings on March 14 and May 29. 2 (two) more meetings are planned for this year, on August 28 – 29 and December 19.

The Audit Committee convened 4 (four) times in 2018, on March 2, May 17, August 10 and November 8 with participation of all members. It held 2 (two) meetings in 2019 on February 28 and May 9. There are 2 (two)

more meetings planned for August 9 and November 8.

Internal Audit Department, which reports to the Audit Committee, conducted 23 audits in 2018. It had been learned 10 audits are at the completion stage by the end of June. Internal Audit Department presented 4 (four) reports to the Audit Committee about its audit results and it presented 2 (two) reports by the end of June 2019. Audit Committee presents reports to the Board of Directors at every quarter. Another report has been presented to the Board of Directors as of yearend 2018.

Corporate Governance Committee held 4 (four) meetings in 2018 on March 20, May 24, August 16 and December 11 with participation of all members. It convened 2 (twice) in 2019 on March 14 and May 29. There are 2 (two) more planned meetings until the end of the year, on August 28 and December 19.

The Committee presented the Board with updated criteria for Board members' nomination and remuneration in 2018; they were discussed and approved by the Board. Revised policies were presented for the approval of shareholders at the General Assembly meeting on 04.04.2018 as 9th item of the agenda.

Early Detection of Risk Committee convened 4 (four) times in 2018 on March 15, May 22, August 15 and December 10, with full attendance of its members. In compliance with Article 378 of Turkish Trade Law, the Committee presented bimonthly reports to the Board of Directors about its activities and assessments. It held 2 (two) meetings in 2019 on March 12 and May 28. It has 2 (two) more planned meetings until yearend 2019 on August 27 and December 18.

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 that the relevant documents are preserved in a healthy fashion.

In relation to the preparation of Risk Management Report, Risk Monitoring Board has been established to convene 4 (four) times a year with the participation of General Manager, Chief Financial Officer, Chief Commercial Officer, Chief Operations Officer, Chief IT Officer, Chief HR Officer, Chief Safety Management & Quality Compliance Monitoring Officer and Head of Legal and Corporate Secretariat (General Counsel). Reports are assessed by Risk Monitoring Board before they are passed on to Early Detection of Risk Committee.

Risk Inventory has been reviewed for risks subject to reporting and critical risk indicators (KRI) and thresholds for objective reporting have been determined. It has been learned that a reporting system in line with Company Report introduced by Integrated Management Systems and Business Excellence Department is being prepared.

Through current and ongoing activities, a watching and monitoring system has been established and it has been integrated at all levels of Company and Board.

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 made the annual assessment of "Woman Member of Board Policy". It has been decided at the meeting to recommend the Board to act in

accordance with the policy without any changes.

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 been made, amounting to over 25 % of the Company capital.

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

- Board and Committees' working principles have been reviewed and updated at committee meetings in December 2018.

- Revised Committee Working Principles have been disclosed with Material Event Disclosure on 11.12.2018 at Public Disclosure Platform.

- As it can be seen in this report, there have been improvements in all main sections and as the highest executive authority and strategic decision maker, Board's efficiency and contributions were primary factors for these improvements.

- Therefore we believe that Board's performance level and success directly affect Company's achievement of its targets.

2. COMPANY PROFILE AND CHANGES IN LAST 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:

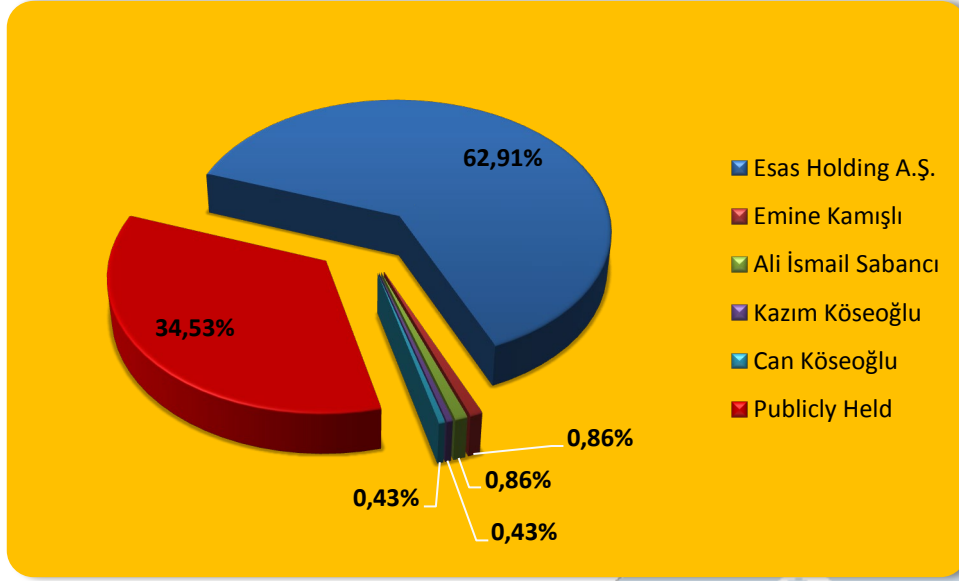
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Investor Relations Manager

