



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

31 December 2013

Validity Period : 31.12.2013-31.12.2014

LIMITATIONS

This Corporate Governance Rating Report issued by Kobirate International Credit Rating and Corporate Governance Services Inc (herein after called "KOBIRATE") for Pegasus Hava Tařımacılıđı A.ř. (herein after called "Company") is compiled in accordance with the Corporate Governance Principles Compliance Rating Methodology prepared by Kobirate on the basis of the Corporate Governance Principles issued by the CMB in 2005 and modified with a communique on Dec.2011, Series:IV,No:56 and on Feb.2012, Series IV, No: 57 and Feb.2013 Series: IV, No:63, which are approved by the CMB with its letter of 24.04.2009, no. 5347.

The Rating Report issued by Kobirate is based on 67 copies of documents, data, files transmitted by the concerned firm electronically, including data open to general public and examinations made by our rating experts on site.

Kobirate 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 formed accordingly to the methodology disclosed.

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PEGASUS HAVA TAŞIMACILIĞI A.Ş.

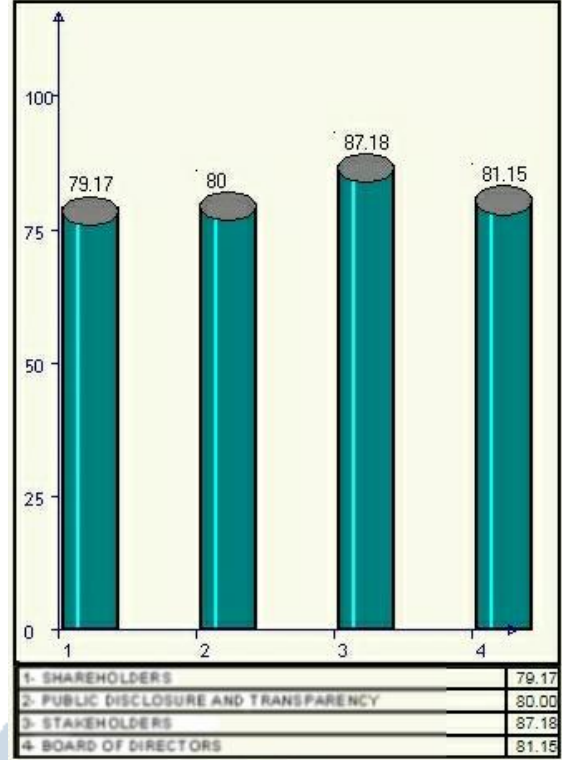
CMB CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE GRADE

8.13

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RATING SUMMARY

At the end of onsite examinations of the documents, interviews held with executives and persons involved, and of other reviews, the process of rating of compliance of **PEGASUS HAVA TAŞIMACILIĞI A.Ş.** with the Corporate Governance Principles is concluded in accordance with the Corporate Governance Compliance Rating Methodology developed by Kobirate Uluslararası Kredi Derecelendirme ve Yönetim Hizmetleri A.Ş. according to the Corporate Governance Principles issued and approved by the R.T. Prime Ministry, Capital Market Board of Turkey.

At the end of examination of 293 criteria under the headings of Shareholders, Public Disclosure and Transparency, the Stakeholders and the Board of Directors as specified in the CMB's Corporate Governance Principles and the methodology of Kobirate A.Ş., developed

for "Third Group Companies of the BIST, the Corporate Governance Compliance Rating Grade of **PEGASUS HAVA TAŞIMACILIĞI A.Ş.** is determined as **8,13**. This result signifies that **PEGASUS** has achieved a considerable compliance with the CMB's Corporate Governance Principles and it expresses a need for some improvements while it doesn't pose major risks. The company well deserves to be included in the BIST Corporate Governance Index.

In view of rating process under main headings in brief;

It is observed that **PEGASUS** has obtained a grade of **79,17** in respect of Shareholders' Section.

In this section, it is confirmed that the company in general has achieved a good level of compliance with the CMB Corporate Governance Principles. The salient positive achievements are; the existence of Shareholders Relation Department, timely and duly convention of general assembly and a developed dividend and donation policy. It has been observed that relevant items required to be complied with the CMB principles and necessary amendments are made to the Articles.

It has been appreciated that **PEGASUS** who has gained **80,00** for Public Disclosure and Transparency has developed its disclosure policy and shared with public, have access to several current data on the Internet website, which are specified in the principles and might be needed by the investors.

Although the company hasn't prepared its annual report after the initial public offering, and there exists some imperfections, the interim annual report can be found sufficient in terms of coverage. Due to such efforts **PEGASUS** has displayed a sufficient level of compliance with the principles covering public disclosure and transparency.

It's observed that the company reached the grade of **87,18** for the Stakeholders' Section.

The Company has achieved considerable compliance with the CMB's Corporate Governance Principles in respect to this section. A human resources policy is established; regulations are made and disclosed to the employees including recruitment, job descriptions, performance appraisal, promotion, awarding, leave and social benefits.

It is observed that job processes and standards are set forth and that the customers are informed of such processes. Procedures for outsourcing in terms of product and service are laid down in written documents.

Ethical Business Rules are set forth and introduced to employees to act pursuant to such rules.

Moreover, compensation policy for the employees has been established and disclosed in the company's corporate website.

As for the Board of Directors Section, the Company's grade is **81,15** that representing a compliance with the CMB's Corporate Governance Principles.

It is confirmed that the Board has set company's strategic goals, audit performance of company management, pay 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, the powers of each of them are indicated in the Articles of Association.

The Board convenes regularly and procedures for meetings are incorporated in both the Articles and internal directives.

It has been observed that the Audit and Corporate Governance (including nomination and remuneration committees) and Early Detection of Risk Committees referred to in the Principles have been formed, whose working principles appear in written documents.

