



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

17 August 2018

Validity Period : 17.08.2018-17.08.2019

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.

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PEGASUS HAVA TAŞIMACILIĞI A.Ş.

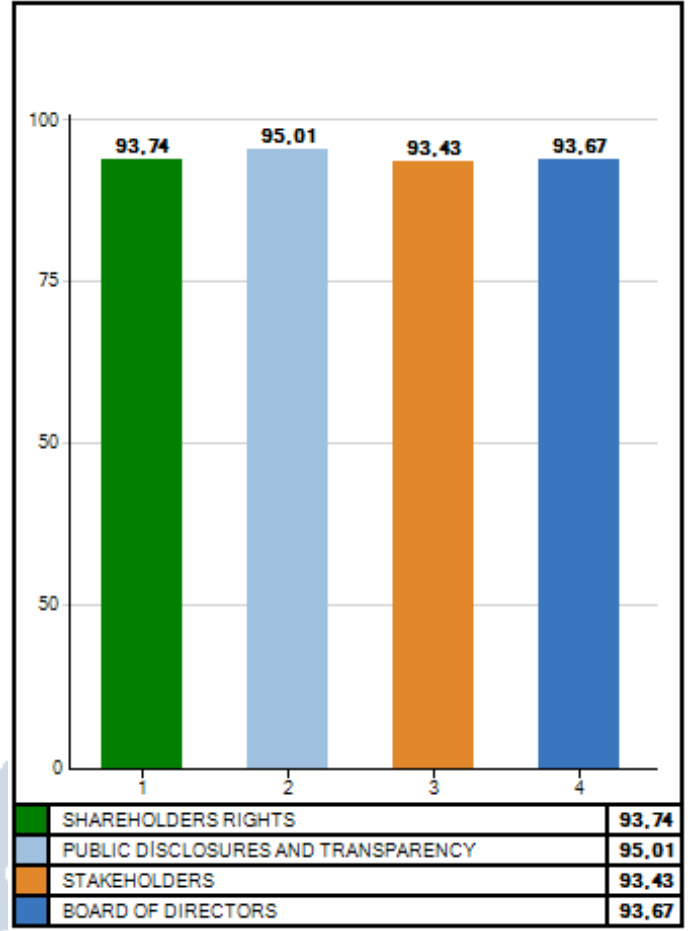
CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

9.40

Kobirate Uluslararası Kredi Derecelendirme
ve Kurumsal Yönetim Hizmetleri A.Ş

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1. SIXTH PERIOD REVISED RATING RESULT

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

According to Capital Market Board decision dated 08.01.2018 and numbered 1/6, PEGASUS Hava Taşımacılığı A.Ş. is included in the list of BIST First Group Companies. The company has been examined under the main categories of Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors, in 408 criteria described by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş.'s methodology for "BIST First Group Companies. Its grade has been determined as **9.40**.

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, but there is still need for some small improvements. In conclusion this grade indicates that the Company well deserves to be included in the BIST Corporate Governance Index.

▪ It is seen that Pegasus has achieved the grade of **93.74** in Shareholders Section.

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.

There has been a change of Director at the Investor Relations Department during the rating period. It has been determined that during the process of change 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 Director H. Nur KARABACAK, who reports to CFO M. Barbaros KUBATOĞLU.

In compliance with CMB Corporate Governance Communiqué II.17-1, H. Nur KARABACAK was appointed as member of Corporate Governance Committee on 08.01.2018 this appointment was disclosed to public with a Material Event Disclosure on the same date.

Investor Relations Department sent 4 (four) reports to the Corporate Governance Committee and Board of Directors in 2017 and 2 (two) as of June 2018.

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 2017 took place on 04.04.2018. Invitation for the meeting was made 3 (three) weeks before the meeting through Turkish Trade Registry Gazette (TTSG) dated 13.03.2018 and numbered 9535, Public Disclosure Platform (KAP) on 08.03.2018, Central Registry Agency E-General Assembly system (EGKS) and through corporate website in accordance with rules.

