



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ANNUAL REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2013

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ANNUAL ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – DECEMBER 31, 2013

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2013 - December 31, 2013
Commercial Title : Pegasus Hava Taşımacılığı A.Ş.
Trade Registration : Istanbul Trade Registry / 261186
Headquarters : Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı, No: 11/A
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Investor Relations Website.
<http://www.pegasusinvestorrelations.com>

Branch Information :
(1) Pegasus Hava Taşımacılığı A.Ş. Germany Branch – Berliner Allee 47 D-40212 Düsseldorf
(2) Pegasus Hava Taşımacılığı A.Ş. Netherlands Branch – Vertrekpassage 258, 118AW Schipol

B- CAPITAL, SHAREHOLDING AND ORGANIZATION STRUCTURE OF PEGASUS

As part of the initial public offering of its shares in April 2013, Pegasus adopted the authorized capital system and increased its issued capital to TL 102,272,000 from TL 75,000,000, within the authorized capital ceiling of TL 500,000,000. Information on the capital and shareholding structure of Pegasus as of January 1, 2013 and December 31, 2013, respectively, is shown in the table below.

Shareholder	January 1, 2013		December 31, 2013	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Esas Holding A.Ş. ("Esas Holding")	72,375,570	96.50%	64,353,570	62.92%
Publicly Traded	-	-	35,294,000	34.51%
Emine Kamyılı	874,810	1.17%	874,810	0.86%
Ali İsmail Sabancı	874,810	1.17%	874,810	0.86%
Kazım Köseoğlu	437,405	0.58%	437,405	0.43%
Can Köseoğlu	437,405	0.58%	437,405	0.43%
Total	75,000,000	100%	102,272,000	100%

In addition to the above, our ultimate real person shareholders and their respective direct and indirect shareholding in Pegasus, as of January 1, 2013 and December 31, 2013 are as follows.

	January 1, 2013	December 31, 2013
Shareholder	Shareholding Ratio	Shareholding Ratio
Şevket Sabancı	19.30%	12.58%
Zerrin Sabancı	19.30%	12.58%
Emine Kamyşlı	20.47%	13.44%
Ali İsmail Sabancı	20.47%	13.44%
Kazım Köseoğlu	10.23%	6.72%
Can Köseoğlu	10.23%	6.72%
Publicly Traded	-	34.51%
Total	100%	100%

As of December 31, 2013, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket Sabancı and his family and as of December 31, 2013 has investments in the aviation, retail and entertainment, food, healthcare and real estate sectors in and outside of Turkey. Esas Holding is fully owned by Şevket Sabancı and the members of his family.

Our Company's management organization chart as of December 31, 2013 is provided in Section (1/F) of this Report.

C- INFORMATION ON BUSINESS ACTIVITIES

Pegasus is Turkey's leading low-cost airline. Pegasus entered the aviation sector through charter flights in 1990. Following its acquisition by Esas Holding at the beginning of 2005, Pegasus changed its business model, introducing a low-cost network carrier model and focused on providing affordable and on-time air travel service with a young fleet.

As a result of the successful implementation of this low-cost strategy, Pegasus experienced rapid expansion of its operations both in domestic routes as well as internationally. In comparison to the cumulative annual growth rate of the Turkish market between 2007 and 2013 at 13%, the cumulative annual growth rate of the scheduled passengers flying with Pegasus reached 31% during the same period. In addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, Pegasus was the fastest growing airline among the 25 largest European airlines in terms of seat capacity in 2011 and 2012 according to the Official Airline Guide (OAG).

Pegasus focuses on providing high-frequency services on short- and medium-haul, point-to-point and transit routes on its domestic and international network primarily from its main hub in Istanbul Sabiha Gökçen International Airport. Pegasus also offers scheduled flights from other domestic hubs, primarily in Adana, Antalya and İzmir. As of December 31, 2013, Pegasus offered scheduled passenger services on 31 domestic routes in Turkey and 45 international routes to European (including North Cyprus), CIS and Middle Eastern destinations, serving a flight network covering 76 destinations in 30 different countries.

Pegasus also offers a number of services ancillary to the core air passenger services and generates revenue through the provision of these services, including pre-order and in-flight sales of beverages and food, sales of duty-free items on board international flights, excess baggage, reservation change and cancellation fees, airport check-in and seat selection fees.

In 2013, the revenue recorded from ancillary services constituted 14.16% of total revenue for the period, while ancillary revenue increased by 47.87% year-over-year from 2012.

In addition to the above, Pegasus derives revenue from other services, primarily consisting of cargo services and a relatively low volume of charter and split charter flights for tour operators, which represented 7.76% of total revenue in 2013.

D- INFORMATION ON PRIVILEGED SHARES

Pegasus has not issued any privileged shares.

E- AMENDMENTS TO THE ARTICLES OF ASSOCIATION IN THE REPORTING PERIOD

Pegasus Articles of Association were amended at the Extraordinary General Assembly Meeting dated March 11, 2013 in line with the approvals obtained from the Capital Markets Board and the Ministry of Customs and Trade rendering the Company Articles of Association compatible with the Turkish Commercial Code No. 6102, the Capital Markets Law No. 6362 and the applicable regulations adopted within the framework of the foregoing. The amendments were published in the Trade Registry Gazette dated 18 April 2013 and numbered 8303. An up-to-date copy of the Pegasus Articles of Association consolidating all amendments to date as well as information on Trade Registry Gazettes where past amendments were published are available in our Investor Relations website.

Furthermore, on January 30, 2014, our Board of Directors resolved to propose amendments to Articles 4, 6, 12, 13, 16 and 17 of our Company's Articles of Association. The draft amendments disclosed on the Public Disclosure Platform and our Investor Relations website were approved by the Capital Markets Board on February 6, 2014 and, as of the date of this Report, are pending review of the Ministry of Customs and Trade. Subject to obtaining the approval of the Ministry, the Company aims to propose to our shareholders the approval of the amendments at the Ordinary General Assembly Meeting to be held for the year 2013.

F- INFORMATION ON THE MANAGEMENT BODY, SENIOR MANAGEMENT AND PEGASUS EMPLOYEES

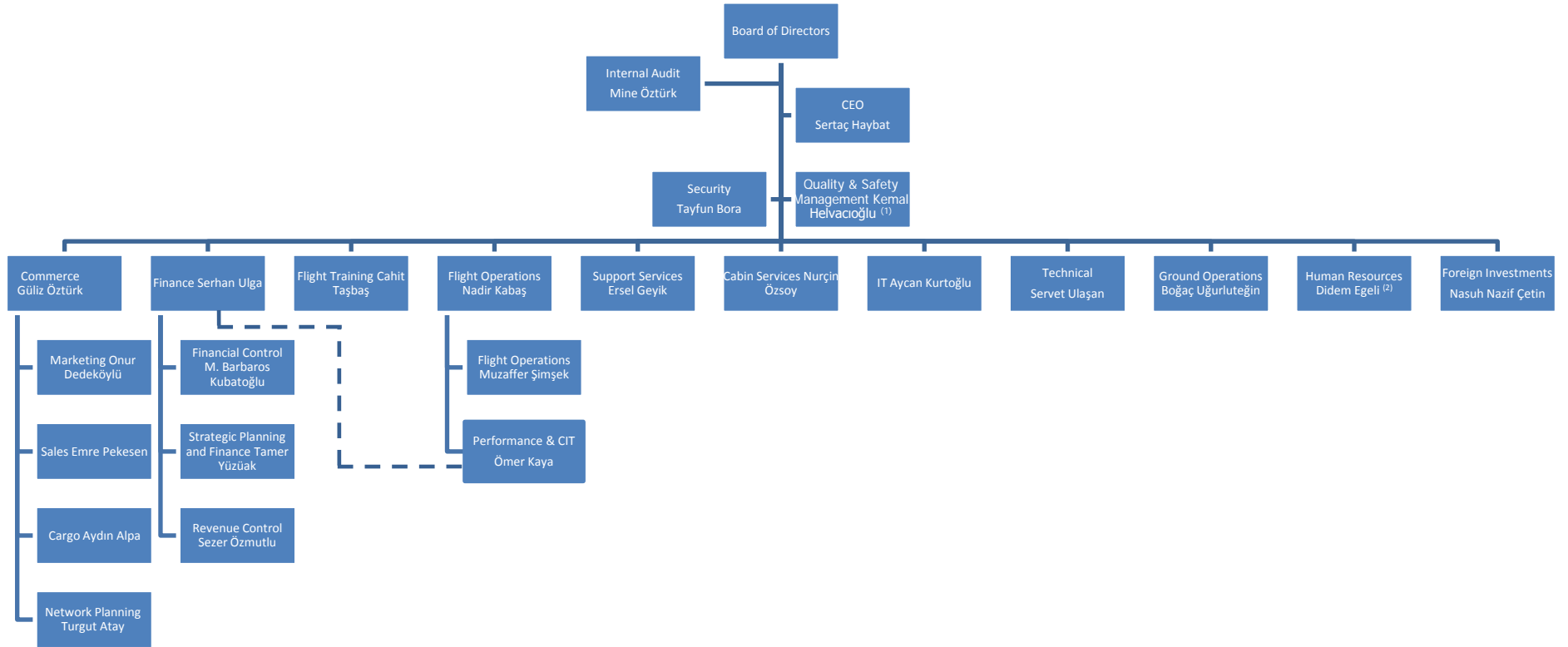
a)- Management Body: The management body of Pegasus is the Board of Directors. As of the date of this Report, the Board of Directors consists of eight members. The identity, duty and term of office of each Director are indicated in the following chart.