On the other hand, it appears as important indications of compliance with the Principles such as the Board comprises adequate non-executives members as well as independent members, guidelines for remuneration of top executives are set forth and have been disclosed to public via 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.

In 1999, the Economic Cooperation and Development Organization (OECD) approved at the Meeting of Ministers and published the Corporate Governance Principles. Since then, these principles have been regarded as international references for the decision - makers, investors, shareholders and companies throughout the world. In 2002, these principles were revised and accommodated to the present situation.

As for Turkey, the Capital Market Board (CMB) has undertaken the duties for the Corporate Governance. The CMB established the Corporate Governance Principles first in 2003, later in 2005, it revised and published the principles. The last revision is done on Dec. 2011 and Feb. 2012 with Communiqué Serial: IV, No: 56 and Feb.2013 Serial: IV No: 63 respectively by the Board. The principles are grouped under four main headings namely: the Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors.

Besides the CMB, by the Directive on Bank's Corporate Governance Principles, promulgated in Official Gazette of 01.11.2006, No: 26333, the BRSA introduced the rules required to be complied with by Banks.

Kobirate International Credit Rating and Corporate Governance Services Inc (Kobirate Inc) achieves the Corporate Governance Compliance Rating by a system identically based on the Corporate Governance Principles of the Capital Market Board (CGPCMB).Through

this system, the firms are analyzed under four main headings of the Public Disclosure and Transparency, Shareholders, Stakeholders and the Board of Directors in accordance with the CGPCMB).

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

In this analysis, 293 different criteria are considered to measure the compliance of third group firms whose shares are traded on BIST with the corporate governance principles. Such criteria are translated into the Kobirate A.S.'s unique Corporate Governance Rating Questionnaire and the firms' and banks' responses to which are received electronically. The responses are analyzed and reexamined by the rating experts and analysts, reexamined and turned into a reported with results which is submitted to Kobirate Corporate Governance Rating Committee for final decision.

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 unsatisfactory compliance with CMB's Corporate Governance Principles in the existing structure. On this context, in order to reach the total grade, the following rates as adopted from the Corporate Governance Principles of the Capital Market Board on 01.02.2013 date and 4/105 numbered meeting are applied;

- Shareholders %25
- Public Disclosure and Transparency %25
- Stakeholders %15
- Board of Directors %35

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 Anonim Őirketi
Company Address	: AEROPARK Yenőehir 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
Paid in Capital	: 102.272.000.-TL
Line of Business	: Air Transport
Company's Sector	: Aviation

Company's Representative in Charge of Rating

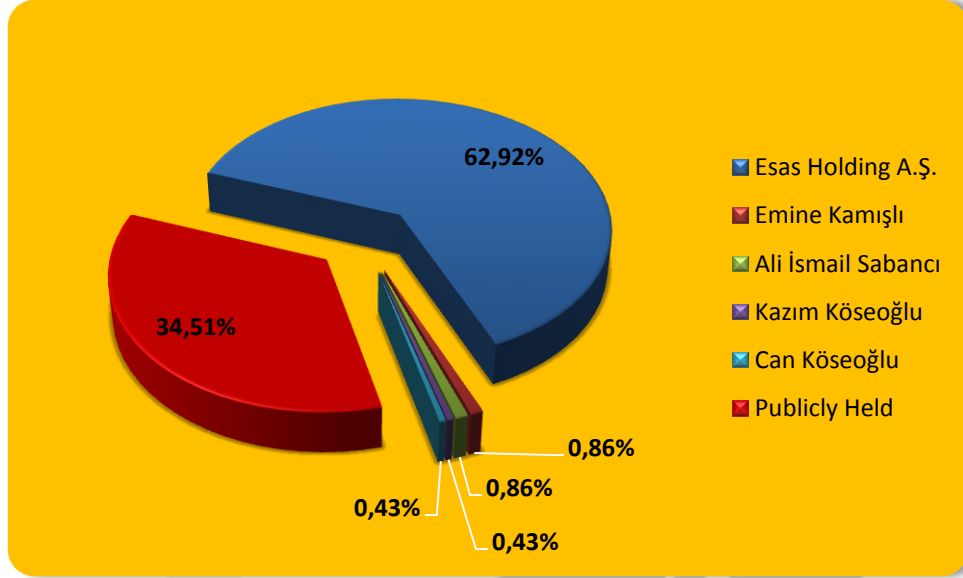
Verda Beste TAŐAR

Director of Investor Relations

beste.tasar@flypgs.com

(0216) 560 75 80

Shareholders Structure(As of report date)



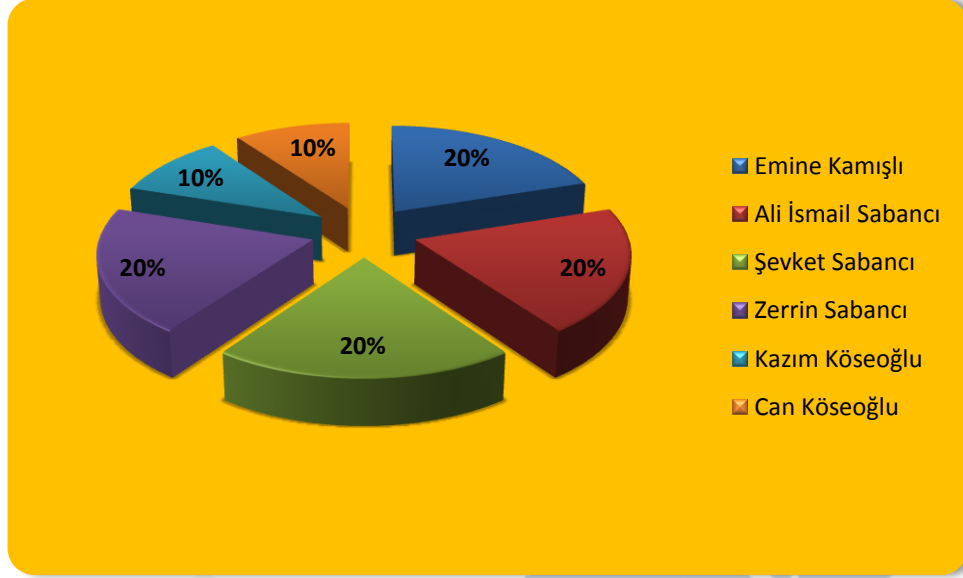
Source : www.pegasusyatirimciiliskileri.com

