



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

21 August 2017

Validity Period : 21.08.2017-21.08.2018

LIMITATIONS

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

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

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

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

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

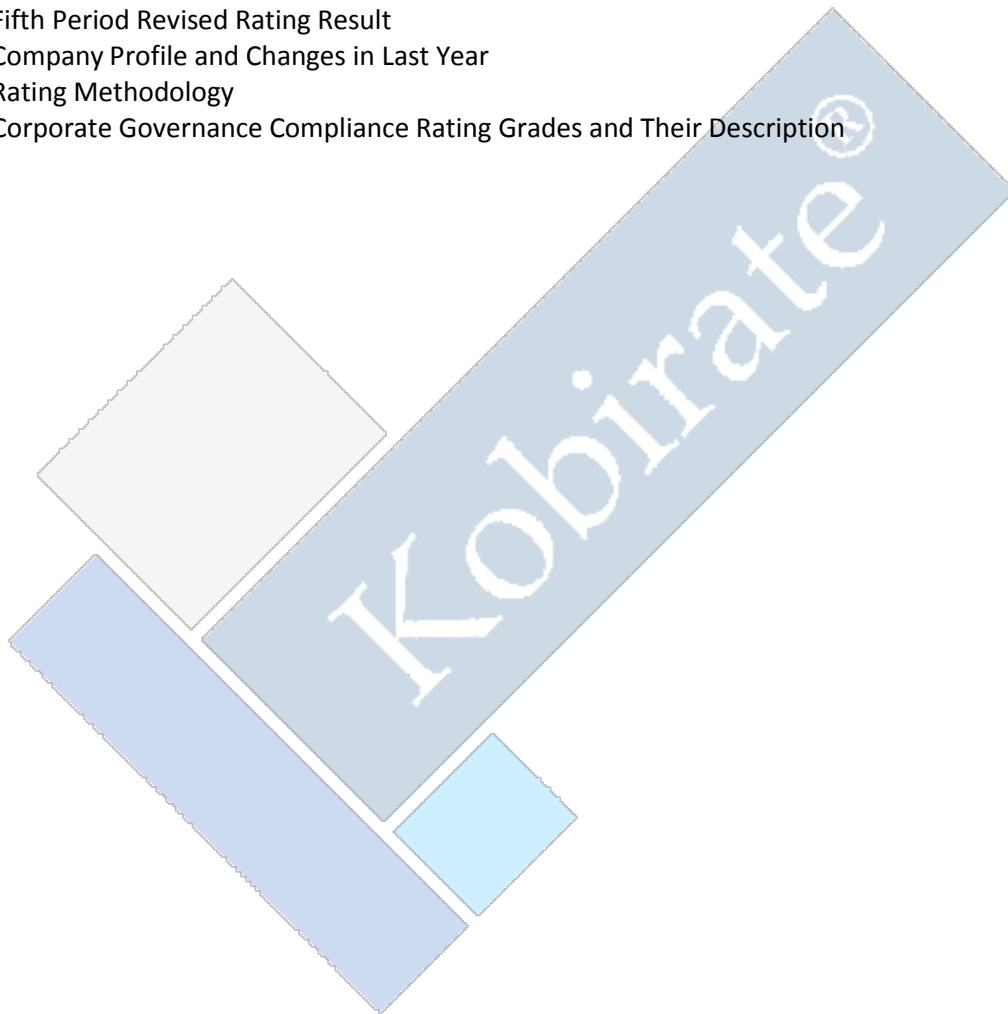
Although rating is an assessment based on numerous data, it is consequently the institutional opinion of Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. formed accordingly to the methodology disclosed.

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

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PEGASUS HAVA TAŞIMACILIĞI A.Ş.