Name / Surname	Duty	Term of Office
Ali İsmail Sabancı	Chairman of the Board of Directors	March 27, 2013 - 2014 GK ⁽¹⁾
Hüseyin Çağatay Özdoğru	Vice-Chairman of the Board of Directors	March 27, 2013 - 2014 GK ⁽¹⁾
Mehmet Cem Kozlu	Independent Director	March 27, 2013 - 2014 GK ⁽²⁾
Mehmet Sağıroğlu	Independent Director	March 27, 2013 - 2014 GK ⁽²⁾
Raymond Douglas Webster	Independent Director	March 27, 2013 - 2014 GK ⁽¹⁾
Conor John McCarthy	Non-executive Board Member	March 27, 2013 - 2014 GK ⁽¹⁾
Şükrü Emre Berkin	Non-executive Board Member	March 27, 2013 - 2014 GK ⁽¹⁾
Sertaç Haybat	Board Member and CEO	March 27, 2013 - 2014 GK ⁽¹⁾
⁽¹⁾	Appointed for a term of one year at the Ordinary General Assembly dated March 27, 2013	
⁽²⁾	Appointed on April 1, 2013 as per Article 363 of the Turkish Commercial Code in order to fill in the vacancy for the remaining term of the resigning Directors, Michael Charles Lee and İnan Tanrıöver. The appointments were approved by our shareholders at the Extraordinary General Assembly Meeting dated April 22, 2013.	

b)- Senior Management: Pegasus senior management comprises the CEO, management personnel directly reporting to the CEO and vice-presidents reporting directly to senior vice-presidents. On a consolidated basis, Pegasus deems the general managers of its subsidiaries IHY İzmir Havayolları A.Ş. and Air Manas Air Company LLC among senior management. Information on the Pegasus senior management and their duties is provided in the following chart.

Name / Surname	Duty
Sertaç Haybat	President & CEO
Serhan Ulga	Senior Vice-President, Finance, CFO
Güliz Öztürk	Senior Vice-President, Commerce
Nadir Kabaş	Senior Vice-President, Flight Operations
Servet Ulaşan	Senior Vice-President, Technical
Nurçin Özsoy	Senior Vice-President, Cabin Services
Nasuh Nazif Çetin	Senior Vice-President, Foreign subsidiaries
Kemal Mustafa Helvacıoğlu	Vice-President, Safety management
Mustafa Hesapçioğlu	Vice-President, Quality ⁽¹⁾
Aycan Kurtuğlu	Vice-President, Information Technologies
Verda Beste Taşar	Vice-President, Investor Relations
Cahit Taşbaş	Vice-President, Flight Training
Boğaç Uğurluteğin	Vice-President, Ground Operations
Mine Öztürk	Vice-President, Internal Audit
Barbaros Kubatoğlu	Vice-President, Financial Controller
Tamer Yüzüak	Vice-President, Strategic Planning and Finance
Sezer Özmütlu	Vice-President, Revenue Control
Zeynep Didem Egeli ⁽²⁾	Vice-President, Human Resources
Emre Pekesen	Vice-President, Sale
Onur Dedeköylü	Vice-President, Marketing
Aydın Alpa	Vice-President, Cargo
Muzaffer Şimşek	Vice-President, Flight Operations (Head Pilot)
Ömer Kaya	Vice-President, Performance & CIT
Ersel Geyik	Vice-President, Support Services
Tayfun Bora	Manager, Security
Gürol Yüksel	CEO, IHY İzmir Havayolları A.Ş.
İlgar Alptekin	CEO, Air Manas Air Company LLC
⁽¹⁾	Effective as of January 1, 2014, Vice-Presidency, Quality is merged with Vice-Presidency, Safety Management and Kemal Mustafa Helvacıoğlu has assumed the duty of Vice-President Responsible for Quality and Safety Management.
⁽²⁾	Appointment effective as of January 2, 2014.

Pegasus management organization is as follows:



(1) Effective as of January 1, 2014, Vice-Presidency, Quality is merged with Vice-Presidency, Safety Management and K. Mustafa Helvacioğlu has assumed the duty of Vice-President Responsible for Quality and Safety Management. As of December 31, 2013, Vice-Presidency, Quality had been a separate department headed by Mustafa Hesapçioğlu.

(2) Appointment effective as of January 2, 2014.

c)- Number of Employees: The total number of full time employed Family Members of Pegasus and its consolidated subsidiaries defined in Section (4/D) of this Report, as of December 31, 2012 and December 31, 2013, respectively were 2,045 and 3,105. This number covers the members of our senior management listed above with the exception of Zeynep Didem Egeli who assumed duty as of January 2, 2014.

There are no Family Members employed under a collective bargaining agreement.

Information on benefits provided to Pegasus to our Family Members are detailed in the "Pegasus Compensation and Indemnification Policy" available in our Investor Relations website.

G- INFORMATION ON TRANSACTIONS BETWEEN PEGASUS AND COMPANY DIRECTORS AND COMPETING ACTIVITIES OF DIRECTORS, EACH, SUBJECT TO THE SHAREHOLDERS' PERMISSION GRANTED AT THE GENERAL ASSEMBLY MEETING

At the Ordinary General Assembly Meeting dated March 27, 2013 and the Extraordinary General Assembly Meeting dated April 22, 2013 our shareholders granted the members of our Board of Directors, in accordance with Articles 395 and 396 of the Turkish Commercial Code, to enter into transactions with Pegasus on their own behalf and on behalf of others and to engage in commercial business falling within the area of activity of Pegasus.

Furthermore, as per Clause 1.3.6 of the Corporate Governance Principles determined by the Capital Markets Board Communiqué No. II-17.1 on Corporate Governance our shareholders will be informed of material transactions between Pegasus or its subsidiaries on one hand and our controlling shareholders, Directors, members of the senior management with administrative responsibility or their spouses or relatives up to and including the second degree on the other hand, that may create conflict of interest, as well as any other instances where any of the foregoing persons engage in competing business on their own account or on the account of others.

Within the framework of the aforesaid authorization by our shareholders, in 2013, Pegasus procured consultancy services relating to information technology infrastructure and processes from Şükrü Emre Berkin, a member of our Board of Directors. In compensation of these services provided in 2013 a total fee of TL 49,741.75 was paid. The said consultancy services were terminated on December 31, 2013.

Pegasus further procured consultancy services relating to income management and maintenance from Wordison Trading Limited (PlaneConsult), a company that is controlled by Conor John McCarthy, a member of our Board of Directors, who is also the general manager of PlaneConsult. In 2013, the total fees earned by Wordison Trade Limited in compensation of these services was TL 146,696.

As of December 31, 2012, Ali İsmail Sabancı, the Chairman of our Board of Directors, serves as a non-executive member of the board of directors of Air Berlin plc, an international air carrier, where our parent company Esas Holding holds 12.02% stake. Ali Sabancı has been serving the role of non-executive director in Air Berlin plc since May 2009.

Besides the above items, there was no event falling within the scope of Articles 395 and 396 of the Turkish Commercial Code or any material transaction entered into between Pegasus or its subsidiaries and the persons listed in the relevant clause of the Corporate Governance Principles. The Company believes that the above transactions and engagements do not give rise to any conflict of interest for Pegasus or its subsidiaries.

2- FINANCIAL BENEFITS PROVIDED TO THE COMPANY DIRECTORS AND MEMBERS OF THE SENIOR MANAGEMENT

The gross honorary fees paid to the members of our Board of Directors for the Board meetings they attended in 2013 as well as gross payments for their duties as chairman or member at the relevant Board committees amounted to TL 515.847.

In 2013, the total salary and bonus fees paid to the general manager and senior vice-presidents serving in our senior management team, and the income tax and social security contributions with respect to the same persons amounted to TL 5.008.886.

3- RESEARCH AND DEVELOPMENT ACTIVITIES

In 2013 there was no research and development activity implemented by Pegasus.

4- COMPANY'S BUSINESS AND MATERIAL DEVELOPMENTS RELATING TO THE COMPANY ACTIVITIES

A- SECTORAL OUTLOOK, AND POSITION OF THE COMPANY IN THE SECTOR, INFORMATION ON PRODUCTION UNITS, SALES, PRICING AND CHANGES IN THE FOREGOING THROUGHOUT THE YEAR; INFORMATION ON PRODUCTIVITY AND ANY CHANGES IN CONTRAST TO PREVIOUS YEARS

International Aviation Market

Globalization and the rapid expansion of worldwide trade volume turned transportation into one of the key sectors of today's world economy. Parallel to this development the aviation sector, in particular, is experiencing growth at high levels and is playing a leading role in international and intercontinental integration.

In the past thirty years, the aviation sector gained a strong momentum amid increasingly dense social, political and economic relations and rose to prominence ahead of other methods of transportation. According to ICAO (International Civil Aviation Organization) data, scheduled passenger movement of 100 million persons in the 1950s reached 1 billion passengers in 1976 and 5.1 billion passengers in 2010. As this number represents two-way traffic, the real scheduled passenger number is estimated at 2.5 billion. According to ICAO data, total passengers carried by air transportation reached 3.0 billion in 2012. According to ICAO, the total passengers to be carried by air transportation is expected to rise to 6.4 billion by 2030.

Turkish Aviation Market

Since 2003 Turkish civil aviation market has been one of the fastest developing markets thanks to a number of regulatory amendments beginning with the removal of price tariffs on domestic flights in 2001.