Shareholder	Share (TL)
Esas Holding A.Ş.	64.353.570
Emine Kamyılı	874.810
Ali İsmail Sabancı	874.810
Kazım Köseoğlu	437.405
Can Köseoğlu	437.405
Publicly Held	35.294.000
Toplam	102.272.000

Source : www.pegasusyatirimciiliskileri.com

* The company's nominal value of TL 35.294.000.- shares offered to public on 18-19.04.2013 has began to be traded on BIST National Market with "PGSUS" code and TL 18,40 base price.

Esas Holding A.Ş.' Shareholders Structure



Source: www.pegasusyatirimciiliskileri.com

Board of Directors

Name/Surname	Title	Executive/ Non Executive
Ali İsmail SABANCI	Chairman	Executive
Hüseyin Çağatay ÖZDOĞRU	Deputy Chairman	Executive
Şükrü Emre BERKİN	Member	Non Executive
Sertaç HAYBAT	Member / General Manager	Executive
Conor McCARTY	Member	Non Executive
Mehmet Cem KOZLU	Independent Member	Non Executive
Mehmet SAĞIROĞLU	Independent Member	Non Executive
Raymond Douglas WEBSTER	Independent Member	Non Executive

Top Management

Name/Surname	Title
Sertaç HAYBAT	Board Member & General Manager
Serhan Ulga	Executive Vice President Finance & HR
Nadir KABAŞ	Executive Vice President Flight Operations
Nurçin ÖZSOY	Executive Vice President Cabin Services
Güliz Öztürk	Executive Vice President Trade
Servet Ulaşan	Executive Vice President Technics
Nasuh Nazih Çetin	Executive Vice President Overseas Affiliates

COMMITTEES FORMED WITHIN THE BOARD

CORPORATE GOVERNANCE COMMITTEE

Raymond Douglas WEBSTER
Mehmet Cem KOZLU
Şükrü Emre BERKİN

AUDIT COMMITTEE

Mehmet Cem KOZLU
Mehmet SAĞIROĞLU

EARLY DETECTION OF RISK COMMITTEE

Mehmet SAĞIROĞLU
Ali İsmail SABANCI
İnan TANRIÖVER

Balance-Sheet Comparison of Company's Certain Selected Items as of the Last Two Years

	2012/12(000)	2013/09(000)	Change %
Current Assets	339.329	1.277.254	261,67
Fixed Assets	1.869.682	2.122.910	13.54
Total Assets	2.209.011	3.400.164	53,92
Short Term Liabilities	538.075	733.327	36,29
Long Term Liabilities	1.343.583	1.537.386	14.42
Equity	327.352	1.129.451	245,03

Source: www.kap.com.tr

Income Statement Comparison of Company's Certain Selected Items as of the Last Two Years

	2012/12(000)	2013/09(000)	Change %
Sales (Net)	1.919.892	1.828.002	-4,79
Cost of Sales	(1.600.788)	(1.384.722)	-13.50
Gross Profit	319.104	443.280	38,73
Operational Profit	192.688	285.616	48,23
Financial Expense	(49.133)	(89.826)	82,82
Profit Before Tax	155.320	226.026	45.52
Net Profit/Loss	126.303	159.420	26,22

Source : www.kap.com.tr

The Bottom and Peak Closing Values of Company's Shares traded on the BIST during Last Year

<i>Bottom (TL)</i>	<i>Peak (TL)</i>
18.20- (29.04.2013)	43.50- (25.11.2013)

Brief History and Information on Operations

PEGASUS HAVA TAŞIMACILIĞI A.Ş. started operations with two aircrafts as a joint venture company established by Aer Lingus Grup, Silkar Yatırım ve İnşaat Organizasyonu A.Ş. and Net Holding A.Ş.

In 2005 **PEGASUS** was purchased by Esas Holding A.Ş. owned by Şevket Sabancı and his family, in November of the same year the company started scheduled domestic flights and became the 4th scheduled airline operating in Turkey.

PEGASUS launched the "low cost model" practices right after starting scheduled flights believes that "to travel by air is everybody's right". Based on this vision, affordable air transport is realized with young fleet and high rates of on time departures.

The company which has started with 6 domestic scheduled flights has increased its flight network to 30 countries with 76 locations, 31 domestic and 45 overseas, as of Dec.2013

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 2012 as in 2011. In Turkish civil aviation sector which entered to a significant growth trend, **PEGASUS** with growing number of guests above the sector averages revealed that a significant demand is met in the aviation sector.

PEGASUS is continuously providing new services and products to make an enjoyable travel experience come alive to its guests. During the past few years, a casual income service which supports the low cost carrier model was put into practice. Parallel to the growth in sector the company also expanded its family, from 700 employees to 3005 as of the end of 30.09.2013.

While Turkish domestic market competition was limited with domestic airlines, **PEGASUS** competes with several operators in international markets. The main competitors in current domestic lines are thought to be; Turkish Airlines, Anadolujet, SunExpress, Atlasjet and Onurair.