Information document prepared for the General Assembly meeting contained detailed information about distribution of Company shares, voting rights that these shares give and privileges on voting rights. It also contained many other information required by CMB to be disclosed to public. On the other hand, in accordance with CMB Communiqué No II-18.1 on Registered Capital System, a revision in the 6th Article of Articles of Association to renew authorization for registered capital ceiling, which expired as of yearend 2017, was presented for the approval of shareholders. It has been seen that previous and new text of revised article was included in the information kit for examination of shareholders.

H. Çağatay ÖZDOĞRU (Deputy Chairman of Board and Non – Executive Board Member), Mehmet Tevfik NANE (CEO), M. Barbaros KUBATOĞLU (CFO) and Cem TOVİL, representative of independent audit company also attended to the General Assembly meeting..

In line with Company's Articles of Association, one share gives right for one vote. There is no privilege in voting right.

According to CMB regulations, as a result of activities in 2017 TRY 501,063,098 net distributable profit (donations added net distributable profit is 501,100,418) was made. Use of this profit is explained on page 16 of this report in the section titled, "ii. Profit Distribution".

Board's recommendation on profit distribution and profit distribution statement were published on KAP on the same day with the invitation.

- The Company has achieved the grade of **95.01** for the section Public Disclosure and Transparency.

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

The corporate website (www.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.

M.Barbaros KUBATOĞLU (CFO), Abdullah ATACAN (Finance Director), Ali UZUN (Legal Counsellor) and H. Nur KARABACAK (Investor Relations Director) 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.

- The Company has achieved the grade of **93.43** in the section of Stakeholders.

Pegasus prepares detailed Sustainability Reports every year since 2015. 2017 Sustainability Report has been prepared in Turkish and English and published on the corporate website. Since November 2015 –

October 2016 period, the Company has been included in BIST Sustainability Index.

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.

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.

Improvements made for employees, in HR policies and other areas of stakeholders during the rating period are below.

HR Guidelines and HR policies within the Company were updated in the last quarter of 2017.

In the 2017 Employee Effectiveness Survey, participants saw need for improvement in two areas: Giving & receiving feedback and objective target determination and assessment. Based on these results, two different projects called GO and FLYUP were launched in 2018 under the coordination of HR.

A new Performance Management System (FLYUP) was put into operation in 2018 in order to determine individual targets supporting Pegasus' targets and strategies, assessment of employee performance through a fair, systematic and measurable approach to these targets and to create concrete data from outputs of assessments that will feed HR processes. Thus employees

at different levels are enabled to create targets objectively measurable with pre – determined criteria and in line with Company’s targets and strategies as well as with Department Director’s targets.

Policies to ensure effective participation of employees into the process of determining Company’s strategy are improved with “Pegasus Values Workshop” in June 2018. Mission, vision and priorities of Pegasus were determined at the workshop and data, which would be the basis of strategy document to be presented to the Board of Directors in August 2018, was prepared. All employees over the level of manager attended to the workshop. The meeting strengthened employees’ effective participation to management.

INNOTEAM was established at the end of 2017 with participation of employees from various levels and it reported directly to General Manager. It started to work in order to reflect innovative ideas into operations and business processes.

Pegasus Academy Management, founded under the roof of HR Directorate, started a personal development training program in 2018 for employees over managerial level (Manager, Group Manager, Director and Assistant GM). The program was carried out over different modules under names of GO-EXE, GO-MAN and GO-LEAD. 53,022 hours of class training and 21,375 of distant training took place as of July 2018

Pegasus has won “Best HR Strategy from Overseas” award at HR Excellence Awards 2018, one of the most respected organizations in UK in the field of human resources. At the same time, the Company received the “Company that Manages Change Most Effectively” Award in the category of “Human and Performance Management” at the Peer Awards For Excellence organization.

It has been learned that thanks to guest – focused policies carried out by Guest

Experience since 2017, considerable improvement was achieved in guest satisfaction levels.

