



Corporate Governance Compliance Rating Report



Pegasus Hava Taşımacılığı A.Ş.

24 October 2014

Validity Period : 24.10.2014-24.10.2015

LIMITATIONS

This Corporate Governance Rating Report issued by Kobirate International Credit Rating and Corporate Governance Services Inc for Pegasus Hava Taşımacılığı A.Ş. is compiled on the basis of;

the Corporate Governance Principles issued by the CMB numbered II-17.1 and published by the Official Gazette on 03.01.2014, numbered 28871, as well as the decisions taken by CMB meeting dated 01.02.2013 and numbered 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 Item 2 of Article 5 on CMB's Corporate Governance Principles directive no II-17,1 issued on January 3, 2014.

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.

The rating grade does not constitute a recommendation to purchase, to hold or to dispose any kind of borrowing instrument. KOBIRATE 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.

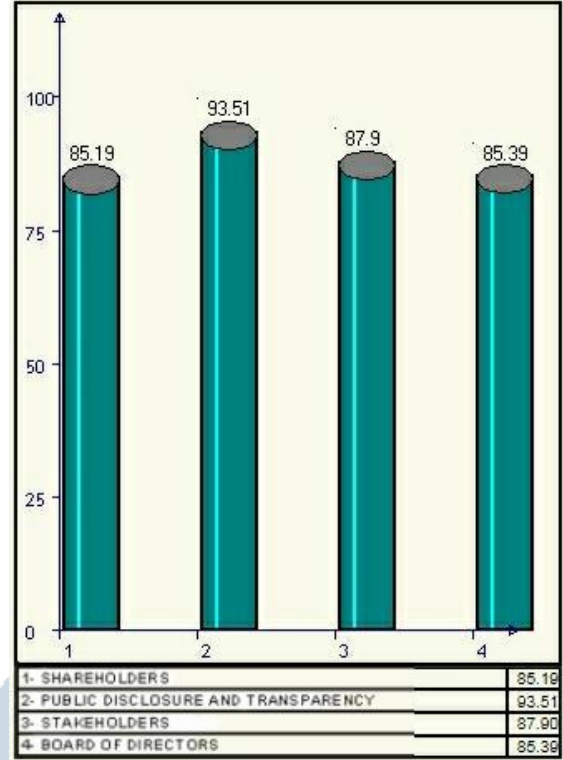
CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

8.77

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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.. The work was conducted on the basis of Capital Market Board's Corporate Governance Directive no II-17.1, published by the Official Gazette dated 03.01.2014 and numbered 28871.

According to the announcement of CVapital Market Board's announcement on its bulletin dated 14.01.2014, no 2014/1; **PEGASUS HAVA TAŞIMACILIĞI A.Ş.** is included in 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". At the end of the rating process, which has been conducted under the main headings of Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors, the Corporate Governance Compliance Rating Grade of **PEGASUS HAVA TAŞIMACILIĞI A.Ş.** is

determined as **8.77** This result signifies that **PEGASUS** has achieved a considerable compliance with the CMB's Corporate Governance Principles and it well deserves to be included in the BIST Corporate Governance Index. The result also expresses a need for some improvements while it doesn't pose major risks.

In view of rating process under main headings in brief;

It is observed that the company has obtained a grade of **85.19** in respect of Shareholders' Section and it is confirmed that the company in general has achieved a good level of compliance with the CMB Corporate Governance Principles.

The existence of Investors Relation Department, through which a healthy relationship with shareholders is implemented, timely and duly call for and convention of general assembly, establishment and disclosure to public of a dividend policy and non – existence of privileges in voting rights are salient positive achievements. In accordance with CMB Directive no II.17-1, the Unit Director of Investors Relation Department is appointed as Corporate Governance Committee member.

It has been appreciated that **PEGASUS** who gained **93.51** for Public Disclosure and Transparency Section has developed its disclosure policy and revised it in accordance with CMB directives and shared it with public, provided access to several current data on the corporate internet website, which are specified in the principles and might be needed by the investors. It is seen that the Annual Report is developed, becoming sufficient in terms of content and information is supported with graphics. Due to such

efforts **PEGASUS** has displayed a significant level of compliance with the principles covering public disclosure and transparency.

It's observed that the company reached the grade of **87.90** 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. Education and training policies have been prepared, as well as annual training programs and disclosed to employees.

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 products and services are laid down in written documents.

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

As for the Board of Directors Section, the Company's grade is **85.39**, representing a good level compliance with the CMB's Corporate Governance Principles.

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

The posts of Chairman of the Board and Chief Executive Officer are held by separate individuals. Thus it is tried to prevent the one man decision making approach from growing within the management.

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

It has been observed that the Audit, Corporate Governance and Early Detection of Risk Committees referred to in the Principles have been formed, whose working principles appear in written documents. Moreover there are some committees within the Board that include professionals and these operate actively.