High airfares due to lack of competition in domestic flights prior to 2001 had prevented growth in the Turkish civil aviation market. Domestic competition emerged following the removal of taxes on air transportation, other than VAT on ticket prices, in 2003. These changes made air transportation more affordable to Turkish citizens and triggered growth in the market.

The Turkish civil aviation industry significantly outperformed gross domestic product (GDP) in the last 10 years. Between 2003 and 2012 real Turkish GDP cumulative annual growth rate (CAGR) was 4.9%, while the upwards trend in terms of number of domestic passengers with CAGR of 24% in the same period was 4.9 times the growth in GDP. Number of domestic and international passengers increased by CAGR of 14.3% between 2003 and 2013. Turkish aviation market also resisted macroeconomic fluctuations during this period. For example, despite a 4.8% decline in GDP in 2009 domestic and international passenger numbers increased by 15.1 and 1.5%, respectively.

Development of Pegasus Market Share Since 2005

Following its acquisition by Esas Holding at the beginning of 2005, Pegasus changed its business model, introducing a low-cost network carrier model and focused on providing affordable and on-time air travel service with a young fleet.

As a result of the successful implementation of this low-cost strategy, Pegasus experienced rapid expansion of its operations both in domestic routes as well as internationally. In comparison to the cumulative annual growth rate of the Turkish market between 2007 and 2013 at 13%, the cumulative annual growth rate of the scheduled passengers flying with Pegasus reached 31% during the same period. In addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, Pegasus was the fastest growing airline among the 25 largest European airlines in terms of seat capacity in 2011 and 2012 according to the Official Airline Guide (OAG).

Total number of passengers carried by Pegasus in 2013 was 16.82 million. The total number of passengers carried in domestic and international flights in, into and from Turkey in the same period was 149.53 million according to the data provided by the General Directorate of State Airports Authority (DHMI).

Flying to 31 domestic destinations as of December 31, 2013, Pegasus increased total number of domestic passengers carried by 23.3% compared to 2012 and reached 10.23 million passengers, also increasing its load factor in domestic flights by 1.7 percentage points compared to 2012 and reached 81.6% load factor ratio. On the international scale, as of December 31, 2013, Pegasus flew to 45 destinations in 30 countries and increased the total number of passengers carried by 24.8% compared to 2012 to 6.59 million passengers in total, also increasing its load factor in international flights by 2.5 percentage points in the same period, reaching 78.3% load factor ratio.

The table below indicates Pegasus market share trend in terms of domestic and international scheduled passenger numbers between 2005 and 2013:

Pegasus Market Share	2005	2006	2007	2008	2009	2010	2011	2012	2013
Domestic	1%	9%	15%	14%	17%	20%	23%	26%	27%
International	5%	4%	4%	4%	5%	7%	8%	8%	9%
<i>Source: Pegasus, DHMI</i>									

Explanations on the Company's Production Units, Information on Sales, Sales Conditions and Productivity

Comparative data on our Company's revenue generating activities, sales and productivity in 2013 is provided in Section (5/C) of the Report.

B- INFORMATION ON INVESTMENTS MADE BY PEGASUS IN THE RELEVANT ACCOUNTING PERIOD

Since 2005, Pegasus placed firm orders with Boeing for a total of 40 new B737-800NG aircraft and, as of December 31, 2013, 37 aircraft have been taken delivery. Of the three remaining aircraft under the Boeing orders, Pegasus expects to receive one aircraft in 2014 and the remaining two aircraft in 2015.

In addition to the aircraft subject to the Boeing orders, as of December 31, 2013 Pegasus consolidated fleet includes a total of 11 aircraft obtained through operational lease agreements.

Pegasus consolidated fleet also includes one Boeing B737-400 operated by Air Manas.

Information relating to the aircraft operated by Pegasus and its consolidated subsidiaries is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		December 31, 2012⁽¹⁾	December 31, 2013	Growth (%)	December 31, 2012⁽¹⁾	December 31, 2013	Growth (%)	December 31, 2013
B737-400	3,148	2	1	-50.0	336	168	-50.0	15.75
B737-800	4,360	38	46	21.1	7,182	8,694	21.1	3.99
Airbus A320	3,900	-	2	200.0	-	348	200.0	0.08
TOPLAM		40	49	22.5	8,238	9,210	11.8	4.07

⁽¹⁾ Aircraft data as of December 31, 2012 excludes the three B737-800 aircraft comprising the IzAir fleet and allocated for joint split charter operations between Antalya and various cities in Germany under the Air Berlin Turkey brand name.

In July 2012, Pegasus placed an order with Airbus for 57 firm order A320neo and 18 firm order A321 neo aircraft, totaling 75, and an additional 25 optional aircraft, thereby constituting a purchase order for 100 new aircraft.

Based on estimated list prices at the date of delivery (excluding price and payment term concessions but take into consideration the Company's expectation of applicable escalation adjustments and aircraft configurations), the Company's expected capital expenditures

relating to the remaining three firm order Boeing 737-800NG aircraft and the 75 firm order aircraft and 25 option aircraft (assuming the option is exercised in full) under the Airbus order, expected to be delivered between 2014 and 2022, amount to approximately USD 12,3 billion as of December 31, 2013, consisting of capital expenditures of approximately USD 0.3 billion related to the outstanding orders of Boeing 737-800NG aircraft and approximately USD 12.0 billion related to the orders for Airbus A320neo and A321neo aircraft.

In 2013 Pegasus decided on purchasing CFMI's Leap type engine from the two available options for the Airbus A320neo/A321neo aircraft purchase agreement. Based on this decision, the delivery of the new Airbus aircraft will commence in 2016. Pegasus further agreed with CFMI on the provision of maintenance services for a term for up to 20 years starting from the delivery of each engine. Based on the assumption that the entire Airbus order is purchased and the relevant aircraft and the engines are operated for 20 years, it is expected that the payments to be made in compensation of the maintenance services procured until 2042, may reach USD 4.3 billion.

The delivery schedule for our firm order B737-800NG and A320neo/A321neo orders is as follows:

Aircraft Type	2014	2015	2016	2017	2018	2019	2020	2021	2022
B737-800NG	1	2	-	-	-	-	-	-	-
A320neo	-	-	7	5	10	14	13	8	-
A321neo	-	-	-	-	-	-	-	5	13
*	If the option for the 25 aircraft under the Airbus order is fully or partially exercised by Pegasus, the delivery of the option aircraft will commence after 2022, unless the parties agree on earlier deliveries.								

As of the date of this Report, and subject to the market conditions and changes that may take place in connection therewith, Pegasus expects to increase the number of aircraft in its consolidated fleet to 54 in the 2014 summer season and 55 as at the end of 2014, such numbers including the one B737-800NG aircraft expected to be taken delivery under the Boeing order in 2014.

As of December 31, 2013 Pegasus has obtained an investment incentive certificate dated March 20, 2012 and numbered F100403 covering 11 Boeing 737-800NG aircraft acquired through financial lease and another investment incentive certificate dated December 25, 2013 and numbered A113113 covering one Boeing 737-800NG aircraft acquired through financial lease. Within this framework the Company has obtained a Tax, Fee, and Duty Exception Certificate numbered 2013/Y-46 valid for 24 months from the date of issuance which is January 16, 2013. Additional information with respect to investment participation ratios relating to the said investment incentives is provided in Note 2 to the Consolidated Financial Statements for the Accounting Period January 1 - December 31, 2013, "Government Grants". The said financial statements are available in our Investor Relations website.

C- EVALUATION OF INTERNAL CONTROL SYSTEMS AND INTERNAL CONTROL ACTIVITIES IN PEGASUS

Pegasus internal audit department was first established in June 2006 and was later reorganized as a Vice-Presidency in September 2010. The Company's Internal Audit Department continues its activities under the auspices of the Audit Committee. Findings of the Internal Audit Department are reported to the Audit Committee and evaluations and

recommendations of the Committee are regularly reported to our Board of Directors. In this respect, the Audit Committee ensures that the necessary measures are implemented to ensure that the Internal Audit Department sufficiently and transparently performs its duties.

The Audit Committee of the Board of Directors was reorganized on August 17, 2013 to align its structure with the corporate governance principles determined by the Capital Markets Board. As of the date of this Report, the Company's Internal Audit Department performs its activities in accordance with the Internal Audit Regulation and the work plan approved by the Audit Committee, within the framework of its Charter.

As of December 31, 2013, the Internal Audit Department of Pegasus comprises our Vice-President responsible for Internal Audit and two Internal Audit Specialists.

D- INFORMATION ON DIRECT AND INDIRECT INVESTMENTS BY PEGASUS IN OTHER VENTURES

The table below lists information relating to the direct subsidiaries and joint ventures of Pegasus as of December 31, 2013. As of December 31, 2013 Pegasus did not have any indirect subsidiaries or joint ventures.

Commercial Title	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share Percentage	Affiliation with Pegasus
IHY İzmir Havayolları A.Ş. (" İzAir ")	Turkey / Scheduled and unscheduled air transportation	TL 59,500,000	TL 41,125,000	69.12%	Subsidiary ⁽¹⁾
İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.Ş. (" İzmirliiler Otelcilik ")	Turkey / Hotel and gas station operations	TL 4,205,000	TL 2,499,995	59.45%	Subsidiary
Pegasus Uçuş Eğitim Merkezi A.Ş. (" PUEM ")	T.C. / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture
Air Manas Air Company LLC (" Air Manas ")	Kyrgyzstan / Scheduled and unscheduled air transportation	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary
⁽¹⁾	Following the capital increase approved by IzAir shareholders at the Ordinary General Assembly meeting of IzAir dated March 27, 2013, Pegasus ownership in IzAir increased from 51% to 69.12%, making IzAir a consolidated subsidiary of Pegasus as of April 1, 2013 (January 1 - March 31, 2013: joint venture)				

E- SHARE BUYBACK TRANSACTIONS

There are no share buyback transactions for the year 2013.