“Pegasus Business Ethics Rules” were cancelled as of 15.12.2016 and they were replaced by “Pegasus Moral Behaviour Guide”. In the application of “Pegasus Moral Behaviour Guide” coordination mission of Pegasus was undertaken by Internal Audit Department. The activities of Ethics Council became more effective and a system of regular reporting was achieved.

▪ Pegasus has achieved the grade of **93.67** in the section of the Board of Directors.

Company’s strategic targets are described and the strategy presentation was updated in 2017. 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. It is learned that strategic targets are determined for three years and Board members are informed about current developments in these targets at every meeting.

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 determined 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 2017 and 2 (twice) by the end of June 2018. Functions of Board Secretariat are carried out by Chief Legal Counsellor and Secretary General.

The Audit Committee convened 4 (four) times in 2017 and 2 (twice) by the end of June 2018. It has 2 (two) more planned meetings in 2018. Internal Audit Department was re – structured in 2017, in accordance with Audit Committee’s opinions and launched the Audit and Work Plan for 2018-2019. Reporting system for Internal Audit and Ethical Activities was improved in 2017 and audit activities became more efficient.

Corporate Governance Committee convened 4 (four) times in 2017 and 2 (twice) by the end of June 2018. It has 2 (two) more planned meetings in 2018. Short and Long Term bonus system, which the Company will start in 2019 was discussed at the Committee meeting on 14.12.2017 and the decisions were conveyed to the Board. New bonus system, which was finalized with recommendations of the Board and approved by it, was launched within the Company in July 2018.

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. Other new topics were added to Committee’s agenda in addition to nomination and remuneration of top management. Within this scope, assessment of remuneration, performance and bonus for General Manager was carried out and presentation was made about top management (CEO, CFO, CCO and COO) substitution plans.

Early Detection of Risk Committee convened 6 (six) times in 2017 and 2 (twice) by the end

of June 2018. It has 2 (two) more planned meetings in 2018.

Risk Management Report, which is presented to Early Detection of Risk Committee once in every two months and to Board with the approval of Committee, has been re – structured and coordination mission has been undertaken by SMS & Quality Directorate. In relation to the preparation of Risk Management Report, Risk Monitoring Board was established to convene four times a year with the participation of General Manager, CFO, CCO, COO, SITO, CHRO, CSQO Chief Legal Counsellor and Secretary General. 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) towards objective and reporting thresholds have been determined. It has been learned that a reporting system in compliance with Corporate 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 at all levels of Company and it has been integrated at the level of Board.

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

After interviews with Company officials and examination documents, it has been understood that Board Committees have been working efficiently and proactively.