On the other hand, there are other important indications of compliance with the Principles such as the fact that Board comprises adequate non-executive members as well as independent members and that guidelines for remuneration of top executives are set forth and have been disclosed to partners in a separate item at the general assembly.

It is also seen that the Board Members are insured with an amount of over 25 % of company capital, in case of possible mistakes and losses they might cause for the company.

2. RATING METHODOLOGY

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

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

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

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

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

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

Turkey has been closely monitoring these developments. A working group, established

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

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

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

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

The methodology takes into consideration the criteria stated in CMB's Corporate Governance Directive, no II-17.1, dated January 3rd 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.

In the process of rating, **408** different criteria are considered to measure the compliance of BIST first group firms with the corporate governance principles.

Such criteria are translated into the Kobirate A.Ş.'s unique Corporate Governance Rating Questionnaire.

According to CMB's memorandum dated 12.04.2013 and numbered 36231672-410.99(KBRT)-267/3854, the following rates are applied in the new Corporate Governance Compliance Rating:

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

CMB has sent its notification dated 19.07.2013 and numbered 36231672-410.99 (KBRT) 452, on CMB decision dated 01.02.2013 and numbered 4/105 to our company, which required adding new questions into the methodology in order to ensure that good corporate governance principles, which go beyond meeting the minimum requirements of CMB issued good corporate governance principles – bringing 85 % of full points at most – will be included in the rating grade.

According to the 2014/2 revised corporate governance compliance rating methodology, created by our company, in case the minimum conditions of corporate governance principles – declared in CMB notification of Corporate Governance dated 03.01.2014 – are met and all criteria is evaluated within same category the grade for that section is restricted with 85 % of the full points. The remaining 15 % is determined by internalized good practices of the company that go beyond the criteria stated in corporate governance principles.

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.

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

Company's Representative in Charge of Rating

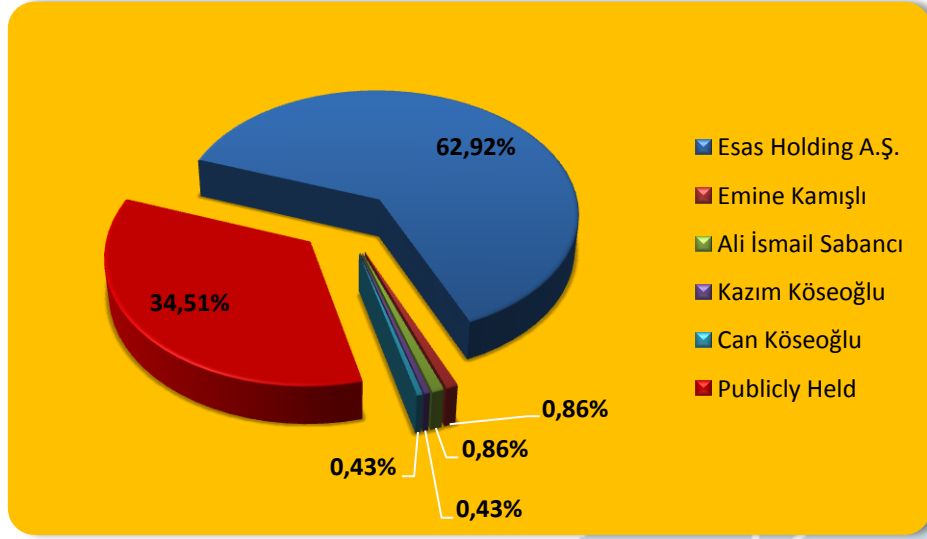
Verda Beste TAŞAR

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
Total	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 begun to be traded on BIST National Market with "PGSUS" code and TL 18,40 base price.

Real Person Ultimate Controlling Shareholder

Name/ Surname	Direct and Indirect Sum of Shares
Şevket Sabancı and His Family	% 65,49
Open to Public	% 34,51

Board of Directors

Name/ Surname	Title	Executive/ Non - Executive
Ali İsmail SABANCI	Chairman	Executive
Hüseyin Çağatay ÖZDOĞRU	Deputy Chairman	Executive
Sertaç HAYBAT	Member / General Manager	Executive
Conor McCARTY	Member	Non Executive
Saad H. HAMMAD	Member	Non Executive
Şükrü Emre BERKİN	Independent Member	Non Executive
Mehmet Cem KOZLU	Independent Member	Non Executive
Mehmet SAĞIROĞLU	Independent Member	Non Executive

Top Management

Name/Surname	Title
Sertaç HAYBAT	Board Member & General Manager
Serhan Ulga	Executive Vice President Finance
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
Mine Öztürk	Director of Internal Auditing

COMMITTEES FORMED WITHIN THE BOARD

CORPORATE GOVERNANCE COMITTEE

Şükrü Emre BERKİN (Chairman)