In 2012, **PEGASUS**'s market share was 25,7% on the basis of total number of passengers carried by domestic scheduled flights. Due to presence of many countries in the region, on the basis of international traffic on and from the country, Turkey shows a quite fragmented appearance both on country and airline basis. In 2012, **PEGASUS**'s market share was 8,1% in terms of total number of passengers transported with international scheduled flights. As of 2011 which is the most accessed current data, none of the international airlines (including scheduled and charter flights) providing service in Turkey has over 3% market share in terms of international passenger number.

Services / Income Sources

Scheduled Passenger Services

Scheduled flights basically are performed from Sabiha Gökçen Airport in Istanbul which is the epicenter for both overseas and domestic operations. Since Nov.2005, approximately 65 million passengers were transported with scheduled flights by **PEGASUS**.

Casual Income

PEGASUS offered various ancillary 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
- Advance Cash Persuaded For Extra Baggage Allowance
- Pre-order 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 prize before a certain reservation time)

Charter Operations

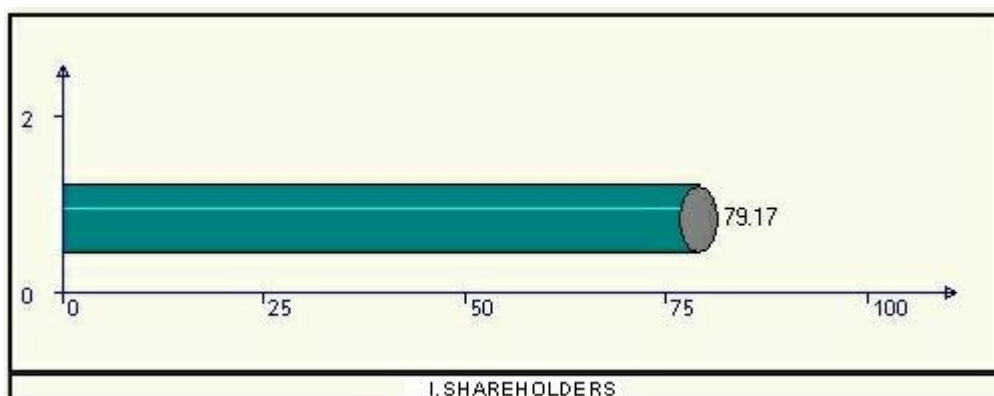
- Standard Charter
- Split Charter
- Wet Lease and Sub Charter

Other Income

- Cargo Services
- Education

4. RATING SECTIONS

A. SHAREHOLDERS



Overview

- ✓ **A unit to maintain Shareholders' Relations in a vigorously way has been created.**
- ✓ **General assemblies are held in accordance with laws and regulations.**
- ✓ **There are no regulations to complicate voting rights.**
- ✓ **Dividend policy has been created and shared with public.**
- ✓ **Donations and grants policy has been created and shared with public.**
- ✓ **Compulsory articles of the principles on shareholders' rights section has been complied with.**
- ✓/x **Dividend Policy hasn't been submitted to the approval in the general assembly.**
- ✓/x **Donations and Grants Policy hasn't been submitted to the approval in the general assembly.**
- ✓/x **The shareholders' right to demand a private auditor is not regulated in the articles of association.**
- ✓/x **General assemblies are not open to public including stakeholders and media without the right to speak and there is no clause in the**

articles of association on the subject.

The Company has been assessed by **72** different criteria for which it has been assigned the grade of **79,17** under the headings of the facilitation of easy exercise of Shareholders' rights, shareholders' right to obtain and review information, members' right to attend the general meetings, members' voting rights, minority members' rights, members' right to receive dividend and members' right to transfer their shares to individuals of their choice whenever they so wish as indicated in the Capital Market Board's Corporate Governance Principles.

a. Facilitation of the Shareholders' Rights

Operations involving Relations with the Shareholders are performed by the Investors Relations Department. The Department is headed by Verda Beste TAŞAR (Director) and reports to Serhan ULGA (Executive Vice President Finance & HR).

It has been found that the said employees 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 review information in particular.

Any data that might affect the exercise of shareholders' rights are currently at disposal of shareholders on the corporate Internet website.

It is confirmed that the Company has achieved full compliance with the principles in this subsection.

b. Right to Obtain and Review Information

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;) and (www.pegasusyatirimciiliskileri.com;) are used efficiently.

It is been seen that written inquiries of shareholders' by phone and/or other means of communication have been responded in the shortest time and sufficient care has been given for their obtaining and reviewing information.

The "Disclosure Policies" endorsed by the Board appear on the internet website explaining in detail the shareholders' right to get and review information under the afore mentioned policies.

There is no regulation and practice at shareholders' right to obtain and review information to be cancelled or constrained by the Articles and/or a decision by any corporate organ.

Although there are no regulations and practices for shareholders' to make difficult the right to appoint a special auditor in the general assembly, the lack of any regulation in the Articles is an area incompliant with the principles hereunder.

c. Right to Attend the General Assembly

Due to the practices in the general assembly, the company has adjusted a good compliance with many principles hereunder.

Pegasus shares are offered to public on 18-19.04.2013 and has began to be traded on BIST National Market on 26.04.2013. Two general assemblies (1 regular and 1 extraordinary) have been held in 2013 before the public offer and one extraordinary after the public offer. At the general assembly held on 27.03.2013, 2012 year activities have been discussed, at the extraordinary general assembly held on 11.03.2013 amendments on articles of association has been made. With this amendment, the articles complied with TCC No: 6102, SEA No: 6362 and related legislation. At the extraordinary general assembly held on 22.04.2013 the company's Board of Directors has been reproduced and 2 independent members were nominated. Thus there are 3 independent member on the board. All 3 general assemblies are made without announcement according to the provision of TCC Article: 416 and related meeting documents are published on the company's corporate web site. At the end of examinations on documents and interviews made with the employees concerned, it's understood that general meetings are held according to the relevant articles of TCC No: 6102.