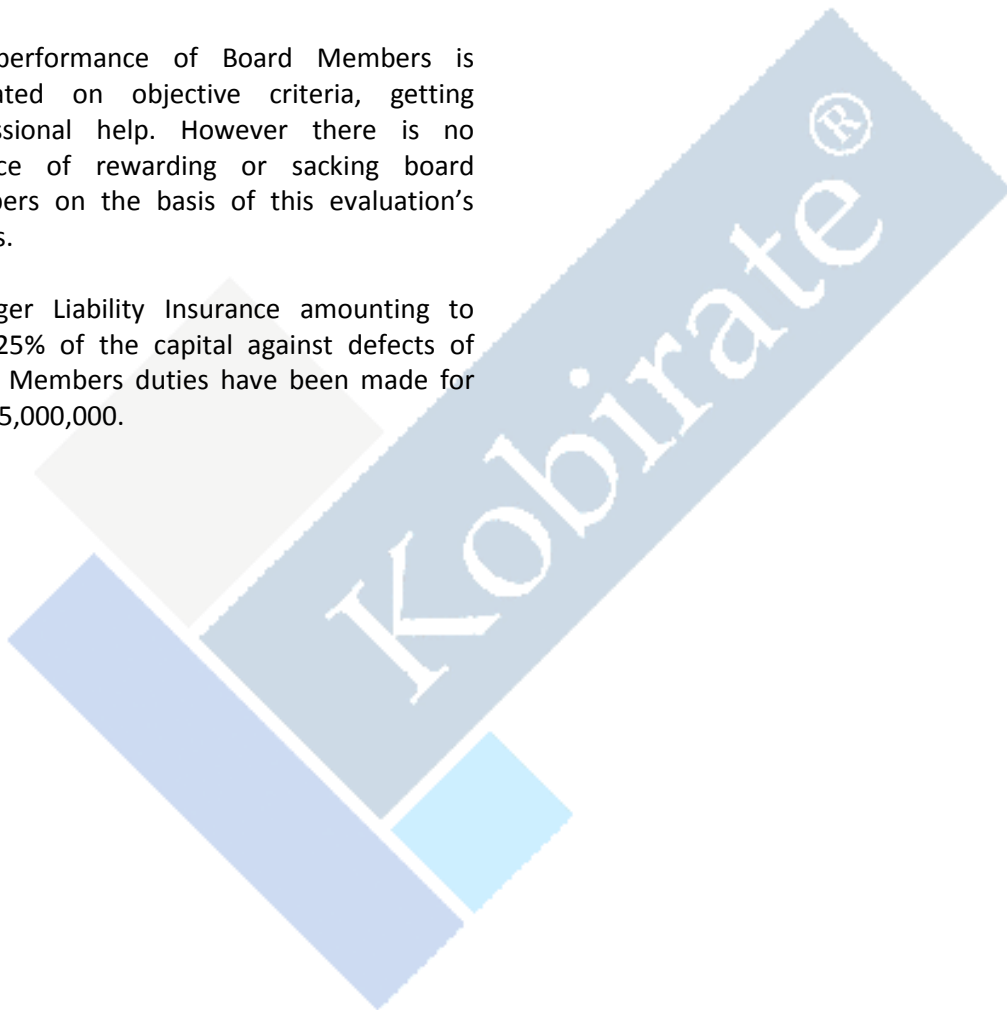
Secretariat of all committees that are referred by Corporate Governance Principles is consolidated at the offices of Chief Legal Counsellor and Secretary General. It has been seen that meeting minutes and related documents are protected strongly.

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

At its meeting on 18.05.2017, Corporate Governance Committee made the annual assessment of "Woman Member of Board Policy". It was decided at the meeting to recommend the Board to act in accordance with the policy without any changes. Review of this policy and its criteria and assessment of the progress is on the meeting agenda of the Committee for December 2018.

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 amounting to over 25% of the capital against defects of Board Members duties have been made for USD 25,000,000.



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 | : 102.272.000.-TL |
| Line of Business | : Air transportation |
| Company's Sector | : Transportation |

Company's Representative in Charge of Rating:

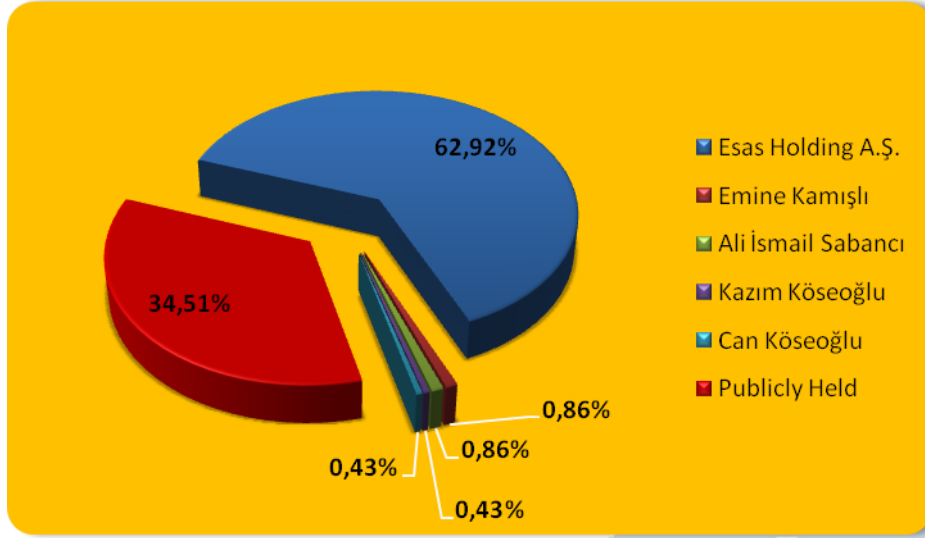
H. Nur KARABACAK

Investor Relations Director

ir@flypgs.com

0216 560 7580

Shareholder 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 |
| Open to Public | 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 |
| Emrecaan Şevket SABANCI | 01,19 |
| Kaan Ali SABANCI | 01,19 |
| Total | 100,00 |