Mehmet Cem KOZLU

Saad H. HAMMAD

Verda Beste TAŞAR

AUDIT COMMITTEE

Mehmet Cem KOZLU (Chairman)
Mehmet SAĞIROĞLU

EARLY DETECTION OF RISK COMMITTEE

Mehmet SAĞIROĞLU
İnan TANRIÖVER
Saad H. HAMMAD

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

	2013/06(000)	2014/06(000)	Change %
Current Assets	1.220.215	1.582.816	29,72
Fixed Assets	2.277.989	2.120.947	-6,89
Total Assets	3.498.205	3.703.762	5,88
Short Term Liabilities	677.597	990.514	46,18
Long Term Liabilities	1.674.380	1.596.609	-4,64
Equity	1.146.227	1.116.639	-2,58

Source: Pegasus Hava Taşımacılığı A.Ş. 01.01.2014-30.06.2014 mid Term Annual Report

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

	2013/06(000)	2014/06(000)	Change %
Sales Income (Net)	989.159	1.311.178	32,55
Gross Profit	180.000	86.435	-51,98
Operational Profit	100.982	(23.676)	-123,45
Profit Before Tax	68.536	(5.285)	-107,71
Net Profit/Loss	44.141	(17.922)	-140,60

Source: Pegasus Hava Taşımacılığı A.Ş. 01.01.2014-30.06.2014 mid Term Annual Report

The Bottom and Peak Closing Values of Company's Shares traded on the BIST (For the time between 01/09/2013-01/09/2014)

Bottom(TL)	Peak(TL)
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 36 countries with 86 locations, 30 domestic and 56 overseas, as of today.

Maintaining its steady growth, **PEGASUS** was shown as “Europe’s Fastest Growing Airline” by the Official Airline Guide report which is ranking of Europe’s 25 largest airlines on seat capacity basis in 2013 as in 2011 and 2012. In Turkish civil aviation sector which entered to a significant growth trend, **PEGASUS** with 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 the first 6 months of 2014, **PEGASUS**’s market share was 28% 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 the first 6 months of 2014, **PEGASUS**’ market share was 9.8 % in terms of total number of passengers transported with international scheduled flights.

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

- Service Charges
- Cancellation Fees
- Excess Baggage Fees
- Airport Check-in Fees
- 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)
- Visa services
- Airport transfers
- Car rental services

Charter Operations

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

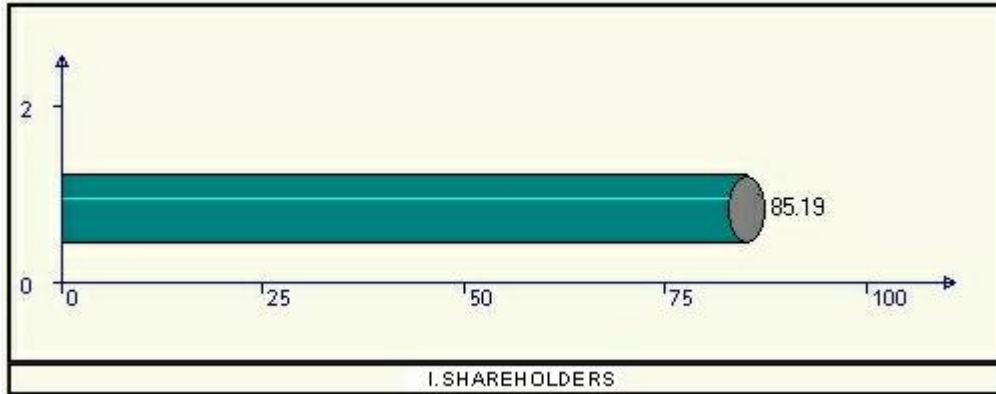
Other Income

- Cargo Services
- Education



4. RATING SECTIONS

A. SHAREHOLDERS



Overview

- ✓ A unit to maintain Shareholders' Relations vigorously has been created.
- ✓ General assemblies are held in accordance with laws, regulations and Articles.
- ✓ The regulation that requires General Assembly meetings open to public has been added to the Articles.
- ✓ Donations and grants policy has been created, presented to the approval of general assembly and shared with public.
- ✓ There is no privilege in voting right.
- ✓ There are no regulations to complicate voting rights.
- ✓ Dividend policy has been created, presented to the approval of general assembly and shared with public.
- ✓/✗ It will be appropriate to announce in the invitation for general assembly that general assembly meetings will be open for public.
- ✓/✗ No information has been given to the shareholders at the general assembly meeting about the benefactors of donations and aids given in that period.

- ✓/✗ Adding an item to the Main Contract, extending minority rights would strengthen compliance with Corporate Governance Principles.