ir@flypgs.com

0216 560 7542

Company's Shareholder Structure



Source: www.pegasusyatirimciiliskileri.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.pegasusyatirimciiliskileri.com

Real Person Ultimate Controlling Shareholders

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

Source: www.pegasusyatirimciiliskileri.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	Independent Board Member	Non - Executive
Saad H. HAMMAD	Independent Board Member	Non - Executive
Sertaç HAYBAT	Board Member	Non - Executive
Hatice Zeynep Bodur OKYAY	Independent Board Member	Non - Executive
Stephen Mark GRİFFİTHS	Independent Board Member	Non - Executive
Michael Glyn POWELL	Board Member	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 Board Member	Committee Chairman
Mehmet Cem KOZLU	Independent Board Member	Committee Member
Michael G. POWELL	Board Member	Committee Member
Ömer Lütfü ÖMERBAŞ	Investor Relations Manager	Committee Member

Audit Committee

<i>Name / Surname</i>	<i>Title</i>	<i>Duty</i>
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
Saad H. HAMMAD	Independent Board Member	Committee Chairman
İnan TANRIÖVER	Not Board Member (Esas Holding CFO)	Committee Member
Sertaç HAYBAT	Board Member	Committee Member

Safety Committee

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

Top Management

Name/ Surname	Title
Mehmet Tevfik NANE	President & General Manager (CEO)
Güliz ÖZTÜRK	Chief Commercial Officer
M. Barbaros KUBATOĞLU	Chief Financial Officer
Nasuh N. ÇETİN	Chief Operations Officer
Aydın YUMRUTAŞ	Chief-Flight Academy Officer
Barış FINDIK	Chief Information Technologies Officer
Dilara OĞUR	Chief Human Resources Officer
Murat Cem ALKAN	Chief-Safety Management and Quality Compliance Monitoring Officer
Ali UZUN	Head of Legal and Corporate Secretariat (General Counsel)
Özgür DİNÇER	Head of Internal Audit

Source: www.pegasusyatirimcilisikileri.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 Years
(000 TL)**

	2017/12	2018/12	Değişim %
Current Assets	3.084.495	4.412.080	43,04
Fixed Assets	4.991.239	9.252.807	85,38
Total Assets	8.075.735	13.664.888	69,21
Short Term Liabilities	1.851.414	3.554.371	91,98
Long Term Liabilities	3.739.682	6.395.069	71,01
Equity	2.484.638	3.715.448	49,54

Source: Independent Audit Report dated 31.12.2018

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

	2017/12	2018/12	Change %
Revenue	5.348.573	8.296.736	55,12
Gross Profit	774.799	1.263.178	63,03
Operational Profit	461.742	791.722	71,46
Net Period Profit/Loss	501.063	502.117	0,002

Source: Independent Audit Report dated 31.12.2018

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
Air Manas Air Company LLC	Airport Transportation	12.425.000	6.088.250	KGS	49	Subsidiary
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 Havacılık 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
- BIST 50 / BIST ALL / BIST SUSTAINABILITY INDEX / BIST 100 / BIST İstanbul / BIST TRANSPORTATION/ BIST SERVICES / BIST STAR / BIST 30 / BIST CORPORATE MANAGEMENT

Bottom and Peak The Closing Values of Company's Shares traded on the BIST in Last One Year *Şirket* (15.08.2018/15.08.2019)

<i>Bottom (TL)</i>	<i>Top (TL)</i>
20,04.- (31.10.2018)	60,45.- (16.08.2019)

Source: Pegasus Hava Taşımacılığı A.Ş.