Source: www.pegasusyatirimciiliskileri.com

Real Person Ultimate Controlling Shareholders

| Shareholder Name | Direct and Indirect Share (%) |
|--------------------------|-------------------------------|
| Şevket SABANCI ve AİLESİ | 65,49 |
| Open to Public | 34,51 |
| Total | 100,00 |

Source: www.pegasusyatirimcilikliskileri.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 |
| 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 GRIFFITHS | 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

| Name / Surname | Title | Duty |
|------------------------|-----------------------------|--------------------|
| Stephen Mark GRIFFITHS | Independent Board Member | Committee Chairman |
| Mehmet Cem KOZLU | Independent Board Member | Committee Member |
| Michael G. POWELL | Board Member | Committee Member |
| H. Nur KARABACAK | 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 |
|----------------|---------------------------------------|--------------------|
| Saad H. HAMMAD | Independent Board Member | Committee Chairman |
| İnan TANRIÖVER | Not a 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 Tefik NANE | General Manager | Committee Member |

Top Management

| Name/ Surname | Title |
|-----------------------|--|
| Mehmet Tefik NANE | General Manager |
| Güliz Öztürk | EVP - Commerce |
| M. Barbaros KUBATOĞLU | EVP - Finance & CFO |
| Nasuh N. ÇETİN | EVP- Operation |
| Reha ÖZDEMİR | EVP - Flight Operations |
| Boğaç UĞURLUTEĞİN | Director-Ground Operations |
| Aydın YUMRUTAŞ | Director - Flight School |
| Ergün DEMİRCİ | Director-Technical |
| Dilara OĞUR | Director - Human Resources |
| Murat Cem ALKAN | Director Safety Management and Quality |
| Barış FINDIK | Director - IT |
| Tayfun BORA | Manager - Safety |

Source: www.pegasusyatirimciiliskileri.com

Investor Relations Department

| Name / Surname | Title | Contact |
|----------------|-----------------------------|---|
| Nur KARABACAK | Investor Relations Director | 0216 560 7580 ir@flypgs.com |

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

| | 2016/12 | 2017/12 | Change % |
|------------------------|-----------|-----------|----------|
| Current Assets | 1.459.826 | 3.096.832 | 112,14 |
| Fixed Assets | 4.158.192 | 4.991.239 | 20,03 |
| Total Assets | 5.618.018 | 8.088.072 | 43,97 |
| Short Term Liabilities | 1.038.827 | 1.863.751 | 79,41 |
| Long Term Liabilities | 3.009.870 | 3.739.682 | 24,25 |
| Equity | 1.569.321 | 2.484.638 | 58,33 |

Source: Independent Audit Report dated 31.12.2017

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

| | 2016/12 | 2017/12 | Change % |
|--------------------|-----------|-----------|----------|
| Revenue | 3.707.471 | 5.348.573 | 44,26 |
| Gross Profit | 196.169 | 774.799 | 294,97 |
| Operational Profit | (105.955) | 461.742 | 535,79 |
| Net Profit/Loss | (136.183) | 501.063 | 467,93 |

Source: Independent Audit Report dated 31.12.2017

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 Istanbul / 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
(08.08.2017/08.08.2018)**

| <i>Bottom (TL)</i> | <i>Top (TL)</i> |
|----------------------|----------------------|
| 23.22 - (12.07.2018) | 37.34 - (14.03.2018) |

Source: Pegasus Hava Tařımacılıđı A.ř.