In this section, as stated CMB's Corporate Governance Principles, the company was evaluated on 115 different criteria, including **Facilitation of Shareholders' Rights**, shareholders' right for **Information and Scrutiny**, shareholders' right to **Attend the General Assembly**, shareholders' **Right to Vote**, **Rights of Minority Shareholders**, shareholders' **Right for Dividend** and shareholders' right to **Transfer Their Shares** to whomever they want, whenever they want. The company's grade for this section is **85.19** points.

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).

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.

The Manager of the Investor Relations has been appointed as a member of Corporate Governance Committee in accordance with CMB Corporate Governance Directive no II.17-1 and it has been disclosed to public with a special notification dated 25.04.2014.

Job description of Investor Relations Unit has been made and it includes the duties stated at the 11/5 item of CMB Corporate Governance Directive No II-17.1.

Directorate of Investors Relations reports regularly to the Board of Directors and Corporate Governance Committee. In 2013 it reported to the Board of Directors on June 26, September 26 and December 19. It reported to Corporate Governance Committee on December 18, 2013 and March 2014.

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 sufficient 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) is used efficiently.

All information concerning the company has been given on time, truthfully and completely. There have been no warnings or penalties on this issue given by Regulatory authorities.

It has been seen that inquiries of shareholders have been responded without discrimination through phone, e – mails or face to face meetings. It is learned that more than 300 requests for information were answered in 2013 through phone and e – mails. 169 face to face information meetings were held with individual and corporate investors after the public offering in April 2013. 8 information meetings were also held to inform corporate investors abroad.

The "Disclosure Policy", approved by the Board, appears on the website. Shareholders' right to get and review information is explained in detail in this policy.

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, neither are there any arrangements in the Articles regulating this area.

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.

The General Assembly meeting to discuss operations of 2013 took place on 31.03.2014; Its announcement was made on 07.03.2014, three weeks before the meeting.

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

In order to increase the attendance of shareholders, to avoid inequalities among them and to keep their costs at minimum, general assemblies are held at the company's head office.

The document explaining the items of general assembly agenda was put on the corporate internet website simultaneously with the announcement of general assembly. It is also observed that the shareholders have been notified about total number of shares reflecting company's shareholder structure and voting rights as of the announcement date, as well as information on whether there is any privileged share within the company's capital. In the event of having change of board members on the agenda, the shareholders have also been notified about possible candidates and reasons of change. It is also seen that important information on the managerial and operational changes in the company or in its subsidiaries and on demands for agenda items made by CMB or other public institutions and / or enterprises related with the company were included in the notification.

When the agenda was being prepared, special care was given to express the items clearly in order not to cause different interpretations and to avoid using expressions like "other" or "various".

Our experts attending the general assembly saw that that some of board members, company auditor, officers responsible for preparing financial tables and persons related to specific issues on the agenda were available at the meeting. It was also seen that the items on the agenda were separately voted and the results were shared with shareholders before the closure of the meeting. It was also noted that the chairman of the meeting has taken great care to have the issues of the agenda expressed objectively, comprehensively, clearly and simply. Shareholders were able to express their opinions and ask questions under equal circumstances.

It was seen that the chairman of the meeting let all the questions of shareholders to be answered, except those that are accepted as commercial secret. All the questions and answers have been disclosed to public by being recorded at the minutes.

Allowing majority shareholders, board members, managers with administrative responsibilities their spouses and first and second degree relatives to have transactions that might cause conflict of interest with the company or its subsidiaries or to engage in commercial activities in the same business area with the company or its subsidiaries in their own name or on behalf of someone else or joining another company, who operates in the same business area, as unlimited partners was included in the general assembly agenda as an issue.

General Assembly was informed on company's asset, service and responsibility transfers on continuous basis and guarantees, pledges and mortgages in favor of third persons in accordance with CMB directive numbered II 17.1. In another item, the general assembly was informed on amount of all aids and donations for that period.

Company's Main Contract's Article 4, titled Main Office and Branches; Article 6, titled Company's Capital; Article 12, titled Board Meetings and Decisions; Article 13, titled Distribution of Responsibilities in the Board; Article 16, titled Audit; Article 17, titled Partners' General Assembly were changed at the general assembly meeting on 31.03.2014. Internal Regulations' 8/(b) and (i) items on Principles and Methods of Operation for General Assembly were also changed to make them more compliant with principles and they were presented for the approval of attendees. Dividend distribution policy, disclosure policy, remuneration and compensation policy and donation and aid policy were also presented for the approval of shareholders.

Although there is the regulation in the Articles underlining that general assembly meetings will be open to public including stakeholders and media, without right to address the meeting, the fact that it was not announced in meeting invitations is seen as an imperfection. Moreover the shareholders were not informed on the amount of all aids and donations for that period at the general assembly meeting.

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.

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

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

At this subsection **Pegasus** has achieved a high 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, there is no regulation 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 CMB directives and by the Turkish Commercial Law, the Company has prepared its Dividend Policy and disclosed it to public in the electronic environment. The policy was presented for the approval of shareholders at the general assembly on 31.03.2014.