Pursuant to the "Pegasus Share Buyback Policy" adopted by the resolution of Board of Directors dated November 20, 2013 and numbered 403, available in our Investor Relations website, Pegasus implements share buyback or accepting its own shares as lien in accordance with the mandatory provisions of the Turkish Commercial Code and the rules determined by the Capital Markets Board under the authority granted by the Capital Markets Law and all share buyback transactions are publicly announced within the framework of the regulatory framework.

F- INFORMATION ON SPECIAL AUDIT AND PUBLIC AUDITS DURING THE REPORTING PERIOD

There were no requests for special audit by Pegasus shareholders in 2013.

In 2013, our Company was subject to a general tax audit by the Ministry of Finance with respect to transactions in 2010. Based on the findings in the tax investigation reports prepared as a result of the said audit various tax assessments and tax penalties were imposed against Pegasus. Including the assessment made with respect to income deduction, the additional tax accruals and tax penalties add up to, excluding interest, TL 6,633,171.56. Out of this total Pegasus reached a settlement with the relevant tax authority for TL 3,008,894 and has paid the agreed amounts while for the remaining TL 3,635,277.56 Pegasus objected before Tax Courts. Pegasus also reserved TL 7,161,397 as contingency for tax periods outside of the scope of the investigation for findings on which settlement was reached. Detailed information on the matter is provided in Note 15 to the Consolidated Financial Statements for the Accounting Period January 1 - December 31, 2013. The said financial statements are available in our Investor Relations website.

In 2013, Pegasus was also subject to several operational audits by the General Directorate of Civil Aviation, a workplace health and safety audit by the Ministry of Employment at the Company headquarters and an audit, again by the Ministry of Employment regarding labor conditions in the aviation sector at the Company's operational units at the Istanbul Atatürk, Ankara Esenboğa, İzmir Adnan Menderes and Antalya Airports. As a result of the said audits Pegasus was fined administrative fines totaling TL 2,600. Furthermore, Pegasus reserved TL 1,447,286 as contingency for non-audited periods in relation to findings at the Company's airport locations.

G- LAWSUITS FILED AGAINST PEGASUS WITH A POTENTIAL TO AFFECT THE COMPANY'S FINANCIAL STATUS AND OPERATIONS AND POSSIBLE OUTCOME OF DISPUTES

As of December 31, 2013, Pegasus or its consolidated subsidiaries are not defendants in any lawsuit the outcome of which, alone, is expected to affect the Company's financial status and its operations, especially that would affect the Company's scheduled and unscheduled flight operations. The total risk arising from these lawsuits and the contingency allocation for the said risk as of December 31, 2013, as well as information on lawsuits that have not been made subject to any contingency calculations but, if finalized against Pegasus, may affect the Company's financial status and its shares in subsidiaries negatively are provided in Note 15 to the Consolidated Financial Statements for the Accounting Period January 1 - December 31, 2013. The said financial statements are available in our Investor Relations website.

H- ADMINISTRATIVE OR JUDICIAL SANCTIONS IMPOSED AGAINST THE COMPANY OR THE COMPANY DIRECTORS FOR ACTIONS IN VIOLATION OF THE LAW

Save as disclosed in Section (4/F) of the Report, in 2013 there were no administrative or judicial sanctions imposed against Pegasus or our Directors for any action in violation of the law.

I- EVALUATION OF FULFILMENT OF TARGETS SET OUT BY THE COMPANY, FULFILMENT OF SHAREHOLDER DECISIONS ADOPTED AT THE GENERAL ASSEMBLY MEETING, EXPLANATIONS ON ANY FAILURE TO MEET THE FOREGOING

There are no shareholder decisions adopted at the General Assembly Meetings in 2013 that have not been fulfilled. The operational results of our Company for the year 2013 are in line with the strategic targets disclosed by Pegasus in the prospectus disclosed on April 13, 2013. In this respect, Pegasus increased the destinations flown both domestically and internationally in the targeted regions and the total number of passengers carried in 2013 shows a 24% increase from 2012 year-end result, surpassing the 15% target set out in the said prospectus. Pegasus also increased the number of aircraft in fleet, utilization of aircraft and revenue generated from ancillary services, all in line with the Company's announced targets. On December 17, 2013 Pegasus further introduced flight packages allowing the purchase of ancillary services in a bundled package which is expected to contribute to both ancillary revenue and sales to corporate customers.

J- DATE OF EXTRAORDINARY GENERAL ASSEMBLY MEETINGS HELD IN THE REPORTING PERIOD AND INFORMATION ON DECISIONS ADOPTED AT THE RELEVANT MEETINGS

Pegasus shareholders convened for two Extraordinary General Assembly Meetings in 2013. Information on such meetings and the decisions adopted at the said meetings is provided below.

Date of Extraordinary General Assembly Meeting	Resolutions
March 11, 2013	<ul style="list-style-type: none"> • Amendment of the Articles of Association ⁽¹⁾ • Adoption of the General Assembly Bylaws setting out the Working Principles and Procedures for the General Assembly ⁽²⁾
April 22, 2013	<ul style="list-style-type: none"> • Approval of Director appointments for vacant positions in the Board of Directors and determination of payments to be made to the newly appointed Directors ⁽³⁾ • Authorization of the newly appointed Directors to engage in transactions within the scope of Articles 395 and 396 of the Turkish Commercial Code No. 6102 ⁽⁴⁾
⁽¹⁾	Please refer to Section (1/E) of the Report for more information.
⁽²⁾	Text of the General Assembly Bylaws is available in our Investor Relations website.
⁽³⁾	Please refer to Sections (1/F) and (2) of the Report for more information.
⁽⁴⁾	Please refer to Section (1/G) of the Report for more information.

K- INFORMATION ON DONATIONS BY THE COMPANY AND CORPORATE SOCIAL RESPONSIBILITY PROJECTS WHERE THE COMPANY PARTICIPATED IN THE REPORTING PERIOD

In 2013, Pegasus made donations and charitable contributions in the amount of TL 55,482.

"Pegasus Donations and Charitable Contributions Policy" was adopted by the decision of our Board of Directors dated November 20, 2013 and numbered 403 to be submitted for the approval of our shareholders at the first annual General Assembly Meeting. The Board of Directors also approved the "Pegasus Corporate Social Responsibility Policy" at the same meeting.

L- TRANSACTIONS ENTERED INTO WITH OR UNDERTAKEN BY OR REFRAINED FROM FOR THE BENEFIT OF THE CONTROLLING PARENT COMPANY OR ANY OTHER ENTITY CONTROLLED BY THE CONTROLLING PARENT; WHETHER A REASONABLE CONSIDERATION WAS OBTAINED IN EACH INSTANCE AND WHETHER SUCH TRANSACTIONS HAVE RESULTED IN ANY LOSS FOR THE COMPANY

Pursuant to Article 199 of the Turkish Commercial Code, Pegasus Board of Directors is required to prepare a report with respect to our Company's transactions with its controlling parent Esas Holding and other entities controlled by Esas Holding and disclose the outcome of this report in the Annual Activity Report.

The relevant report prepared by the Company's Board of Directors on March 4, 2014, notes that *"in all transactions between our Company and Esas Holding or its subsidiaries between January 1, 2013 and December 31, 2013, according to the circumstances and conditions known to us at the time the transaction was made or a precaution was taken or not taken, an appropriate consideration was received, there are no precautions the Company has refrained from and there are no transactions or precautions that would require a settlement."*

Information on related party transactions entered into by our Company and our subsidiaries is provided in Note 27 to the Consolidated Financial Statements for the Accounting Period January 1 - December 31, 2013. The said financial statements are available in our Investor Relations website.