CMB CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE GRADE

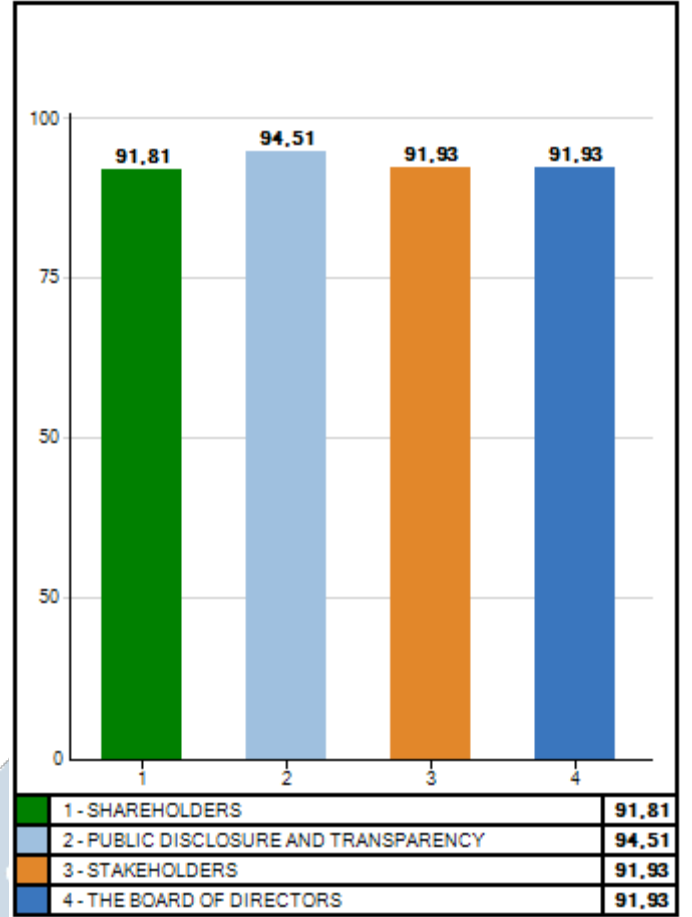
9.25

Kobirate Uluslararası Kredi Derecelendirme
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1. FIFTH 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 06.01.2017 and numbered 1/23, PEGASUS Hava Taşımacılığı A.Ş. is included in the list of BIST First Group Companies. The company has been examined in 408 criteria described by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş.'s methodology for "BIST First Group Companies as **9.25**.

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 also indicates that the Company well deserves to be included in the BIST Corporate Governance Index.

▪ It is seen that Pegasus has obtained the grade of **91.81** in Shareholders Section..

Main factors that ensured this grade for the Company;

- Shareholders' request to add item on the agenda of extraordinary general assembly has been taken into consideration and processes of disclosure to public took place in accordance with relevant laws and regulations.

- The shareholders have been informed about Donations and Aids Policy - which has been updated within the rating period – at the extraordinary general assembly 11.11.2016.

- Disclosure Policy and Salary and Compensation Policy – both of which have been revised within the rating period – and prepared Ethical Behavior Guidance have been presented to the shareholders for their information and approval at the extraordinary general assembly on 31.03.2017.

Relations with shareholders are conducted by Investor Relations Director Verda Beste TAŞAR, under Assistant General Manager for Financial Affairs Serhan ULGA.

Investor Relations Director Verda Beste TAŞAR has licenses for Capital Market Activities Advanced Level 3 and Corporate Governance Rating Specialist. The Director has been appointed as a member of Corporate Governance Committee on 25.04.2014 in compliance with CMB Corporate Governance Communiqué and this appointment has been announced to public with a material event disclosure.

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

The Company convened extraordinary general assembly on 11.11.2016. Invitation for the meeting was made 3 (three) weeks before the meeting through Turkish Trade Registry Gazette (TTSG) dated 20.10.2016, no 9180, Public Disclosure Platform (KAP) and Central Registry Agency E-General Assembly system (EGKS), as well as on corporate website in accordance with rules. At the extraordinary general assembly; a board member who has resigned was replaced, members' salaries were determined and permission was given to them for carrying out transactions covered by articles 395-396. At the same meeting "Donation and Aid Policy", accepted by Board of Directors decision dated 11.10.2016, No 556 was presented for the information and approval of shareholders, with information on the reason of change.

A detailed information kit has been prepared about agenda items of extraordinary general assembly meeting and presented to shareholders with invitation to the meeting.

The General Assembly meeting to discuss operations of 2016 took place on 31.03.2017. Invitation to the meeting has been done properly through Turkish Trade Registry Gazette dated 07.03.2017, No 9278, Public Disclosure Platform, MKK E – general assembly system (EKGS) and corporate website, 3 (three) weeks before the meeting.