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. 21st Article of the Main Contract states: "Existing shares will get dividends equally without the principle of per diem deduction".

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.

According to legal records of the company the profit for the period between January 1st 2013 and December 31st 2013 was TL 90,618,086.82. In the same period the accumulated loss of company from past years has become TL 289,228,154.51. In accordance with relevant articles of Turkish Commercial Law and Article 21 of Main Contract, the profit was used to cover the accumulated costs. The Board decision no 430, taken on March 7th 2013 for not distributing dividends, was presented to the approval of shareholders with the explanation of reasons for the decision.

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

g. Transfer of Shares

According to Article 7 of company's main contract;

"The transfer of company shares is 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

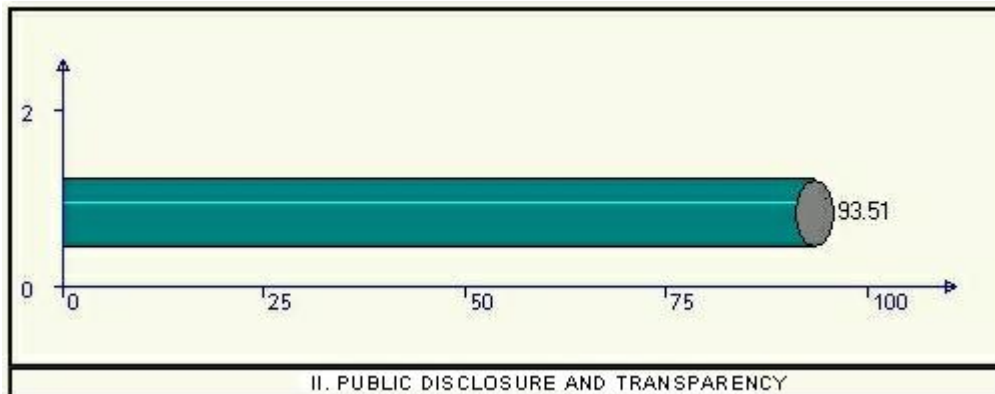
under TCC, SEA and relevant secondary legislation.

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"

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



B. PUBLIC DISCLOSURE AND TRANSPARENCY



Overview

- ✓ Disclosure policies have been revised, announced to the public in electronic media and presented to general assembly.
- ✓ The corporate internet website is being used effectively as a tool to update and enlighten the public within the context of the principles.
- ✓ Information in the website has also been prepared in English.
- ✓ Ultimate majority real person shareholders of the company are disclosed to public.

✗ It will be appropriate to give information in the annual reports about conflicts of interest between the company and other establishments that provide services like investment consultancy or rating and precautions taken to prevent these conflicts of interest.

- ✓/✗ It will also be appropriate to give information in the annual reports about whether there are any plans to make changes in partnership's management policies in future

within the scope of corporate governance principles.

As for this section, the Company has been assessed by 88 different criteria under the headings of **Corporate 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 **93.51**.

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 used to respond to questions directed to the company.

Principles about the disclosure of information intended for future is in the disclosure policy. In a case of disclosure to public, it has been observed that assumptions and hypothetical data are also disclosed, and information

doesn't contain exaggerated predictions. Furthermore, it's in line with company's financial situation and annual reports.

Company's disclosure policy is revised according to CMB's Special Conditions Notification numbered II.15.1, which came into effect after published in Official Gazette no 28891, dated 23.01.2014 and presented to the shareholders at general assembly on 31.03.2014.

a. Corporate 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 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.

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

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

In accordance with the capital market, regulations financial chart notifications were disclosed on Public Disclosure Platform in Turkish and English simultaneously. English text is summarized in a brief, correct, complete, direct, comprehensible and sufficient manner and in consistency with the Turkish text.

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

b. Annual Report

It is clear that board of directors has prepared the annual report about the company's activities in such a way that comprehensively provides complete and correct information. Annual reports of the last five years are being shared with the shareholders and the public on electronic media.

The content of annual reports comprise;

- Resumes and tenures of board members and senior managers,
- Information about the sector that company operates in and about the its position within the sector,
- Information about the company's financial resources, qualifications and amounts of its issued capital market tools,

- Changes made on the articles of association during the period and their reasons,
- Report on compliance to corporate governance principles,
- Information on related party transactions and balances, which is obligatory to disclose according to the regulations,
- Independent audit reports.