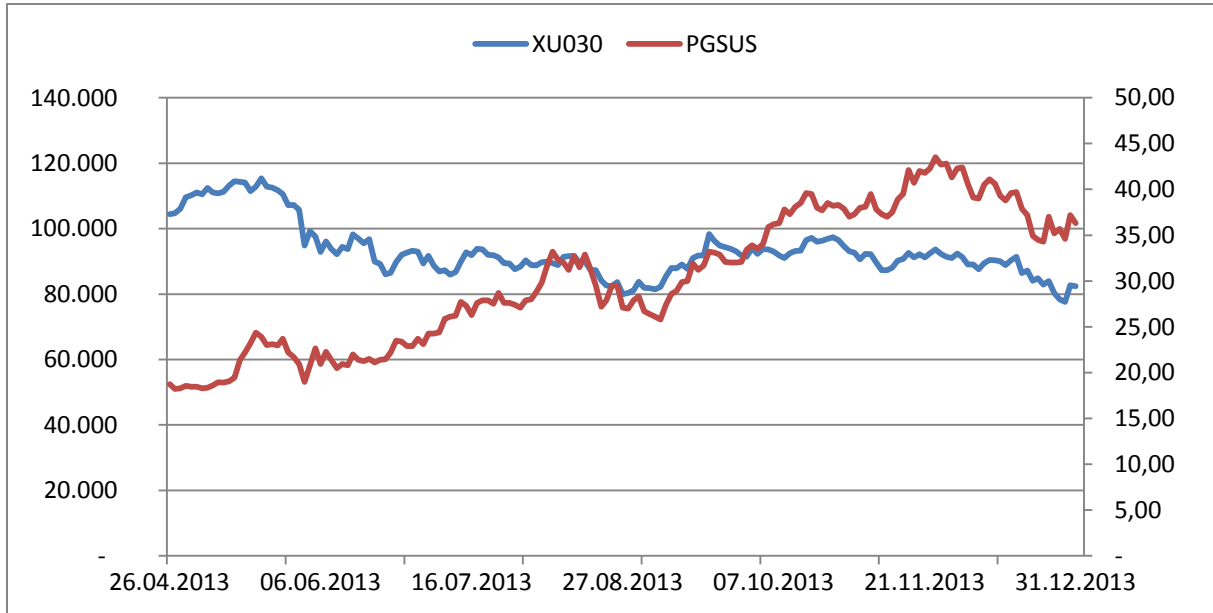
5-FINANCIAL STATUS

A- PEGASUS SHARE

Pegasus shares started trading on Borsa Istanbul on April 26, 2013 at the initial public offer price of TL 18.40. As of December 31, 2013, the indices including Pegasus shares and information on Pegasus shares are as follows:

Issuer	: PEGASUS HAVA TAŞIMACILIĞI A.Ş.
Trade Platforms	: BORSA ISTANBUL (BIST)
Market Segment	: NATIONAL MARKET
Indices	: BIST PUBLIC OFFERING / BIST SERVICES / BIST ISTANBUL / BIST ALL / BIST ALL-100 / BIST-30 / BIST TRANSPORTATION / BIST NATIONAL / BISTKYUR CORPORATE GOVERNANCE
BIST Ticker	: PGSUS
Bloomberg Ticker	: PGSUS.TI
Reuters Ticker	: PGSUS.ISHi

Provided below is a comparison between the performance of Pegasus shares against the performance of BIST-30 index between April 26, 2013 and December 31, 2013:



Pegasus shares closed at TL 18.75 on the first trade day, *i.e.*, April 26, 2013 and closed at TL 36.30 on December 31, 2013. Between April 26, 2013 and December 31, 2013 the lowest value Pegasus shares experienced was TL 18.20 (April 29, 2013) and the highest value Pegasus shares reached was TL 43.50 (November 25, 2013) and investors in Pegasus shares earned monthly, quarterly and as of December 31, 2013, 22%, 46% and 94%, respectively.

B- ANALYSIS OF FINANCIAL STATUS AND OPERATIONAL RESULTS; SUCCESS IN MEETING PLANNED OPERATIONAL TARGETS AND THE COMPANY'S STRATEGIC POSITIONING WITH RESPECT TO STRATEGIC TARGETS

As of December 31, 2013, Pegasus is the second largest Turkish airline in terms of passengers carried. The Company's performance within the strategic targets disclosed in the initial public offering prospectus on April 13, 2013 (pages 64 through 66) is set out in detail in Sections (4/I) and (5/C) of this Report.

C- SALES AND PROFITABILITY IN THE REPORTING PERIOD, REVENUE GENERATION, DEBT/EQUITY RATIO AND OTHER ASPECTS THAT PROVIDE INFORMATION ON THE COMPANY'S OPERATIONAL RESULTS COMPARED AGAINST PREVIOUS YEARS

Operational and financial results of Pegasus for the period between January 1 - December 31, 2013 compared against the same period in 2012 and the year-over-year changes for the relevant line items are set out in the following charts:

Pegasus Operational Results for the Period January 1, 2013 - December 31, 2013			
Domestic	2013	2012	Change %
<u>Number of passengers (million)</u>	10.23	8.30	23.3
<u>Number of seats (million)</u>	12.54	10.39	20.7
<u>Load factor (%)</u>	81.6	79.8	1.7
<u>Cycle</u>	66,756	55,726	19.8
<u>Passengers per cycle</u>	153	149	2.9
<u>ASK⁽¹⁾ (million)</u>	7,169	5,983	19.8

<u>International</u> ⁽²⁾			
<u>Number of passengers (million)</u>	6.59	5.28	24.8
<u>Number of seats (million)</u>	8.42	6.96	20.9
<u>Load factor (%)</u>	78.3	75.8	2.5
<u>Cycle</u>	46,029	38,074	20.9
<u>Passengers per cycle</u>	143	139	3.2
<u>ASK (million)</u>	12,993	10,445	24.4
<u>Transfer passengers ratio (%)</u> ⁽³⁾	27	24	12.5
<u>Total</u>			
<u>Number of passengers (million)</u>	16.82	13.58	23.9
<u>Number of seats (million)</u>	20.96	17.36	20.8
<u>Load factor (%)</u>	80.2	78.2	2.0
<u>Cycle</u>	112,785	93,800	20.2
<u>Passengers per cycle</u>	149	145	3.0
<u>ASK (million)</u>	20,162	16,429	22.7
<u>Block hours</u> ⁽⁴⁾	192,925	167,654	15.1
<u>Average daily aircraft utilization (hours)</u>	12.6	11.7	8.1
<u>Destinations flown</u> ⁽⁵⁾	76	63	20.6
➤ <u>Domestic</u>	31	24	29.2
➤ <u>International</u>	45	39	15.4
<u>Number of aircraft in fleet</u> ⁽⁶⁾	49	40	22.5
⁽¹⁾ Refers to available seat kilometers, and is equal to the number of seats available for passengers during a specified period multiplied by the number of kilometers that those seats are flown.			
⁽²⁾ Includes charter operational results.			
⁽³⁾ Represents the percentage of a combination of two or more successive Pegasus operated flights that a passenger takes under one ticket and includes at least one international scheduled flight, among all international flights.			
⁽⁴⁾ Refers to the hours from an aircraft's take-off to landing (including taxi time)			
⁽⁵⁾ Includes destinations announced and for which ticket sales have commenced			
⁽⁶⁾ As of December 31, 2013, includes the aircraft in IzAir and Air Manas fleets whereas for December 31, 2012, excludes the three B737-800 aircraft comprising the IzAir fleet and allocated for joint split charter operations between Antalya and various cities in Germany under the Air Berlin Turkey brand name			

Pegasus Financial Results for the Period January 1, 2013 - December 31, 2013			
<u>Summary Balance Sheet</u>	2013	2012	Change %
<u>Current assets</u>	1,191,494,023	339,329,147	251.1
<u>Fixed assets</u>	2,306,710,614	1,869,681,888	23.4
<u>Total assets</u>	3,498,204,637	2,209,011,035	58.4
<u>Short-term liabilities</u>	677,597,387	538,075,762	25.9
<u>Long-term liabilities</u>	1,674,380,165	1,343,583,125	24.6
<u>Shareholders' equity</u>	1,146,227,085	327,352,148	250.2
<u>Summary Profit and Loss Statement</u>			
<u>Sales income</u>	2,404,060,243	1,919,446,126	25.2
<u>Gross profit</u>	450,515,424	318,658,217	41.4
<u>Profit/(loss) from operations</u>	258,091,147	201,800,864	27.9

<u>Operating profit before financial income/(expense)</u>	253,467,319	192,836,398	31.4
<u>Profit/(loss) before tax</u>	154,673,135	155,319,599	- 0.4
<u>Profit/(loss) for the period</u>	88,312,006	126,303,516	- 30.1
<u>Earnings/(loss) per share</u>	0.98	1.68	- 42.1
<u>Changes in Financial Position</u>			
<u>Cash and cash equivalents</u>	877,401,671	210,150,238	317.5
<u>Financial liabilities</u>	1,626,359,342	1,426,874,045	14.0
<u>Net debt position ⁽¹⁾</u>	748,957,671	1,216,723,807	- 38.4
⁽¹⁾ Net debt position = Financial liabilities - Cash and cash equivalents			

D- FINANCING SOURCES AND CAPITAL MARKETS INSTRUMENTS ISSUED BY PEGASUS

Pegasus finances approximately 85% of the purchase price for the aircraft acquired by way of financial lease through loans obtained from various banks. As of December 31, 2013, the outstanding balance of the total loans borrowed for the financing of 27 aircraft acquired by way of financial lease is TL 1,622.4 million.

Furthermore, as of December 31, 2013, Pegasus and its subsidiaries had credit lines with various Turkish and foreign banks amounting to TL 1,285.7 million and in total these entities have drawn TL 3.9 million on cash loans and TL 230.1 million on non-cash loans under these facilities. These credit lines are open credit facilities that can be generally used for terms ranging from 12 to 24 months. The Company believes it will have access to additional credit lines should it require supplementary short-term financing.

E- MANAGEMENT BODY EVALUATION AS TO THE COMPANY'S PRESERVATION OF ITS PAID CAPITAL

It is determined that as of December 31, 2013 the issued capital of 102.272.000 TL of the Company is maintained and Pegasus is not insolvent.

F- MEASURES TO IMPROVE THE FINANCIAL STRUCTURE OF THE COMPANY, IF ANY

The Company has a strong financial structure necessary for its operations and as of December 31, 2013 there are no planned measures to improve the financial structure of the Company.

G- INFORMATION ON DIVIDEND DISTRIBUTION POLICY AND EXPLANATION ON THE USE OF PROFITS IF NOT USED TO PAY DIVIDENDS

"Pegasus Dividend Policy" was adopted by the decision of our Board of Directors dated November 20, 2013 and numbered 403 to be submitted for the approval of our shareholders at the first annual General Assembly Meeting.