B. Changes in Last One Year:

i. Changes in Capital and Articles of Association:

Company's authorization for registered capital ceiling, which was TRY 500,000,000, valid between 2013 and 2017, has been prolonged for five years to cover the period between 2018 and 2022 and 6th Article of Articles of Association has been revised accordingly. This revision was discussed at the General Assembly meeting on 04.04.2018 as 5th item of the agenda and approved by the shareholders. During the period of rating the Company did not make any changes in its capital and shareholder structure. The distribution of TRY 102,272,000 Company Capital and the Real Person Ultimate Controlling Shareholders can be found on pages 10 and 11 of this 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 01.02.2018, No 609. An application was made to CMB for these persons' candidacy to Board membership on 02.02.2018. As CMB presented no negative opinions in its written answer dated 22.02.2018, they were chosen as Independent Members of Board for one year at the General Assembly meeting dated 04.04.2018.

- According Company's Material Event Disclosure dated 14.12.2017; Michael Glyn POWELL was nominated for Board membership with Board decision dated 14.12.2017, No 605, upon recommendation of Corporate Governance Committee. POWELL was elected as Board Member for 1 (one) year at the General Assembly meeting on 04.04.2018.

- Serhan ULGA, EVP - Finance & CFO, left his position as of 12.01.2018 and Barbaros KUBATOĞLU was appointed to the position as replacement.

- Verda Beste TAŞAR, Investor Relations Department Director, left her position as of 04.09.2017 and replaced by Berna KÖKTENER, starting from 01.11.2017. KÖKTENER left the position as of 08.12.2017 and replaced by H. Nur KARABACAK on 08.01.2018. KARABACAK currently continues in this position.

iii. Dividend Distribution:

The Company made TRY 501,063,098 net distributable profit - it is TRY 501,100,418 with donations added - in 2017 according to CMB Regulations. However, according to Company's legal records - prepared in accordance with Tax Procedure Law No 213- there has been no distributable net profit in 2017. Therefore, in accordance with relevant laws, Articles of Association and Pegasus Dividend Distribution Policy, the Board of Directors decided to transfer the period profit to previous years' losses account at its meeting dated 05.03.2018, No 616. Board recommendation to use 2017 net period profit to compensate accumulated losses from previous years was presented for the approval of shareholders at the General Assembly meeting on 04.04.2018 and it was approved.

iv. Policies:

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 the Subsidiaries and Affiliated Companies:

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

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 Treasury and 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 payment of TRY 19,788,045 (including interest at the rate of domestic Producers' Price Index – ÜFE) by the Company.

The Company allocated reserve for the above mentioned TRY 19,788,045 in its consolidated financial statements dated 30.06.2018.

3. RATING METHODOLOGY

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

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

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

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

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

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

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

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

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

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

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

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

408 criteria are used in the rating process for BIST First Group companies in order to measure the compliance of firms with corporate governance principles. These criteria are translated into Corporate

Governance Rating Question Sets through Kobirate A.S.'s unique software.

The weighting scheme for the four main sections in the new Corporate Governance Compliance Rating, determined by CMB's memorandum dated 12.04.2013 and numbered 36231672-410.99 (KBRT)-267/3854, is applied completely by Kobirate A.Ş. The weightings are as below:

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

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

In the 2014/2 revised corporate governance compliance rating methodology, created by our company, the grade that can be given to a related criterion in that subsection for meeting minimum requirements of corporate governance principles, stated by CMB Communiqué of Corporate Governance published on 03.01.2014, numbered II-17.1, is restricted to 85 % of the full points. Remaining 15 % is reached by measuring company's efficiency in applying CMB's Corporate Governance Principles, degree to which the company is internalized these practices and the value that these internalized practices create for the

company. The existence of those practices that are not included in CMB's Corporate Governance Principles, but determined as good corporate practices by Kobirate A.Ş. Corporate Governance Compliance Rating Methodology are also considered as part of the remaining 15 % and affect the company's grade.

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

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

| GRADE | DEFINITIONS |
|-------|--|
| 9-10 | <p>The Company achieved a substantial compliance with to the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are established and are operational. Any risks to which the Company might be exposed are 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> |