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

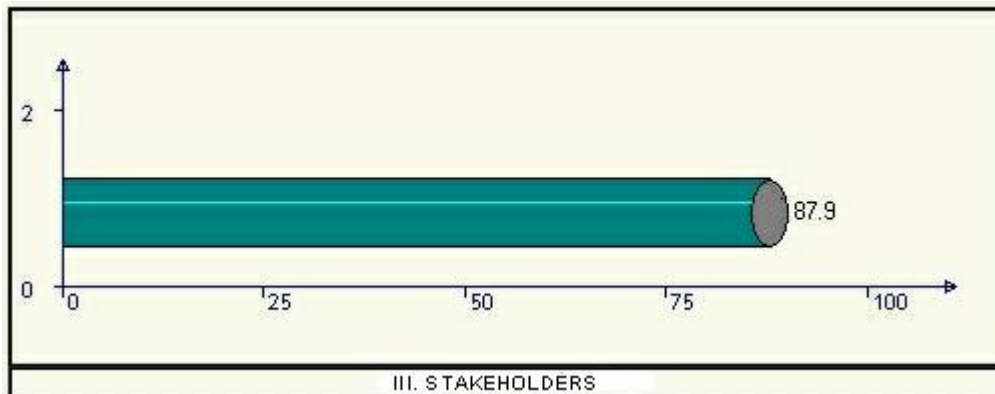
- Board members' and managers' ongoing jobs outside the company,
- Declarations of independent board members on their independence,
- Members of subcommittees within the board of directors and meeting frequencies of these subcommittees,
- Changes of regulations, which might significantly affect company operations,
- Important law suits against the company and their possible conclusions,
- Social rights and professional training of employees, as well as other company activities that have social and environmental impacts and corporate social responsibility activities,
- The need for permission by the general assembly for majority shareholders, board members, managers with administrative responsibilities their spouses and first and second degree relatives to have transactions that might cause conflict of interest with the company or its subsidiaries or to engage in competitive commercial activities.

The fact that there were no information on company measures to prevent conflict of interest between the company and service

suppliers in the fields like investment consultancy and rating is seen as an area of annual reports, which needs re – regulating.

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

C. STAKEHOLDERS



Overview

- ✓ Ethical Rules have been formed, disclosed through electronic means and disclosed to general assembly.
- ✓ There are no regulations to complicate stakeholders' rights
- ✓ Human resources policy and many subjects concerning customers and stakeholders are internally regulated.
- ✓ Compensation Policy towards employees have been formed, presented to the approval of general assembly 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.
- ✓/* There are no regulations in the Articles of Association supporting participation to management of employees and stakeholders.

As for this section, the Company has been assessed by 57 different criteria under the headings of **Company Policy Towards the Stakeholders, Supporting Stakeholders' Participation in Company Management, Company Policy on Human Resources, Relations with the Customers and Suppliers, Ethical Rules and Social Responsibility** as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of **87.90**.

a. Company Policy Toward 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 **Pegasus** protects the stakeholders' rights specified in regulations and mutual agreements.

It is concluded that the company respects the stakeholders' rights, specified in regulations

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

Compensation Policy towards employees has been developed, presented to the shareholders at general assembly and disclosed to public via corporate website.

Stakeholders are adequately informed on company policies and procedures to protect their rights, necessary mechanisms have been 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. Supporting 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 affect 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 implemented, 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 means 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** is committed to ensure that "All family members have easy access to junior and senior management"
- The company conducts an annual "Customer Satisfaction" survey and puts new measures into effect in accordance with the feedback from the survey to increase the satisfaction.

The above mentioned employee participation in management models are currently being applied, it will be appropriate to develop these models and make them part of 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 have been established and disclosed to employees, in determination of benefits provided to employees the mentioned criteria is followed.

It has been seen that the company implements education programs to increase knowledge, capability and experience of the employees and updates previously prepared education policies. Within this scope 13.21 hours of training was given per person in 2013, 13.77 hours of training was given per person in the first 7 months of 2014, excluding obligatory civil aviation training.

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

As a result of examinations at the company interviews with employees, we have 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 members of any trade-union.

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

d. Relations with Customers and 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.

Applications about suppliers and outsourced services are prepared and their standards are determined.

Pegasus is an airline company that bases its operations on "Low Cost Network Carrier" business model. With this aspect; the company ensures fair price, on-time departure, additional services and offers many other services provided via www.flypgs.com website, which is easily accessible by customers and suppliers. As of September 2014 the company has a fleet of 54 planes. With its young fleet –mean age 4.68. Pegasus attempts to provide the best service to its guests. 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.

January 2013: Pegasus won the first award in the category of "Low Cost Airline" in Meal Awards survey conducted by Skyscanner, the airline ticket comparison engine.

February 2013: The company received Golden Mixx Award in the category of "Microsites" at the ceremony of Mixx Awards 2012, which determines the best of digital marketing communication; thanks to its digital campaign in May 2012, called, "What is happening behind this site?".

July 2013: Pegasus represented Turkey as one 40 firms, which were chosen as "National Champions", at the European Business Awards list in the category of "Neutral Growth Strategy of the Year Award".

August 2013: Pegasus got 3 Awards of Voyager magazine poll, which is conducted among Voyager readers. The poll divided airlines as national and international airlines. In the category of national airlines, Pegasus won "Best on time departure", "Best online ticket service" and "Best Entertainment Aboard the Plane" awards.