"Pegasus Dividend Policy" that will be submitted to the shareholders' approval at the General Assembly Meeting includes the following principles:

- The main principles relating to the distribution of profit are laid out in Article 21 of our Articles of Association.

- In this framework, in the event there remains distributable profit following the deduction of previous years' losses from the net annual profit relating to a fiscal year, our shareholders have the authority to resolve on the distribution of profit, by taking into consideration our Company's goals and its financing requirements, in cash, in shares or a by using a combination of the two and the completion of distribution within the timeframe foreseen in the applicable law.
- The proposal for distribution of profit by our Board of Directors will be prepared in consideration of the above needs and will be submitted to the attention of our shareholders for discussion at the General Assembly. The Board of Directors must inform our shareholders at the General Assembly on how the profit will be used in the event there is no dividend distribution.
- Pegasus complies with the provisions of the Turkish Commercial Code No. 6102, the Capital Markets Law No. 6362 and the Corporate Governance Principles determined by the Capital Markets Board relating to the right to receive dividends and distribution of profit.

Pursuant to our statutory accounts the total accumulated loss of Pegasus as of December 31, 2013 is TL 289,228,154.51 and the profit for the period January 1 - December 31, 2013 is TL 90,618,086.82. As the profit for the period will be used to pay-off part of the accumulated loss it corresponds to, in line with the provisions of the Turkish Commercial Code No. 6102 and the provisions of our Articles of Association, our Board of Directors has resolved to propose to our shareholders that the profit for the period is used in its entirety to reduce accumulated loss of the Company from the previous years.

Our Articles of Association do not include any provisions granting privileges in respect of the distribution or payment of the Company profit.

6- RISKS AND THE EVALUATION OF THE MANAGEMENT BODY

A- INFORMATION ON THE RISK MANAGEMENT POLICY ADOPTED BY PEGASUS WITH RESPECT TO FORSEEABLE RISKS

Our Board of Directors is responsible for protecting the long-term benefits of our Company through a rational and prudent risk management approach by performing optimum balance between risk, growth and returns.

The Committee on the Early Detection of Risk has been formed as a Board of Directors Committee in order to assist the Board of Directors with respect to the determination in advance, management and mitigation of the risks that may endanger the existence, development and the future of Pegasus.

During the performance of its risk detection and management duties, the Committee on the Early Detection of Risk works in coordination with other Board Committees and the Company management. In this respect, the Committee on the Early Detection of Risk works in cooperation with the Audit Committee with respect to risks inherent to financial reporting and internal control mechanisms, with the Corporate Governance Committee with respect to human resources related risks involving the Board of Directors and the senior management, and with the Safety Committee for the surveillance of risks regarding flight safety.

The risk management policies implemented by Pegasus in 2013 within the framework of the limits and guidance set out by the Board of Directors with respect to market risk (currency risk, interest rate risk and cost of fuel risk), credit risk and liquidity risk are summarized below.

a) Capital Risk

Our Company manages its capital with the goal of ensuring that it will be able to continue as a going concern while maximizing returns through the optimization of the debt and equity balance. Our Board of Directors and senior management reviews the cost of capital together with the risk associated with each class in the capital structure. Based on evaluations of our senior management and Board of Directors, the Company balances its overall capital structure from time to time through capital increases as well as the issue of new debt or the redemption of existing debt. In 2013, Pegasus financed net working capital shortcoming through short-term loans.

b) Currency Risk

Our cost of sales and expenses are mostly in non-Euro currencies and particularly in USD and TL while a significant portion of our revenue is in Euro and TL. Therefore results of our operations are exposed to fluctuations in non-Euro currencies, and especially in USD and TL.

We seek to manage uncertainty arising from exchange rate fluctuations and, within the framework of our currency hedging program implemented since August 2011, under which we have aimed to hedge our euro, Turkish Lira, British pound sterling and Swiss franc denominated surplus totaling up to 100% of our U.S. dollar needs through each year, as of December 31, 2013, 96% of our USD shortage for the year 2013 had been hedged.

c) Fuel Price Risk

Fuel costs constitute our largest operating expense, representing 44.4% our total cost of sales for 2013. Fuel prices may be subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on our cost of sales and, in turn, on our results of operations.

Pegasus manages its risk to fuel prices through the use of derivative financial instruments. The Company's policy since 2011 includes a primary non-discretionary program for the first 30% of anticipated fuel consumption and a supplemental discretionary program for an additional 30% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. As of December 31, 2013, 48.4% of the 2013 fuel consumption and 29.5% of the expected fuel consumption for 2014 had been subject to hedging transactions.

d) Interest Rate Risk

Pegasus is exposed to interest rate risk as the Company borrows funds at both fixed and floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either

positioning the balance sheet or protecting interest expense through different interest rate cycles. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 0,5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

e) Credit Risk

Pegasus management defines credit risk as risk relating to the ability to collect receivables. Receivables that are due past more than one year are classified as impaired assets.

f) Liquidity Risk

Pegasus manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

B- INFORMATION ON THE WORK AND REPORTING OF THE COMMITTEE ON THE EARLY DETECTION OF RISKS

Committee on the Early Detection of Risks was established by the resolution of our Board of Directors dated August 17, 2013 and numbered 392, and is composed of three members, including the chairman. The Committee Charter has also been approved by the same Board resolution and has been publicly announced through the Public Disclosure Platform and our Investor Relations website. In 2013, our Independent Director Mehmet Sađırođlu assumed the role of Committee chairman and Ali İsmail Sabancı and İnan Tanrıöver served as Committee members.

Pursuant to its Charter the Committee convenes in the presence of all three members and adopts decisions by majority. The Committee convenes for meetings at least four times a year. The timing of Committee meetings follow, to the extent possible, the schedule of the meetings of the Board of Directors by having a meeting ahead of each scheduled Board meeting. In case of urgency the Committee may convene for meetings at the request of the chairman of the Committee or the chairman of the Board of Directors. Since its establishment on August 17, the Committee convened for meetings twice in 2013, on September 23, 2013 and December 18, 2013.

As part of its works in 2013, the Committee established the main principles and review processes with respect to the main risks determined on strategic, operational, financial, legal and other risks that may endanger the existence, development and the future of Pegasus, and the implementation of necessary precautionary measures and the management of detected risks.

C- FORWARD LOOKING RISKS WITH RESPECT TO SALES, PROFITABILITY, REVENUE GENERATION, EFFICIENCY, DEBT/EQUITY RATIO AND SIMILAR EVENTS

These have been evaluated as part of the above explanations.

7- OTHER MATTERS

A- MATERIAL EVENTS TAKING PLACE AFTER PERIOD END THAT MAY AFFECT THE RIGHTS AND BENEFITS OF THE SHAREHOLDERS, CREDITORS AND OTHER RELATED PERSONS AND ENTITIES

On February 13, 2014, one Airbus A320-200 aircraft leased as part of the aircraft lease agreement publicly announced by Pegasus on July 5, 2013 was taken delivery by the Company.

Based on the decision of our Board of Directors publicly announced on February 10, 2014, our Chairman and CEO were jointly authorized for executing the operational lease of one Boeing 737-800 aircraft from BBAM Aircraft Management LP for a period of 68 months.

Within the scope of the firm purchase orders of Pegasus with Boeing for a total of 40 B737-800NG aircraft, one B737-800NG aircraft that was expected to be received in 2014 was taken delivery on March 3, 2014.

After December 31, 2013, Pegasus obtained flight rights from Istanbul Sabiha Gökçen Airport to Madrid, Frankfurt, Kuwait and Simferopol and is planning to commence flights on these routes in the coming months, starting from March.

Other than the developments mentioned above and in the relevant parts of this Report there has not been any material developments affecting the rights of the persons and entities mentioned above.

B- OTHER MATTERS AND ADDITIONAL INFORMATION THAT ARE NOT INCLUDED IN THE FINANCIAL STATEMENTS, THAT MAY STILL BE HELPFUL FOR INTERESTED PARTIES

None.

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

1. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

During the year that ended on December 31, 2013, the Corporate Governance Principles determined by the Capital Markets Board have been implemented by Pegasus as described below.

Immediately following the public offering of its shares in April 2013, our Company started working on ensuring compliance with the mandatory and non-mandatory Corporate Governance Principles as fast and to the widest extent as possible and such efforts have been overseen by both our Board of Directors and our Corporate Governance Committee. Consequently, the Company achieved full compliance with the mandatory Corporate Governance Principles and has also substantially complied with the remaining, non-mandatory Corporate Governance Principles within the same year as the initial public offering of its shares. With respect to the non-mandatory Corporate Governance Principles listed below with which, as of December 31, 2013, our Company had not yet attained full compliance, studies and evaluations are underway to achieve compliance at the highest level possible.

As a result of the independent rating study undertaken by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. in 2013, with respect to our compliance with the Corporate Governance Principles (all of the mandatory and non-mandatory provisions), our Company's compliance rating was determined as 8.13 out of 10.00. The full report of the said rating agency accessible in our Investor Relations website indicates that our Company substantially complies with the Corporate Governance Principles, that recommendations by the agency for improved compliance (among the items listed below) do not raise any major risks and that our Company has therefore attained the right to be included in the BIST Corporate Governance Index.

Following the entry into force of the Capital Markets Board Communiqué No. II-17.1 regarding Corporate Governance on January 3, 2014, the Corporate Governance Principles compliance rating of our Company was re-evaluated by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. and re-determined as 8.07 and was publicly announced through the Public Disclosure Platform.