B. Changes in Last One Year:

i. Changes in Capital and ASrticles of Association:

Pegasus Board of Directors decision dated 04.09.2018 tarih, No 636 states;

“It has been decided to merge with İzmir Havayolları Anonim Şirketi (İHY) at which our Company has 98.63 % of shares with a nominal capital of TRY 58,681,832.63 - total İHY Capital is TRY 59,500,000 – with all its assets and liabilities, as “acquirer”, using facilitated merger method and apply to Directorate General of Civil Aviation and CMB - in compliance with relevant articles of Capital Market Law No 6362, CMB Communiqué No II-23.2 for Mergers and Demergers, Turkish Trade Law No 6102 and Corporate Tax Law No 5520 – for this merger. Office of General Manager is authorized to carry out all transactions within this scope.” The subject of merger will be redescribed in the section titled, “v. Changes in Affiliated Companies and Subsidiaries”.

Pegasus Board of Directors decision dated 21.11.2018, No 645 states;

“In order to have Company shares to be given to other shareholders of İHY İzmir Havayolları A.Ş. in compensation for assets added to the Company, it has been decided – in compliance with items of CMB Communiqué No II-18.1 on Registered Capital System – to increase Company Capital with nominal amount of TRY 27,707, represented with 27,707 shares, each worth TRY 1.” Share issue documentation for Capital increase was approved by CMB on 08.11.2018. After these transactions Company's Capital increased to TRY 102,299,707 from TRY 102,272,000.”

Within this scope Article 6 of Pegasus Articles of Association titled “Company Capital” has been changed.

Distribution of TRY 102,292,707 Company capital and real person ultimate shareholders of the Company are described on pages 10 and 11 of our report.

ii. Changes in Management and Organization

- Within the framework of CMB's regulations on corporate governance and Article 10 of Articles of Association and in accordance with the opinion of Corporate Governance Committee; Mehmet Cem KOZLU, Saad Hassan HAMMAD, Hatice Zeynep Bodur OKYAY and Stephen Mark GRIFFITHS were determined as candidates for independent members of the Board with Board's decision dated 15.01.2019, No 651. In a letter 08.03.2019 CMB presented no negative opinions about the candidates. CMB also answered positively to the request of having Mehmet Cem Kozlu exempt from Item 4.3.6 Paragraph (g) of Corporate Governance Principles, which states; "Having not been Board Member in the Company for more than 6 years in 10 years.

These individuals were chosen as Independent Members of Board for one year at the General Assembly meeting on 17.04.2018.

- H. Nur KARABACAK, Investor Relations Department Manager, has been appointed as Budget, Reporting and Cost Control Manager within Directorate General Finance as of 06.05.2019. Ömer Lütfü ÖMERBAŞ became Investor Relations Department Manager on 22.07.2019 and he was appointed as member of Corporate Governance Committee in compliance with Article 11 of CMB Corporate Governance Communiqué No II-17.1. In between two appointments H. Nur KARABACAK has continued as Investor Relations Department Manager. It has been seen that the transition process was managed right, timely disclosures were made to CMB and public was informed correctly and timely.

iii. Dividend Distribution:

According to legal records prepared in compliance with CMB regulations, TRY 488,591,034 net distributable profit (donations added net distributable profit is 489,045,171) was made as a result of activities in 2018. According to legal records prepared in compliance with Tax Procedure Law No 213, TRY 256,993,631.12 net distributable profit was earned in the same period. At the Board meeting on 20.03.2019, 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 17.04.2019 as Item 4 of the agenda and approved.

iv. Policies, Internal Regulations:

- Pegasus Moral Behavior Guide has been updated in accordance with current conditions, approved by Board decision dated 16.08.2018, No 633 and disclosed to public through PDP disclosure dated 17.08.2018.

- Need to update various phrases and references in Work Principles of Audit, Corporate Governance and Early Detection of Risk committees – all of which report to the Board – has emerged during review of their activities in 2018. In line with committee suggestions, relevant updated texts have been approved by the Board with a decision dated 11.12.2018, No 648. These changes have been disclosed to public through Material Event Disclosure dated 11.12.2018.

- "Information Security Policy", prepared in compliance with CMB Communiqué No VII-128.9 on Information Systems Management, was approved by Board decision dated 18.10.2018, No 639 and the policy is published on the corporate website.

Other than those referred above there has been no change in policies described by Corporate Governance Principles and required to be disclosed to public during the period of rating.

v. Changes in *Affiliated Companies and Subsidiaries:*

Pegasus has merged with İzmir Havayolları Anonim Şirketi (IHY) at which it has 98.63 % of shares with a nominal capital of TRY 58,681,832.63 - total IHY Capital is TRY 59,500,000 – with all its assets and liabilities, as "acquirer" using facilitated merger method. Statements about the merger are below.