From the review of the proceedings and attendees' lists of the general assembly, it is confirmed that some of the Board Members, auditors, executives responsible for production of financial statements including the related employees to give information on special topics stated in the agenda attended to the meeting and the agenda items have been voted separately, that the votes have been counted and informed to the members before closure of the meeting. It is found that the Chairman of the meeting has paid attention to the reflection of agenda items in an impartial and detailed manner by an open and understandable mode including giving opportunity to shareholders' to express their views and question under equal conditions.

It is found that in preparation of the general assembly agenda, the item headings are expressed explicitly avoiding any different comments that

attention is paid to avoidance of phrases such as "other" "several" etc.

The general assemblies are held at the company's head office at a suitable place.

Although it is stated in the regulation of General Assembly Principles and Procedures that the assembly will be open to public including stakeholders and media without the right to speak, it's not found in the articles of association.

In this subsection the company has achieved a good compliance with the principles, but it would be appropriate to submit "Donations and grants policy" to the approval in the general assembly due to CMB communiqué Serial IV No:56.

d. Voting Right

Neither the Articles nor the internal procedures contain any difficulties to exercise the voting right and opportunity to exercise the voting right 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 assemblies, the members are submitted with the specimen proxies to be used for this purpose at firm's headquarters and on corporate internet website.

The company officials expressed that the voting method is arranged in the articles and shareholders are also informed on the subject at the meetings.

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

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

e. Minority Rights

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

However, it would be appropriate to widen the scope of minority rights in the articles and include arrangements to give the same rights to shareholders less than one twentieth of the capital.

f. Dividend Right

Pursuant to the criteria laid down by both CMB Circulars and TCC, the Company has formulated its Dividend Policy which has been shared with public electronically. It is ascertained that the policy contains the minimum data enabling the investors to foresee the procedure and guidelines for distribution of profit to be generated by the company in future periods.

There are no privileges in the distribution of dividend. In addition, 21st article of the main contract contains "In distribution of profit, deduction base won't be executed and all shares will benefit equal dividend."

It is also 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.

In this subsection **Pegasus** has achieved a very good level compliance with the principles. Dividend Policy has to be submitted to the approval in the first general assembly.

g. Transfer of Shares

According to the 7th article of the main contract;

The transfer of company shares are subject to TCC, SEA (Securities Exchange Act), Turkish Civil Aviation Act and related regulations in this context including provisions of the main contract.

Taking into consideration SEA's 137th article 3rd paragraph, transfer of registered shares under the below mentioned conditions can only become effective with the approval of Board of Directors.

Under the Turkish Civil Aviation Act and relevant civil aviation legislation, in order to procure the company activities to continue and not to be damaged, Board of Directors can refuse transfer of shares that may result 50 % and above issued share capital belong to foreign shareholders. The company's Board of Directors has the right to request disposal of shares that exceeds the mentioned capital ratio from foreign shareholders 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 of not disposing shares within specified period:

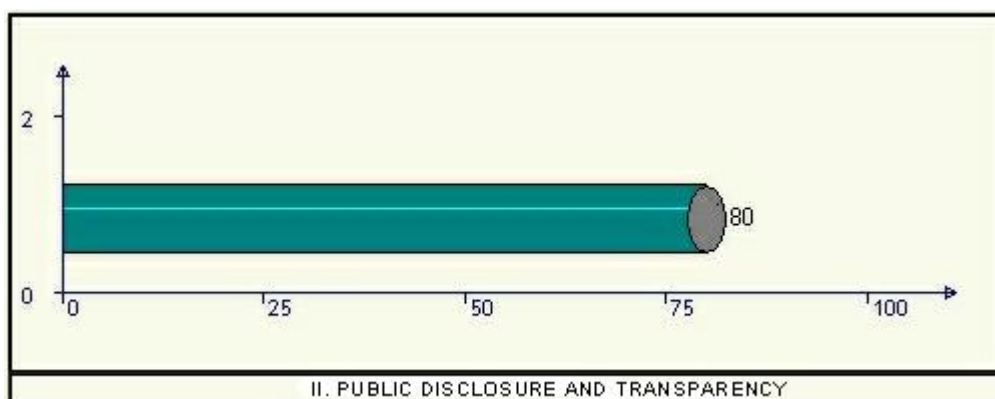
1. Reducing capital with redemption of foreign shares which results with exceeding of above mentioned shareholding ratio;
2. Increasing capital and restricting pre-emptive rights to keep under the above mentioned foreign shareholding ratio;
3. Acquisition of foreign shares that exceeds the above mentioned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

The transfers of shares are entered to shares register upon approval of the Board referred 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 TCC's relevant provisions except mentioned in this article

It is observed that the requirement of the CMB Corporate Governance Principles, precisely, "1.7.1 especially practices making it difficult to freely transfer of shares being traded on the Stock Exchange must be avoided" has been complied with.

B. PUBLIC DISCLOSURE AND TRANSPARENCY



Overview

- ✓ **A detailed Disclosure Policy is arranged and disclosed to public in electronic means.**
- ✓ **Internet website being in the context of the principles, up to date and as a public disclosure tool it is used effectively.**
- ✓ **Information in website has also been prepared in English.**
- ✓ **Ultimate controlling shareholders of the company are disclosed to public.**
- ✓/✗ **Although the annual report contains minimum information about the company some of deficiencies have to be corrected.**
- ✓/✗ **Disclosure Policy has to be submitted to the approval in the general assembly.**

As for this section, the Company has been assessed by **60** different criteria under the headings of Public Disclosure principles and tools, Internet Website and Annual Report as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of **80,00**

a. Public Disclosure Principles and Tools

Pegasus fulfils its public announcements under its Public Disclosures Policies developed by the board and shared with 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, the technique to be followed to respond to questions directed to the company.