In light of the above, the relevant Corporate Governance Principles with which, as of December 31, 2013, our Company had not yet attained full compliance are listed below:

- Pegasus Dividend Policy and Pegasus Donation and Charitable Contributions Policy have not yet been submitted to the shareholders' approval at the General Assembly.
- Pegasus Information Policy has not yet been submitted to the shareholders' information at the General Assembly.
- Articles of Association do not include a specific provision relating to the shareholders' right to request special audit of specific matters of concern.

- Articles of Association do not include a specific provision relating to the ability of the public, including our stakeholders and the media to attend the General Assembly as observers.
- Minority rights have not been granted to those holding less than 5% of the Company capital, which is the statutory threshold, and the scope of statutory minority rights have not been broadened through special provisions in our Articles of Association.
- There is no female Director at the Board of Directors.
- The Company does not have an active practice regarding the rewarding or dismissal of Directors as part of the performance evaluation studies conducted by the Board of Directors.

We are undertaking studies to attain maximum compliance with the matters listed above in 2014, and in particular, we are aiming to ensure full compliance with the majority of the listed items after the General Assembly meeting to be held in 2014. In this respect, we are also taking into consideration the amendments of the Capital Markets Board to the Corporate Governance Principles brought by the Corporate Governance Communiqué No: II-17.1 which entered into force on January 3, 2014.

SECTION I- SHAREHOLDERS

2. SHAREHOLDER RELATIONS UNIT

At Pegasus, relations with shareholders are undertaken by Vice-Presidency, Investor Relations, acting under the Senior Vice-Presidency, Finance. Our senior management personnel responsible for shareholder relations and their contact information are provided below:

Serhan ULGA
Senior Vice-President, Finance and Chief Financial Officer

Verda Beste TAŞAR
Vice President, Investor Relations

Telephone : +90 216 560 7580
Fax : +90 216 560 8087
E-mail : pegasusyatirimciiliskileri@flypgs.com
Website : <http://www.pegasusinvestorrelations.com/>

Vice-Presidency, Investor Relations regularly reports its studies to our Board of Directors and our Corporate Governance Committee, and in 2013, has reported regular updates to the Board of Directors on June 26, April 26 and December 19 and to the Corporate Governance Committee on December 18.

In 2013, the Company responded to inquiries submitted by our shareholders without discrimination, through telephone, e-mails or meetings. Starting from April 26, 2013, the first trade day of Pegasus shares on Borsa Istanbul over 300 inquiries have been answered by telephone and e-mail and 169 meetings were held with individual and institutional investors. The Company also attended a total of eight investor meetings held in New York, Boston,

Dublin, London, Frankfurt and Paris to extend its reach to institutional investors based abroad.

3. SHAREHOLDERS' EXERCISE OF THEIR INFORMATION RIGHTS

Detailed information relating to the principles, methods and frequency of communication of information to our shareholders in line with legal requirements is determined and publicly announced in the Pegasus Information Policy adopted by the decision of our Board of Directors dated November 20, 2013 and numbered 403. The text of the Pegasus Information Policy is accessible through our Investor Relations website.

The inquiries mentioned in the above *Section I - Shareholders; A. Shareholder Relations Unit* have been answered within the framework of the law and the Pegasus Information Policy and in 2013 there has not been any other request for information or a request for special audit of a specific matter.

Although our shareholders are entitle to request the appointment of a special auditor to review specific matters, our Articles of Association do not include any specific provisions with respect to this matter.

4. GENERAL ASSEMBLY MEETINGS

In 2013, our shareholders have convened three times, once for the Annual Ordinary General Assembly Meeting of 2013 and twice for Extraordinary General Assembly Meetings. All of the said meetings were held prior to the public offering of our Company's shares and no prior call for these meetings have been made as allowed by Article 416 of the Turkish Commercial Code No. 6102 as all of the Company shareholders at the time have been represented at each of these meetings.

The agenda, list of attendees and meeting minutes relating to the aforementioned meetings are accessible through our Investor Relations website.

The decisions of our shareholders adopted at the General Assembly meetings held in 2013 are indicated in the table below:

Meeting Date	Resolutions
February 28, 2013 (Extraordinary)	<ul style="list-style-type: none"> • Amendment of the Articles of Association ⁽¹⁾ • Adoption of the Bylaws Regarding the Working Principles and Procedures of the Shareholders General Assembly ⁽²⁾
March 27, 2013 (Ordinary Annual General Assembly)	<ul style="list-style-type: none"> • Approval of the Annual Report, Financial Statements, Auditor Report and Controlled Company Report for the year 2012 • Release of the members of the Board of directors and the statutory auditors for operations and accounts pertaining to the year 2012 • Following statutory deductions from the 2012 profit, deduction of the remaining amount from previous years' losses • Appointment of the members of the Board of Directors for a term of one year and determination of payments to be made to the Directors during the term • Appointment of the independent audit firm for the year 2013 as per the provisions of Article 399 of the Turkish Commercial Code • Authorization of the members of the Board of Directors for transactions falling within the scope of Articles 395 and 396 of the Turkish Commercial Code ⁽³⁾

April 22, 2013 (Extraordinary)	<ul style="list-style-type: none"> • Approval of interim Director appointments made by the Board of Directors and determination of payments to be made to the relevant Directors during their term of duty⁽⁴⁾ • Authorization of the said members of the Board of Directors for transactions falling within the scope of Articles 395 and 396 of the Turkish Commercial Code⁽³⁾
(1)	For more information, please refer to Section (1/E) of the 2013 Annual Report
(2)	The text of the General Assembly Bylaws is provided in our Investor Relations website
(3)	For more information, please refer to Section (1/G) of the 2013 Annual Report
(4)	For more information, please refer to Sections (1/F) and (2) of the 2013 Annual Report

There are no transactions to report in 2013 that had to be submitted for the approval of our shareholders, where the approval of the majority of the Independent Directors was required and not received with respect to a resolution of the Board of Directors.

Şirketimiz tarafından 2013 yılı içerisinde herhangi bir bağış ve yardımda bulunulmamıştır. Şirketimiz Yönetim Kurulu tarafından 20.11.2013 tarihli karar ile kabul edilen Pegasus Bağış ve Yardım Politikası 2013 yılının kalan bölümünde Genel Kurul toplantısı düzenlenmediğinden 31.12.2013 itibariyle pay sahiplerinin onayına sunulamamıştır.

5. VOTING RIGHTS AND MINORITY RIGHTS

Our Company has not issued any shares with voting privileges and Pegasus is not party to any cross-shareholding relationship.

While Pegasus does not engage in any practice hindering the exercise of minority shareholders representing at least 5% of the issued capital of our Company, minority rights have not been granted to those holding less than 5% of the Company capital, which is the statutory threshold, and the scope of statutory minority rights have not been broadened through special provisions in our Articles of Association.

6. DIVIDEND RIGHTS

Pegasus Dividend Policy was approved by the decision of our Board of Directors dated November 20, 2013 and numbered 403 and was subsequently published in our Investor Relations website. In line with legal requirements, Pegasus Dividend Policy will become effective upon approval of our shareholders at the Annual General Assembly Meeting to be held in 2014.

Pegasus Dividend Policy, which will be submitted by our Board of Directors to the approval of our shareholders at the Annual General Assembly Meeting covers the following principles:

- The main principles relating to the distribution of profit are laid out in Article 21 of our Articles of Association.
- In this framework, in the event there remains distributable profit following the deduction of previous years' losses from the net annual profit relating to a fiscal year, our shareholders have the authority to resolve on the distribution of profit, by taking into consideration our Company's goals and its financing requirements, in cash, in shares or a by using a combination of the two and the completion of distribution within the timeframe foreseen in the applicable law.

- The proposal for distribution of profit by our Board of Directors will be prepared in consideration of the above needs and will be submitted to the attention of our shareholders for discussion at the General Assembly. The Board of Directors must inform our shareholders at the General Assembly on how the profit will be used in the event there is no dividend distribution.
- Pegasus complies with the provisions of the Turkish Commercial Code No. 6102, the Capital Markets Law No. 6362 and the Corporate Governance Principles determined by the Capital Markets Board relating to the right to receive dividends and distribution of profit.

Our Articles of Association do not include any provisions granting privileges in respect of the distribution or payment of the Company profit

7. TRANSFER OF SHARES

In accordance with the provisions of Article 137 paragraph 3 of the Capital Markets Law No. 6362, our Articles of Association do not contain any restrictions with respect to the transfer of Company shares that are traded on Borsa Istanbul.

Article 7 of our Articles of Association grants our Board of Directors the right not to approve the transfer of Company shares in specific circumstances and for the purpose of our Company's ability to resume its operations within the framework of the Turkish Civil Aviation Law No. 2902. Such authority of the Board of Directors will only become exercisable to the extent at least 50% of Pegasus shares are held by non-Turkish citizens.

SECTION II- PUBLIC DISCLOSURE AND TRANSPARENCY

8. INFORMATION POLICY

Pegasus Information Policy has been approved by the decision of our Board of Directors dated November 20, 2013 and numbered 403 and has been published on the Public Disclosure Platform on November 22, 2013. Pegasus Information Policy is also accessible through our Investor Relations website.

Pegasus Board of Directors assumes responsibility for the formation, review, update and development of the Pegasus Information Policy, and in this respect, works in collaboration with and obtains views from the Corporate Governance Committee and Vice-Presidency, Investor Relations. In this respect, Vice-Presidency Investor Relations assumes responsibility for the implementation of the Pegasus Information Policy.