General assembly information kit included detailed information about distribution of company's shares, voting rights given by these shares and privileges in voting right. It also contained much information that is

required to be given to shareholders and public by corporate governance principles.

Mehmet Tevfik NANE (CEO), Serhan ULGA (CFO), Barbaros KUBATOĞLU (Budget and Financial Affairs Director), Tamer YÜZÜAK (Finance and Strategic Planning Director), Verda Beste TAŞAR (Investor Relations Director), Ali UZUN (Legal Counselor) and Cem TOVİL (representative of independent audit company) have attended the meeting.

An additional item request for the agenda by shareholders have been taken into consideration by the board of directors and reason for refusal has been disclosed to public.

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

According to legal records of the Company, there was a net period loss of TRY 136,182,998 as of December 31, 2016. Other explanations on this subject can be found on page 12 of this report.

▪ The Company has achieved the grade of **94.51** 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.

Barbaros KUBATOĞLU (Budget and Financial Affairs Director), Tamer YÜZÜAK (Finance and Strategic Planning Director) and Verda Beste TAŞAR (Investor Relations Director) are the officials of Company responsible for public disclosures with signatory authority. These officials are assigned with the duty of watching every issue related with public disclosure.

Company's corporate website and annual reports are used as effective means for public disclosures in accordance with the criteria determined by Principles.

▪ The Company has achieved the grade of **91.93** for the section of Stakeholders.

Main factors that ensured this grade for the Company are;

- Ethical Principles have been updated under the title of Ethical Behavior Guide and presented to the shareholders at the general assembly meeting on 31.03.2017.

- Remuneration and Compensation Policy has been updated in the rating period and presented to shareholders at the general assembly meeting on 31.03.2017.

- The Company took its place on the BIST Sustainability Index in 2016-2017.

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, leaves, promotion, discipline, dismissal, death, resignation and retirement and education 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. There are no employees in the company covered by labor agreement.

Policies for corporate social responsibility and sustainability have been prepared and disclosed to public. The Company has joined Sustainability Index in 2016-2017 and this has been seen as an important development for it.

▪ Pegasus has achieved the grade of **91.93** for the section of the Board of Directors.

Main factors that ensured this grade for the Company are;

- Presentation of a written risk evaluation report to the Board of Directors by Early Detection of Risk Committee once in every two months, in addition to routine briefing at every meeting,
- Having more than the minimum numbers of independent members in the board.

It has been determined that the strategic targets of the Company have been defined by the board of directors. Posts of Chairman and General Manager are carried out by different individuals and their powers have been described. Audit, Corporate Governance and Early Detection of Risk Committees, as referred by the principles have been established and their working principles have been determined in writing. The Board of Directors has 7 (seven) members. 2 (two) of them are executive and 5 (five) are non – executive members. 4 (four) of the non – executive members are independent members within the frame of CMB criteria. Board of Directors convened 4 (four) times in 2016 and 2 (twice) by the end of May 2017. In the same period, Audit Committee held 6 (six), Corporate Governance Committee 6 (six) and Early Detection of Risk Committee 9 (nine) meetings. Results of these meetings have been sent to the Board of Directors.

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

At its meeting on 18.05.2017, Corporate Governance Committee made an annual assessment of “Woman Member of Board Policy”, made by Board of Directors. It has been decided at the meeting that the Board should be advised to act accordingly to the current policy and no changes have been made.

Performances of board members are evaluated - with professional help - by using objective criteria and a method of measurement is being developed. However there is yet no practice of rewarding or sacking them in the light of these evaluations.