- Board decision dated 04.09.2018, No 636:

"It has been decided to merge with İzmir Havayolları Anonim Şirketi (IHY) at which our Company has 98.63 % of shares with a nominal capital of TRY 58,681,832.63 - total IHY Capital is TRY 59,500,000 – with all its assets and liabilities, as "acquirer", using facilitated merger method and apply to Directorate General of Civil Aviation and CMB - in accordance with relevant articles of Capital Market Law No 6362, CMB Communiqué No II-23.2 for Mergers and Demergers, Turkish Trade Law No 6102 and Corporate Tax Law No 5520 – for this merger. Office of General Manager is authorized to carry out all transactions within this scope." This decision was disclosed through a PDP disclosure on the same day.

- Directorate General of Civil Aviation and CMB approval for share issue document:

Directorate General of Civil Aviation's approval for merger of Pegasus ve İzAir under the roof of Pegasus, using facilitated merger method has been approved on 19.09.2018. CMB's bulletin about the merger and its approval of share issue document came on 08.11.2018. Relevant content in CMB Bulletin dated 08.11.2018, No 2018/49 is below:

"Capital Market Board approves the announcement text for acquisition of IHY İzmir Havayolları A.Ş. (İzAir) by Pegasus Hava Taşımacılığı A.Ş.(Pegasus), which holds 98.63 % of its capital and 99.24 % of its voting rights, through facilitated merger method, share issue document about issuing shares, representing Pegasus' capital increase and the revision in the capital article of Company's Articles of Association." These developments have been disclosed to public with a disclosure dated 08.11.2018 on PDP.

- Merger Process Examination Right Announcement:

"In compliance with Article 149 of Turkish Trade Law No 6102 and with Article 8/2 of CMB Communiqué No II-23.2 on Merger and Demerger, we declare that merger contract, prepared in line with Board decision dated 04.09.2018, No 636 about acquisition of IHY İzmir Havayolları Anonim Şirketi by Pegasus Hava Taşımacılığı A.Ş. through facilitated merger method, revision draft for Articles of Association, announcement text approved by CMB, expert Company report, financial statements – basis of the merger – dated 30.06.2018, financial reports and independent audit reports for last three years and projected opening balance sheet after the merger will be available at our Company's Head Office at the

address of Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı No 11/A Kurtköy, Pendik/İstanbul, for thirty days, starting from 13.11.2019, and they will be published on the website www.pegasusyatirimciliskileri.com." These announcements have been disclosed to public with a PDP disclosure on 12.11.2018.

- Board of Directors Decision on completion of Pegasus – İzAir Merger Process and Registry Procedures:

"On 13.12.2018, Boards of two companies have decided to conclude merger between our Company Pegasus Hava Taşımacılığı A.Ş. (Pegasus) and our subsidiary İHY İzmir Havayolları A.Ş. (İzAir) under the roof of Pegasus, within the framework of Directorate of Civil Aviation and Capital Market Board's approvals and to apply relevant trade Registry Offices for registration of the merger." Material Event Disclosure has been made on the same day in this subject.

- Registration of Pegasus - İzAir Merger Transaction:

"Merger of our Company Pegasus Hava Taşımacılığı A.Ş. (Pegasus) and our subsidiary İzmir Havayolları A.Ş. (İzAir) in through facilitated method under the roof of Pegasus have been registered by İzmir and İstanbul Registry Offices on 17.12.2018. On the same date, increase of TRY 27,707 in our issued Capital, which brought it to TRY 102,299,707 from TRY 102,272,000 has also been registered." These developments have been disclosed to public through a disclosure in PDP on 17.12.2018.

- Right of Using Separation Payment on Pegasus - İzAir Merger:

"In compliance with Article 155/2/a of Turkish Trade Law No 6102 and Article 13/1 of CMB Communiqué No II23.2 on Merger and Demerger, Pegasus will give separation payments to those İzAir shareholders who want to exercise their right to separate. Garanti Yatırım Menkul Kıymetler A.Ş. ("Garanti Yatırım") will be the intermediary in payments. İzAir shareholders who want to exercise their right for separation payment are obliged to use their right through Garanti Yatırım." This development has been disclosed to public with a disclosure at PDP on 17.12.2018 and other details can be found in this disclosure.