Data to be disclosed to public are made available to public on the corporate internet website (www.flypgs.com and www.pegasusyatirimciiliskileri.com;) on time, accurately, completely, understandable, interpretable and cost-effective manner in order to help decisions of individuals and organizations benefitting. How future projections will be disclosed to public is also determined in the disclosure policy.

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

b. Internet Website

The corporate internet website (www.flypgs.com and www.pegasusyatirimciiliskileri.com;) serves as an active and effective platform for public disclosure and its coverage is updated continuously. The information appearing on the corporate internet website is consistent with announcements made pursuant to the relevant regulation and doesn't contain conflicting and missing information. The address of the internet website appears on the letterheads of the company.

The corporate internet website covers the commercial registry details, the shareholding and management structure as of the latest situation, the final text of company's Articles of Association, the special case statements, the financial reports, the annual reports, the agenda of the general assemblies, the lists of attendees, the proceedings of the assemblies, the specimen Proxy, the income appropriation policy, the disclosure policy, remuneration policy, the compensation policy of employees, redemption of shares policy, the donations and grants policy, corporate social responsibility policy, human resources policy, the Ethical Rules developed by the Company, information requests, questions and notifications and answers given under frequently-asked questions title in addition to the coverage of mandatory disclosure pursuant to the legislation.

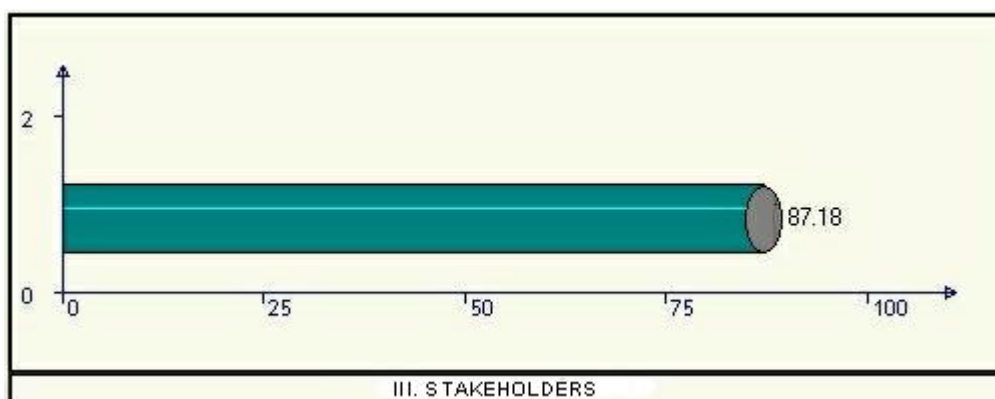
The Internet website coverage is disseminated in the English Language as well to ensure international investors benefit there from.

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

c. Annual Report

Pegasus hasn't prepared annual report after public offering yet, they have prepared interim reports 3 times and disclosed to public via corporate web site. It's found that Board of Directors has prepared the mentioned interim reports according to Ministry of Customs and Commerce's "Determination of company's minimum content of annual reports" on the official gazette 28.08.2012 dated and 28395 numbered, Capital Market Board's II-14.1 numbered "Communiqué on capital markets financial reporting principles" and Serial: IV No: 56 "Determination and implementation of corporate governance principles". All kind of information not stated in the interim reports can be found in the prospectus prepared during public offering.

C. STAKEHOLDERS



Overview

- ✓ **Ethical Rules have been formed and disclosed in electronic means.**
 - ✓ **There are no regulations to complicate stakeholders' rights.**
 - ✓ **Human Resources Policy and many internal regulations about stakeholders' have been prepared.**
 - ✓ **Compensation Policy towards employees have been formed and disclosed to public via website.**
 - ✓ **Employees are provided with a safe and pleasant working environment.**
 - ✓ **There has been no complaint by employees about discrimination and using rights.**
 - ✓ **The company has created CSR Policy and disclosed to public via corporate website.**
 - ✓ **Care is given to confidentiality of information about customers and suppliers on trade secret basis.**
- ✓/* **It would be appropriate to develop mechanisms and models to encourage employees and stakeholders to participate in management and state these in company articles and internal regulations.**

In this section, the Company has been assessed by **39** distinct criteria under the headings of the corporate policy towards the Stakeholders, encouraging stakeholders participation in corporate management, human resource policy, the relations with the customers and suppliers, Ethical Rules and social responsibility as laid down in the Capital Market Board's Corporate Governance Principles, for which the company has deserved the rating of **87,18**.

a. Company Policy Towards the Stakeholders

The 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 is concluded that the company respects the stakeholders' right specified in regulations and mutual agreements. In case of lack of any regulation, the company respects to stakeholders' rights within goodwill rules and company's reputation. It is observed that various dispositions have been introduced for this purpose.

Compensation Policy towards employees has been developed and disclosed to public via corporate website.

Stakeholders are adequately informed on company policies and procedures to protect their rights, necessary mechanisms have been formed to transmit operations contrary to company's legislations and ethically improper to Corporate Governance and Audit Committees.

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

b. Encouraging Stakeholders' Participation in Company Management

It's determined that the company has created many practices for stakeholders to participate company management, to encourage entrepreneurship and creativity. These applications are listed below:

- With the Continuous Improvement and Performance Directorate coordination within the company, Continuous Improvement Team makes regular meetings open to the participation of all the employees and all kinds of opinions that directly affects company profit are shared in an open environment. Meeting minutes, progress reports and other relevant updated information and documents are shared via intranet with all employees.
- "I have a flying idea" project open to all employees has been applied, ideas to increase company profitability approved by top management are served to all employees to be rated and these ideas are rewarded and implemented within the possibility of the company.
- "Corporate Climate Survey" is carried out by the company on annual basis, the results are shared with employees via intranet and necessary actions are taken by the management according to the results.