2. COMPANY PROFILE AND CHANGES IN LAST YEAR

A. Company Profile:



Company Name	: PEGASUS Hava Tařımacılıęı A.ř.
Company Address	: AEROPARK Yenřehir Mah. Osmanlı Bulvarı No:11/A Kurtköy 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 İstanbul Trade Registry Office
Paid in Capital	: 102.272.000.-TL
Line of Business	: Air transportation
Company's Sector	: Transportation

Company's Representative in Charge of Rating:

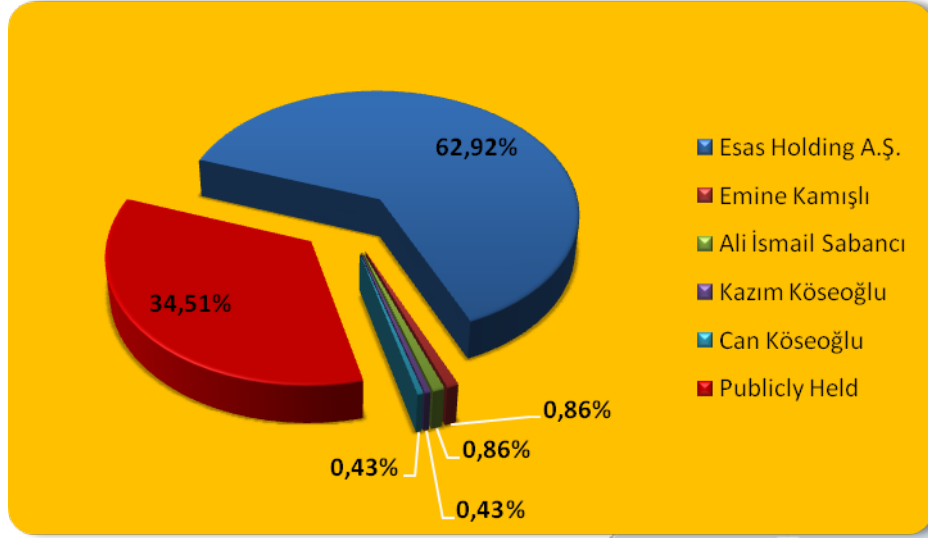
Verda Beste TAřAR

Investor Relations Director

beste.tasar@flypgs.com

0216 560 7580

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
Publicly Held	35.294.000	34,51
Total	102.272.000	100,00

Source: www.pegasusyatirimciiliskileri.com

Esas Holding A.Ş.

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

Source: www.pegasusyatirimciiliskileri.com

Real Person Ultimate Controlling Shareholders

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

Source: www.pegasusyatirimciiliskileri.com

Board of Directors

Name/ Surname	Title	Executive/ Non-executive
Ali İsmail SABANCI	Chairman of Board of Directors	Executive
Hüseyin Çağatay ÖZDOĞRU	Deputy Chairman	Executive
Mehmet Cem KOZLU	Independent Board Member	Non - Executive
Saad H. HAMMAD	Independent Board Member	Non - Executive
Sertaç HAYBAT	Board Member	Non - Executive
Hatice Zeynep Bodur OKYAY	Independent Board Member	Non - Executive
Stephen Mark GRİFFİTHS	Independent Board Member	Non - Executive

Source: www.kap.gov.tr

Committees formed within Board of Directors

Corporate Governance Committee

Name / Surname	Title	Duty
Stephen Mark GRİFFİTHS	Independent Board Member	Committee Chairman
Mehmet Cem KOZLU	Independent Board Member	Committee Member
Verda Beste TAŞAR	Investor Relations Director	Committee Member

Audit Committee

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

Early Detection of Risk Committee

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

Safety Committee

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

Top Management

Name/ Surname	Title
Mehmet Tevfik NANE	General Manager
Boğaç UĞURLUTEĞİN	Director-Ground Operations
Güliz Öztürk	EVP - Commerce
Kemal Mustafa HELVACIOĞLU	Director - Flight School
Reha ÖZDEMİR	EVP - Flight Operations
Serhan ULGA	EVP - Finance & CFO
Nasuh N. ÇETİN	EVP- Operation
Ergün DEMİRCİ	Director-Technical
Dilara OĞUR	Human Resources Director
Murat Cem ALKAN	Director Safety Management and Quality
Tayfun BORA	Manager - Safety
Barış FINDIK	IT Manager

Source: www.pegasusyatirimciiliskileri.com

Investor Relations Department

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

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

	2015/12	2016/12	Change %
Current Assets	1.459.826-	1.833.732-	25,61
Fixed Assets	2.264.365-	4.158.192-	83,64
Total Assets	4.098.097-	5.618.018-	37,09
Short Term Liabilities	991.846-	1.038.827-	4,74
Long Term Liabilities	1.653.520-	3.009.870-	82,03
Equity	1.452.732-	1.569.321-	8,03