There have been no other changes in subsidiaries and affiliated companies that might affect Pegasus' operations, capital and financial structure during the rating period.

vi. Changes of Regulations and Other:

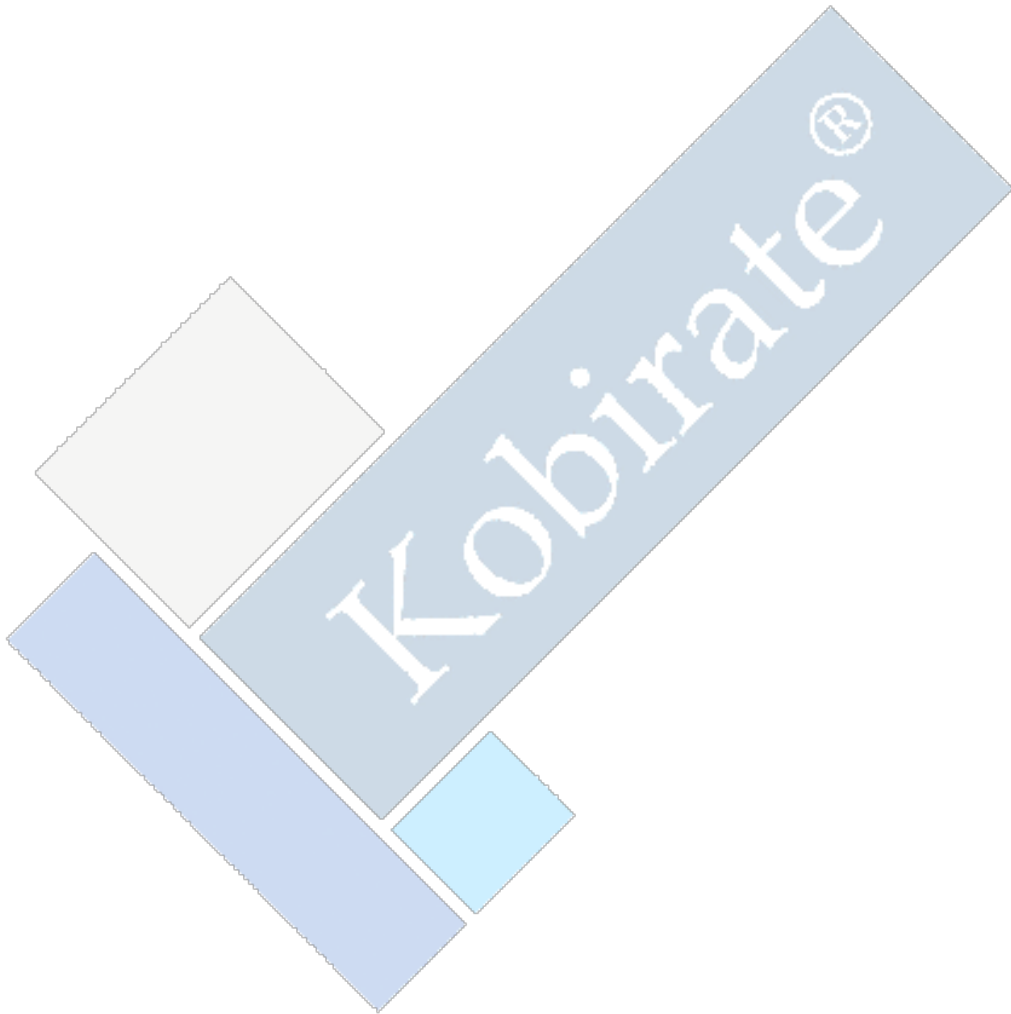
According to Company's Material Event Disclosure dated 31.07.2018;

Inspectors from Tax Inspection Board of Ministry of Finance inspected Company's legal books and documents on income tax withholding for year 2014. The inspection took place in 2016 and 2017. After the inspection, it was criticized that during payments of flight compensation and flight compensation differences for pilots and certified other flight personnel, exemption from income tax was applied within the framework of Article 29/2 of Income Tax Law No 193. Within this scope, the Company has been charged with payment of TRY 38,644,642.45 income tax (withholding) and TRY 293,312.84 stamp tax.

The Company has also been fined TRY 57,966,963.68 for lost income tax and TRY 439,969.26 for lost stamp tax.

In the face of total tax payment of TRY 38,937,955.29 (Income tax withholding and stamp tax) and total fine of TRY 58,406,932.94, the Company made an application in order to make use of Law No 7143 on Re – structuring Taxation and Other Receivables and Making Changes on Some Laws. Within this scope, it is foreseen that these tax disputes will be ended by a down payment of TRY 19,780,894,17 (including interest at the rate of domestic Producers’ Price Index – ÜFE) by the Company.

Information about these developments have been given on page 27 of 2018 / 3 Q independent audit report and on page 19 of 2018 annual report.



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 DERCELENDİRME 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>