- In the scope of Business Ethics, **Pegasus** commits that "All family members have easy access to junior and senior management"

The above mentioned employee participation in management models are currently being applied, it will be eligible to develop these models and take part in main contract and internal regulations.

c. Company Policy on Human Resources

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

Recruitment and career planning procedures have been developed and tradition to comply with these procedures has been developed.

Performance and reward criteria, gain-sharing systems have been established and disclosed to employees, in determination of benefits provided to employees the mentioned criteria is followed.

The company implements education programs to increase knowledge, capability and experience of the employees and updates the former education policies.

We have been informed that adequate information is given on subjects such as financial situation of the company, remuneration, career, education and health to employees. On the other hand, the company's business ethics features that all employees have easy access to their managers and top management to get information and share problems.

The company's organization chart has been formed according to working conditions and units and number and qualification of employees for these units have been developed with written internal regulations.

We reached the information that the employees are provided a safe working environment and conditions and that there exists no discrimination among employees in terms of race, religion, language and gender.

The authorities declared that regulations for employees are updated where necessary and shared with the employees.

Employee stock-options schemes are not developed.

There is no restriction on the freedom of founding association after taking permission. Employees are not member of any trade-union.

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

d. Relations with the Customers and the Suppliers

Information and documents obtained from customers and suppliers during the activities are kept confidential within the scope of trade secret security not to be reached by unrelated individuals.

Pegasus is an airline company that operates with "Low Cost" business model with the idea of "Air travel is not a luxury but a need". With this aspect; the

company attempts to provide the best service to its guests with fair price, on-time departure, additional services, many other services provided via www.flypgs.com website and with young fleet –mean age 3,67 as of Sept. 2013. On the other hand, the company intended to increase customer satisfaction with Pegasus Plus Loyalty Program and Pegasus Plus Card.

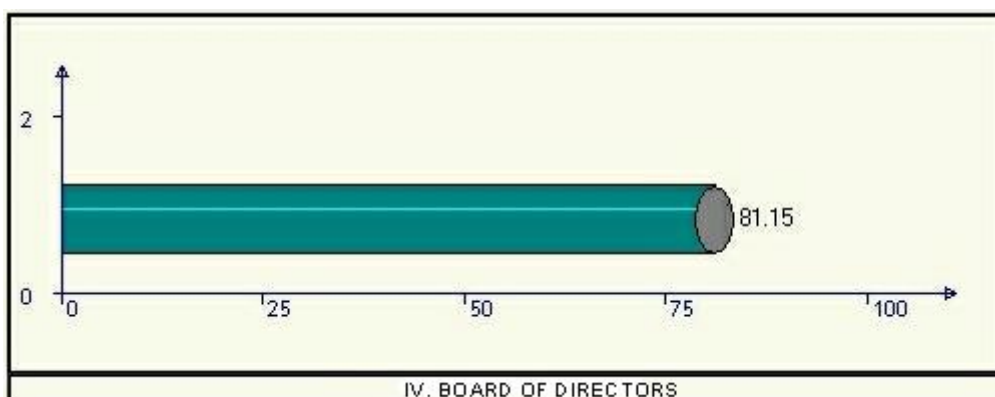
As a result of these efforts the company has been awarded many times in various categories since 2006. The company got 2 Academy Awards of Voyager magazine polls "Who are the best-2012" via website with the attendance of 18.453 people. With the result of this survey the company won "On time departure" and "Best online ticket service" awards.

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

e. Ethical Rules and Social Responsibility

A Business Ethic Rules required to be complied by all employees are laid down, which is approved by the Board and appears on the company website. When a unethical behaviour is detected, disciplinary and penalty sanctions to be applied are set forth in regulations and labour agreements.

D. BOARD OF DIRECTORS



Overview

- ✓ Company's strategic targets, human and financial sources required 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 with solely unlimited authority in the company.
- ✓ The number of Board Members is adequate to work productive and creative.
- ✓ Majority of Board Members are non-executives.
- ✓ 3 of non-executive Board Members are independent members.
- ✓ Every Board Member has one voting right.
- ✓ There isn't any loan/credit involvement between Board Members and company.
- ✓ Corporate Governance, Audit and Early Detection of Risk Committees stated in the principles have been established and working principles are determined.
- ✗ There is no practice on self-criticism and performance evaluation for Board Members and remuneration and dismissal of members in this context.
- ✓/✗ The Committees have newly established and especially Corporate Governance Committee has to start working effectively at the earliest convenience.
- ✓/✗ There has to be at least one female Board Member.

In this section, the Company has been assessed by **121** distinct criteria in respect of the Function of the Board, Operating principles of the Board, Structure of the Board, Mode of Board meetings, Committees formed with the Board and financial benefits provided to the Directors and executives as laid down by the Capital Market Board's Corporate Governance Principles, for which the Company has gained the grade of **81,15**.

a. The Function of the Board

By the strategic decisions to be taken, the Board manages and represents the company keeping the risk, growth and return balance with paying attention to company's long term interest in particular under a reasonable and prudent risk management perception. In this sense, the Board has described the corporate strategic objectives, and determined the required human and financial resources. At the same time the Board monitors company activities to be suitable to regulations, main

contract, internal procedures and policies generated and audits management performance.

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

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

b. Operating Principles of the Board

The Board has developed internal control systems including risk management and IT systems to reduce effects of risk and processes towards shareholders and stakeholders. It is found that the Board reviews at least once a year the effectiveness of risk management and internal control systems.

None of company's staff has the authority to decide solely and unrestrictive. Posts of Chairman of the Board and CEO are hold by different individuals.

We are in the opinion that the Board plays a leading role in maintenance of effective communication in easing and resolving disputes that might arise between the company and the shareholders. To this end, the Board is involved in a close cooperation with the Shareholders' Relations Department.