September 2013: In the A Awards Outdoor Advertisement Competition, organized this year for the first time by ARVAK (Outdoor Advertisement Agencies Foundation), Pegasus won the first award in the category of "Best Transport Advertisement Award", with its campaign, titled, "Usage of Outdoor in Communicating with the Vacationers".

In 2014, Pegasus won the Silver Award in Service within Digital Category at the 26th Crystal Apple Advertisement Awards organized by the Association of Advertising Agencies, with its digital campaign titled "Take the Route Abroad with Turist of Kolomb".

In the survey of "Most Successful Tourism Investments of Turkey" – organized by Capital and Ekonomist magazines, with the contribution of Burgan Bank – Pegasus was awarded by grand jury, comprising leading names from tourism, finance and media sectors, as well as academicians.

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

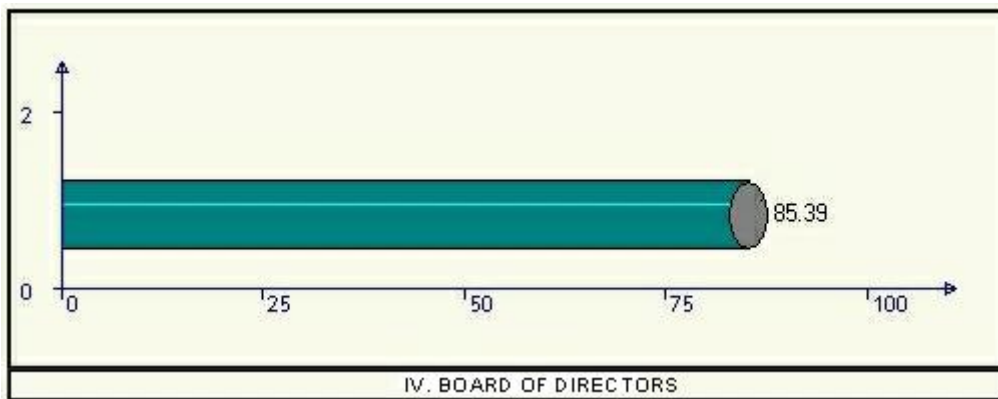
e. Ethical Rules and Social Responsibility

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 an unethical behaviour is detected, disciplinary and penalty sanctions to be applied are set forth in regulations and labour agreements.

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

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

D. BOARD OF DIRECTORS



Overview

- ✓ Company's strategic targets, human and financial sources it requires are determined by the Board of Directors
- ✓ The posts of Chairman and CEO are carried out by separate individuals and there isn't any person with solely unlimited authority in the company.
- ✓ The number of Board Members is adequate for them to work productively and creatively.
- ✓ Majority of Board Members are non-executives.
- ✓ 3 of non-executive Board Members are independent members.
- ✓ Every Board Member has one vote.
- ✓ 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.
- ✓ Manager Liability Insurance amounting to over 25% of the capital against defects of Board Members duties have been made.
- ✗ No targeted ratio and policy have been prepared for woman members of the board, for a ratio no less than 25 %.
- ✗ Although there is the practice of self-criticism and performance evaluation for Board Members, there is no practice of rewarding or sacking them in the light of these assessments
- ✓/✗ The remuneration and other interests provided for managers with administrative responsibilities are not disclosed on personal basis in the annual report.

In this section, the Company has been assessed by 147 different criteria under the headings of **Function of the Board, Operating Principles of the Board, Structure of the Board, Mode of Board Meetings, Committees formed within the Board and Financial Benefits Provided to the Directors and the Top Executives** as laid down by the Capital Market Board's Corporate Governance Principles, for which the Company has deserved the grade of **85.39**.

a. Function of the Board

By the strategic decisions it will take, 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 approach. In this sense, the Board has described the corporate strategic objectives, and determined the required human and financial resources. The Board monitors company activities to be suitable to regulations, main articles, 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 high level compliance with the principles.

b. Operating Principles of the Board

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

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

The Board has developed internal control systems including risk management and IT systems to minimize effects of risk and processes on 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 unrestricted.

Posts of Chairman of the Board and CEO are hold by different individuals.

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

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

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

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

c. 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 (3) 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.

It is seen that the Board prepares the list of independent candidates from the report of recruitment committee, in accordance with CMB Directive no: II.17-1, and, together with the report and Board decision, sends it to CMB, 60 days before the general assembly. There are no independent members of board on the independent members list, whose candidacy is not accepted by CMB.

There are no women directors in the Board. It will be appropriate for the company to determine a target ratio – no less than 25 % -, a deadline and policies to reach these targets and for the Board to monitor the progress on these targets annually.

In this subsection, **Pegasus** has generally achieved compliance with the principles.