Source: Independent Audit Report dated 31.12.2016

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

	2015/12	2016/12	Change %
Revenue	3.488.271-	3.707.471-	6,28
Gross Profit	433.287-	196.169-	-54,73
Operational Profit	269.357-	(105.955)	-139,34
Profit Before Tax	182.379-	(149.670)	-182,07
Net Profit/Loss	111.864-	(136.183)	-221,74

Source: Independent Audit Report dated 31.12.2016

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 CORPORATE MANAGEMENT / BIST 100-30

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

Bottom (TL)	Top (TL)

Source: Pegasus Hava Taşımacılığı A.Ş.

B. Changes in Last Year:

i. Changes in Capital and Articles of Association:

During the period of rating the Company did not make any changes in its capital and shareholder structure, as well as Articles of Association. The distribution of TRY 102,272,000 Company Capital and the Real Person Ultimate Controlling Shareholders can be found on page 7 of this report.

ii. Changes in Management and Organization

In accordance with the decision taken at the Extraordinary General Assembly meeting for 2016 Stephen Mark GRIFFITHS has been assigned until the Ordinary General Assembly meeting for 2016. His Independent Board Membership has been approved CMB's notification dated 09.01.2017. GRIFFITHS has been elected for one more year as Independent Board Member at the Ordinary General Assembly meeting on 31.03.2017.

Upon resignation of Conor John McCARTHY on 14.07.2016 H. Zeynep Bodur OKYAY was elected to complete his tenure, with the recommendation of Corporate Governance Committee and decision of Board of Directors on the same date. With a material event disclosure on the same date it has been announced that the Company will apply to CMB to have H. Zeynep Bodur OKYAY accepted as an independent member. CMB notification dated 11.10.2016 declared that decision has been taken not to any negative opinions about H. Zeynep Bodur OKYAY's assignment as independent member of board.

According to Company's Material Event Disclosure dated 28.09.2016, the Company has decided to make some organizational changes within the frame of ongoing work on operational efficiency and productiveness.

In this respect:

- The office of Senior Vice-President, Operations & Chief Operating Officer (COO) will be established, reporting to the General Manager (CEO) and responsible for the coordination of the operations of the Senior Vice-President, Flight Operations, Senior Vice-President, Ground Operations, Senior Vice-President, Technic and Manager, Security, each directly reporting to the General Manager (CEO). The office of Senior Vice-President, Cabin Services, and crew planning and process management & standardization functions will be restructured under the office of Senior Vice-President, Operations & Chief Operating Officer (COO). Nasuh Nazif ÇETİN, who has previously served as Senior Vice-President, Foreign Affiliates at the Company between 2013 and 2014 and who currently serves as the General Manager of our subsidiary İHY İzmir Havayolları A.Ş., will be appointed to this position.

- A new office in charge of Flight Academy, reporting to the General Manager (CEO), will be established and the offices of Senior Vice-President, Flight School and Vice-President, Crew Training will be reorganized under the Flight Academy structure. Kemal Mustafa HELVACIOĞLU, who currently serves as Vice-President, Safety Management & Quality, will be appointed to this position. Murat Cem ALKAN, who currently serves as Manager, Safety and Emergency Response Management, will be appointed as the new Vice-President, Safety Management & Quality.

- The office of Vice-President, Support Services, reporting to the General Manager (CEO), will be closed and all positions reporting to Vice-President, Support Services will be reorganized under the Senior Vice-President, Finance & CFO and Vice-President, Human Resources.

- Also as part of the said organizational restructuring, Nadir KABAŞ, serving as Senior Vice-President, Flight School and Doğan İNANÇ, serving as Vice-President, Crew Training will leave their management posts. Nurçin ÖZSOY will retire from the Company as Senior Vice-President, Cabin Services. Servet ULAŞAN, serving as Senior Vice-President, Technic will also leave his management post and will continue to serve our Company as a consultant.