The Boards duties and responsibilities are clearly distinguishable and identifiable from executives and general assemblies and is stated in the main contract. These job descriptions are consistent with the principles to a large extent.

It's observed that the Board is in continuous and effective cooperation with managers and attend meetings whenever necessary while performing their duties and responsibilities.

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

c. The Structure of the Board

Company's Board is formed with 8 members, one being the Chairman. The requirement of at least 5 members to form the Board has been met and the number of Board Members found sufficient to serve effectively and constructively and to form and arrange organization of committees.

The Board comprises executive and non-executive directors, and the principle that majority of Directors should be non-executive members is respected. Three of the Directors are executives while the rest are non-executives. On the other hand three (3) of non-executive directors are independent ones. It is confirmed that the independent members satisfy the independence criteria laid down by the Principles. The independent Directors have presented their written representations that they are independent under the legislation, the Articles and the criteria laid down by the Principles to the Board.

In this subsection **Pegasus** has achieved a top level compliance with the principles. But it would be appropriate to have at least one female member at the Board of Directors.

d. Mode of Board Meetings

According to the 12th item on article of association, the Board of Directors convene whenever company affairs and operations need. The Board of Directors convened five times in 2013.(on March, 28 , June 26-27 and Sept. 26, Dec. 19).

Again, location of the Board meeting, participation by electronic means and decision quorums are indicated in the company's articles of association.

Mode of the Board meetings is made written in company internal regulations. In the "Working Principles and Procedures of the Board of Directors";

- Invitations to meetings and preparation procedures are defined,
- The Board will convene when necessary and at least 4 times a year,
- Render method of meeting agenda,
- Information and documents related on the topics of the agenda will be presented to the examination of members at least 5 days prior the meeting,
- Each member is entitled with one voting right,
- The Board Members have the obligation to provide information to each other and manager have the obligation to provide information to the Board,
- Company's all types of related party and third party transactions such as guaranties, pledges and mortgages considered important in terms of Corporate Governance Principles and implementation of mandatory Corporate Governance Principles regarding Capital Market Board regulations will be complied with,
- Electronically participation in the meetings,
- Secretariat of the Board of Directors,

And many more topics mentioned in the principles are decreed including acting in accordance with this regulation in practice.

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

e. Committees Formed within the Board

In order for the Board to fulfil its duties and responsibilities soundly, Auditing Committee, Corporate Governance Committee and Early Detection of Risk Committees are formed because of the Boards structure a separate Nomination and Remuneration Committees haven't been formed. These duties are carried out by Corporate Governance Committee. Working rules of Corporate Governance Committees is determined accordingly. Moreover, because of the industrial requirement the company operates a Safety Committee has been established within the Board.

Board of Directors determined the committee's duties, working principles and which members to be consist of in written documents, approved in the general assembly and disclosed to public via electronic means.

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.

All source and support are provided by the Board to ensure the committees perform their obligations.

Committees invite appropriate executives to their meetings to benefit from their opinions.

The Corporate Governance Committee's task is to control whether corporate governance principles are applied in the company, if not, detect reasons and conflict of interest arising from failure of complying and disclose with Corporate Governance Complying Report to public. The mentioned committee consists of 3 members with 2 independent members one being the chairman and one non executive member. Therefore the company complies with the principles.

Corporate Governance Committee also carries out the tasks of Nomination and Remuneration Committees tasks.

The Audit Committee monitors performance and effectiveness of company's accounting system, public disclosure of financial information, independent audit and internal control system according to powers and responsibilities stated in the principles. Committee consists of 2 independent members.

Internal Audit Unit operating in conjunction with the Board of Directors through Audit Committee, audits the effectiveness and performance of internal control and risk management systems within the scope of annual audit plan according to risk managements. On the other hand, it's determined that

company activities are carried out in accordance with current legislation and within the framework determined by the Board of Directors and internal control mechanisms had been established to ensure integrity and reliability of accounting and reporting systems for all levels of personnel to be implemented and followed.

Although Early Detection of Risk Committee's chairman is an independent member, other members being executives is an area to be revised. It would be appropriate to nominate other members from non executives.

The committees comprise the following individuals:

Audit Committee

Name-Surname	
M. Cem KOZLU	Chairman (Independent)
Mehmet SAĞIROĞLU	Member (Independent)

Corporate Governance Committee

Name-Surname	
Raymond Douglas WEBSTER	Chairman (Independent)
M. Cem KOZLU	Member (Independent)
Ş. Emre BERKİN	Member (Non-Executive)

Early Detection of Risk Committee

Name-Surname	
Mehmet SAĞIROĞLU	Chairman (Independent)
Ali İsmail SABANCI	Member (Executive)
İnan Tanrıöver	Member (Non Board Member-Executive)

In this sub section, except from structuring of Early Detection of Risk Committee, the company has complied with the Corporate Governance Principles of CMB.

f. Financial Benefits Provided to the Directors and the Top Executives

Guidelines on compensation of the Directors and top executives are written and shared with public. Compensation of the Directors and top executives has been approved by the Board of Directors but hasn't been submitted to the approval of General Assembly yet. With the examinations on minutes and interviews made with executives, it's understood that shareholders had the opportunity to comment on the subject.

It is 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 is a positive effort that total financial benefits provided to the directors and the top executives are disclosed on annual report

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

Board of Directors awarding based on their performances or lack of dismissal practice are areas requiring regulation in this sub section.

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

GRADE	DEFINITIONS
9-10	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.
7-8,9	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 obviously eligible for inclusion in the BIST Corporate Governance Index.
6-6,9	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 operate, however, improvement is required. Potential risks that the Company may be exposed are identified and can be managed. The interest 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.

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 true 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 the 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 appears to be at a level that might cause the investor to incur material losses.</p>