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. However, it is obligatory for the Board to convene at least 4 times a year. The Board of Directors convened on March, 28, June 26-27 and Sept. 26, Dec. 19 in 2013. In the same year the Board took 56 decisions. In 2014 the Board convened twice (on March 27 and August 7-8. There are two more planned meetings of the Board. As of the report date the Board has taken 32 decisions.

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.

The "Working Principles and Procedures of the Board of Directors" includes the items below;

- 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.

The Secretariat functions of the Board are conducted by company lawyer ALİ UZUN.

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; but because of the Board's structure 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 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 sources and support are provided by the Board to ensure that 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, to detect reasons if they are not and conflicts of interest arising from failure of complying and

disclose with Corporate Governance Complying Report to public. The mentioned committee consists of 4 members with 2 independent members (chairman and one member) and one of the other two is non – executive board member. The other one is appointed as member of Corporate Governance Committee, in accordance with CMB Directive no: II.17-1 and works as the Director of Investors Relations. This change in the Committee was disclosed to public with a special case statement on 25.04.2014.

Therefore the principle, which requires all of the members to be non – executive in case the committee consists of 2 members and majority of them to be non – executive in case the committee consists of more than 2 members, is satisfied with the current structure of the Committee.

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

The Committee convened once on August 7, 2014. The Secretariat functions of the Committee are conducted by V. Beste TAŞAR, the Director of Investors Relations Unit.

The Audit Committee; monitors performance and effectiveness of company's accounting system, public disclosure of financial information, independent audit and internal control system.

The selection of independent audit company and supervision of its work at every stage is implemented by the audit committee. The committee reassesses company's processes and activities on subjects like accounting system, financial reporting, public disclosure, internal control and audit system, independent external audit, law, regulation and compliance with ethical principles. If it

deems necessary, the committee makes suggestions to the board.

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 explained by the officials that internal control mechanisms had been established for all levels of personnel to implement and follow in order to ensure that company activities are carried out in accordance with current legislation and within the framework determined by the Board of Directors and that the integrity and reliability of accounting and reporting systems are ensured.

Internal Audit Unit was established in September 2010. The regulation for Committee was changed in August 2013 and revised on 25.04.2014. Internal Audit Unit comprises 4 employees (2 senior auditors and 1 auditor under the direction of Mine Öztürk). The made three audits in 2013 and presented 3 reports to the Audit Committee. In 2014 it conducted 2 routine audits. It is also learned that investigatory audits are going on 6 subjects. Internal Audit Unit reported three times the Audit Committee in 2014.

Internal Audit Unit reports directly to the Audit Committee. The Secretariat functions of the Committee are conducted by Mine ÖZTÜRK, Director of Internal Audit Unit.

The chairman of **Early Detection of Risk Committee** has an independent membership status. One member is executive and the other one is a professional manager in a group company.

Early Detection of Risk Committee has established a working group to conduct the hedge transactions in order to manage the basic risks determined by the Committee at its first meeting on September 23, 2013, no: 2013/1. The Hedge Committee consists of Chairman of Board Ali İsmail SABANCI, General Manager Sertaç HAYBAT and Early Detection of Risk Committee Member İnan TANRIÖVER. The responsibility to implement the decisions of the Hedge Committee belongs to Serhan ULGA, Executive Vice General Manager for Finance; Tamer YÜZÜAK, Director for Strategic Planning and Finance; and Cihangir ARSMAN, Finance Manager. Early Detection of Risk Committee aims to ensure the required flexibility for daily management of hedge transactions and risks with the support of this working group. The main hedging policy of the Company is determined by the Board and implemented by the Hedge Committee under the supervision of Early Detection of Risk Committee.

The committees comprise the following members:

Audit Committee

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

Corporate Governance Committee

Name / Surname	
Ş. Emre BERKİN	Chairman (Independent)
M. Cem KOZLU	Member (Independent)
Saad H. HAMMAD	Member (Non - Executive)
V. Beste TAŞAR	Member (Director of IRU)

Early Detection of Risk Committee

Name / Surname	
Mehmet SAĞIROĞLU	Chairman (Independent)
Saad H. HAMMAD	Member (Non - Executive)
İnan Tanrıöver	Member (Outside Board, professional manager)

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

f. Financial Benefits Provided to the Directors and Top Executives

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

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 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 them.

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

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

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 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	<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 the shareholders and stakeholders, public disclosure, transparency, the structure and working conditions of the Board. Under the current conditions, the Company is not eligible to be listed in the BIST Corporate Governance Index.</p>
< 4	<p>The Company has failed to comply with the Corporate Governance Principles issued by the Capital Market Board. It also failed to establish its internal control systems. Potential risks that the company might be exposed are not identified and cannot be managed. The company is not responsive to the Corporate Governance Principles at all levels. There are major weaknesses in the interest of the shareholders and the stakeholders, public disclosure, transparency. Structure and working conditions of the Board appear to be at a level that might cause the investor to incur material losses.</p>