- Ersel GEYİK, who currently serves as Vice-President, Support Services, will be appointed as the manager of the Cabin Services function, Ergün DEMİRCİ, who currently serves as Vice-President, AMO – Part 145, will be appointed as the manager of the Technic function.

Appointments of Kemal Mustafa HELVACIOĞLU, Murat Cem ALKAN, Ersel GEYİK and Ergün DEMİRCİ are subject to the approval of Directorate General of Civil Aviation.

The changes went into effect as of 14.10.2016.

iii. Dividend Distribution:

According to legal records of the Company a net period loss of TRY 136,182,998 occurred as of 31.12.2016. Since there was no distributable profit on dividend distribution sheet, prepared in line with CMB regulations, Board of Directors unanimously accepted decision dated 06.03.2017, No 575, to transfer the loss into the account of previous years' losses. The decision was discussed at the general assembly meeting on 31.03.2017 as 4th item of the agenda and approved.

iv. Policies:

During the follow-up period;

- "Donation and Aid Policy" has been revised with Board decision dated 11.10.2016, No 556,
- "Remuneration and Compensation Policy" and "Disclosure Policy" were revised and "Ethical Behavior Guide" has replaced Business Ethics Rules with Board decision dated 15.12.2016, No 561.

Donation and Aid Policy was presented to shareholders as Item 6 of Agenda at the extraordinary general assembly meeting on 11.11.2016. Remuneration and Compensation Policy, Disclosure Policy and Ethical Behavior Guide were presented to shareholders as Item 9 of Agenda at the ordinary general assembly meeting on 31.03.2017.

v. Changes in the Subsidiaries:

On 08.03.2017 Pegasus reached an agreement with Air Berlin plc ("Air Berlin") to buyout Air Berlin's 29.51% stake in our subsidiary İHY İzmir Havayolları A.Ş. ("İzAir"), represented by a total of 1,755,683,263 Group (A), (B) and (C) shares for a consideration of Euro 1.2 million. The transaction is subject to the completion of the filings with and the approvals to be obtained from the General Directorate of Turkish Civil Aviation and the competent competition authorities. The share transfer envisages the termination of the agreements between the Company and Air Berlin in respect of their shareholding in İzAir and the "Air Berlin Turkey Project" (details of which have been provided in the

Company's Offering Circular dated April 26, 2013) have been terminated and share of our Company at İzAir reached 98.63 %.

vi. Changes of Regulations and Other:

In 2012, tax inspectors from Ministry of Finance examined Company's legal books and documents for 2009, 2010, 2011 and January 2012 in terms of VAT, limited with finance lease transactions. Because of the VAT rates remitted on behalf of the non-resident aircraft lessor companies that are party to finance lease transactions for 2009, 2010, 2011 and January 2012, TRY 30,872,430 VAT (excluding interest rates) and a fine of TRY 46,308,645 were accrued upon Company. The shareholders have been informed within the frame of public offering statement dated 13.04.2013 and relevant financial statements that application has been made to Ministry of Finance Central Conciliation Commission for conciliation on both the tax and fine amounts and that the Company kept the right to sue the fine at tax court.

Upon Company's request, conciliation talks took place with Central Conciliation Commission on 13.11.2014, but no conciliation was achieved.

According to Company's material event disclosure dated 28.11.2016;

With respect to the disputed total accrued VAT liability of TRY 30,872,430 and tax penalties totaling TRY 46,308,645 imposed against the Company in connection with the VAT rates remitted on behalf of the non-resident aircraft leaser companies that are party to finance lease transactions for 2009, 2010, 2011 and January 2012, pending appellate review, an application has been filed for the restructuring of the disputed tax liability and penalties in accordance with the Law No. 6736 on the Restructuring of Certain Receivables. In this respect, the Company foresees the settlement of the aforesaid disputed through the payment of a total liability of approximately TRY 9.3 million including domestic PPI in 18 installments.

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.Ş.'s unique software.

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

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

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

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

good corporate practices by Kobirate A.Ş. Corporate Governance Compliance Rating Methodology are also considered as part of the remaining 15 % and affect the company's grade.

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

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

GRADE	DEFINITIONS
9-10	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 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 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.

GRADE	DEFINITIONS
4–5,9	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.
< 4	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.