9. PEGASUS WEBSITE AND CONTENT

We are actively using our corporate website (<http://www.flypgs.com>) and our Investor Relations website (<http://www.pegasusinvestorrelations.com>).

All aspects relating to the relay of information to our shareholders are covered in our Investor Relations website in Turkish and English.

In addition to the above, information we are required to make available as per the "Information Society Services" related provisions of the Turkish Commercial Code No. 6012, is made accessible through the e-COMPANY platform of the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) (<https://e-sirket.mkk.com.tr/esir/Dashboard.jsp#/sirketbilgileri/11366>) connected *via* a link in our Investor Relations website.

The sections accessible through our Investor Relations website are as follows:

- About Pegasus
 - History of Pegasus
 - Corporate Information
 - Mission and Vision
 - Business Model
 - Awards
 - Press Releases
 - Human Resources
 - FAQ
 - Contact
- Corporate Governance
 - Message from the Chairman
 - Management Structure
 - Group Companies
 - IPO Prospectus
 - Articles of Association
 - Trade Registry Information re Amendments
 - General Assembly
 - Board Committees and Committee Charters
 - List of Insiders
 - Related Party Transactions
 - Policies
 - Corporate Governance Compliance Rating
- Operational and Financial Information
 - Annual Reports
 - Financial Statements and Audit Reports
 - Stock Data
 - Stock Info
 - On Time Performance
 - Fleet Overview
 - Traffic Data
- Investor Package
 - Investor Presentations
 - Analyst Information
 - Investor Calendar
 - Material Disclosures
 - Useful Links
- Information Society Services

10. ANNUAL REPORT

Our Annual Reports are prepared in accordance with the "Regulation on the Determination of the Minimum Content of Annual Activity Reports" published by the Ministry of Customs and Commerce on the Official Gazette dated August 28, 2012 and numbered 28395, the Capital Markets Board Communiqué No. II-14.1 on the "Principles Relating to Financial Reporting in the Capital Markets" and the Capital Markets Board regulations regarding Corporate Governance Principles and, following the approval of our Board of Directors, are published in accordance with the applicable law and are made available in our Investor Relations website.

SECTION III- STAKEHOLDERS

11. COMMUNICATION OF INFORMATION TO STAKEHOLDERS

Pegasus undertakes to act in an honest, respectful, fair and trustful behavior based on reason, conscience and common sense with all stakeholders. In this respect, Pegasus aims to establish a sustainable, efficient and transparent communication with stakeholders and to enable stakeholders to achieve correct and complete information on time, in equal terms and in a way that is comprehensible, interpretable and easily accessible at low cost.

Besides such means, we are actively using inter-Company announcements and our Company's corporate intranet portal with respect to communication of information to our Family Members, as well as our corporate website (www.flypgs.com), Pegasus Call Center, "Pegasus Magazine", press, promotion and advertisement materials, e-mails, telephone, social media and similar corporate communication tools with respect to communication of information to our guests and other customers.

12. PARTICIPATION OF STAKEHOLDERS IN COMPANY MANAGEMENT

Pegasus believes that everybody has the right to fly and in this respect we value the opinion of and recommendations by all stakeholders through which we seek to introduce new practices that will improve our operations.

Through contact means provided in our corporate website (www.flypgs.com) and Pegasus Call Center we are receiving and evaluating requests, questions and complaints from all stakeholders.

Pegasus encourages and incentivizes all Family Members to engage in management processes. In this respect:

- Our Company conducts an annual "Corporate Climate Survey" covering all Family Members, the results of which and action items adopted at the initiative of senior management are shared with all Family Members through our corporate intranet portal;
- Within the framework of Pegasus Rules of Business Ethics, Pegasus undertakes to facilitate for all Family Members easy access to their superiors and members of our senior management and actively implements this principle;
- Our Company implements an "Idea that will Fly" contest where out of the pool of cost saving and/or revenue increasing ideas submitted by our Family Members those

that are determined by members of our senior management are put to the vote of all Pegasus Family Members and rewarded according to the results and put into practice in our operations to the extent possible;

- Continuous Improvement Team studies undertaken at our Company under the coordination of our Vice-Presidency, Continuous Improvement and Performance are conducted open to all Family Members where ideas on all matters directly affecting our Company's profitability are discussed in an open forum. Meeting minutes, progress reports and other relevant information and documents are regularly made available to all Family Members through our corporate intranet portal.

13. HUMAN RESOURCES POLICY

We believe that everybody has the right to fly and through our innovative, rational, conscious and responsible approach we are aiming to be the leading low-cost airline in our region.

Within the framework of this vision, our Human Resources Policy aims to:

- ensure that all our Family Members work as a team by unifying the objectives of each member of the team, boosting their motivation to the highest possible level, by providing a democratic environment, in which all our Family Members share their ideas freely;
- effectively managing and finalizing hiring process by leading the right persons to the right departments at the right time;
- offer the most appropriate career planning to our individual Family Members, providing them the personal training required for their continuous growth, ensuring fair salary management based on the results obtained from our applied performance system, and thoughtful feedback to our Family Members;
- ensure all our Family Members execute their jobs correctly, effectively and quickly by offering enhanced occupational and personal training designed to advance personal development and maintain high motivation;

In turn, we expect our Family Members to work with dedication, teamwork, and open communication; focusing on results; seeking continuous growth and innovation; and embracing change.

The organization structure of our Company and job definitions of all our Family Members, as well as the performance and rewarding criteria implemented by our Company, are announced to our Family Members and are made available in our corporate intranet portal. Hiring criteria we implement are also determined in writing.

As Pegasus, we are further making the following commitments to our Family Members:

- Upholding, protecting and incentivizing protection of the ethical values set out in Rules of Business Ethics,
- Evaluating all complaints and problems relating to Rules of Business Ethics and responding to all identified complaints and concerns; making no retaliation against such complaints and concerns;
- Treating all Family Members equally, without discrimination based on race, language, belief, political views or gender;

- Pursuing a compensation and advancement policy based on the qualities possessed by the Family Members and their performance, within the framework of the principles set out in the Pegasus Compensation and Indemnification Policy.
- Ensuring accessibility of superiors and members of the senior management by all Family Members;
- Providing utmost care to the protection of personal information of Family Members;
- Ensuring that the Family Members receive requisite training necessary for their development and in this respect, incites not only a conventional information exchange but also organizational learning through information sharing and supportive development;
- Undertaking the necessary precautions to protect workplace safety and employee health;
- Ensuring and developing flight safety and security, operating in compliance with national and international standards in this respect and adopting Company-wide regulations, supporting them and scrutinizing their implementation.

Our Company has established and is currently implementing an "Ethics Notice Line", accessible *via* our corporate intranet portal and operating in confidentiality, through which our Family Members are able to report violations of business ethics within the scope of Pegasus Rules of Business Ethics. In 2013 the Company has not received any complaints from our Family Members based on discrimination.

14. ETHICAL RULES AND SOCIAL RESPONSIBILITY

Pegasus Rules of Business Ethics and Pegasus Corporate Social Responsibility Policy have been adopted by the decisions of our Board of Directors dated November 21 and November 20, 2013 and numbered 405 and 403, respectively, and have subsequently been published on the Public Disclosure Platform on December 4, 2013 and November 22, 2013, respectively. Both documents are accessible through our Investor Relations website.

Pegasus Rules of Business Ethics set "Business Ethics" which is defined as "*honest, respectful, fair and trustful behavior based on reason, conscience and common sense when interacting with Pegasus Family Members, guests, customers, suppliers and other persons and entities we work and interact with*" as the basis of all of its relations, and covers all Pegasus Family Members, including all Pegasus Directors and employees and the directors and employees of our subsidiaries. Pegasus Rules of Business Ethics determine the framework of the system through which the responsibilities of both our Company and our Family Members, the implementation of the rules and resolution of conflicts are implemented.

On the other hand, Pegasus Corporate Social Responsibility Policy determines the main values we care to address in our corporate social responsibility projects and our main goals as part of these projects within our strife to be a good corporate member of the society.

SECTION IV- BOARD OF DIRECTORS

15. STRUCTURE AND FORMATION OF THE BOARD OF DIRECTORS AND INDEPENDENT DIRECTORS

Within the framework of Article 10 of our Articles of Association, the Board of Directors of our Company is composed of at least five and a maximum of eight members to be appointed within the framework of the Turkish Commercial Code and the Capital Markets Law.

As of December 31, 2013, our Board of Directors consists of eight members. In line with the Corporate Governance Principles of the Capital Markets Board, three independent Directors serve at our Board of Directors. The members of the Board of Directors and the duty and term of office of each Director is indicated in the table below.

Name / Surname	Duty	Executive Director	Term of Office
Ali İsmail Sabancı	Chairman of the Board	Yes	March27,2013- 2014 GA ⁽¹⁾
Hüseyin Çağatay Özdoğru	Vice-Chairman of the Board	Yes	March27,2013- 2014 GA ⁽¹⁾
Mehmet Cem Kozlu	Independent Director	No	March27,2013- 2014 GA ⁽²⁾
Mehmet Sağıroğlu	Independent Director	No	March27,2013- 2014 GA ⁽²⁾
Raymond Douglas Webster	Independent Director	No	March27,2013- 2014 GA ⁽¹⁾
Conor John McCarthy	Member of the Board	No	March27,2013- 2014 GA ⁽¹⁾
Şükrü Emre Berkin	Member of the Board	No	March27,2013- 2014 GA ⁽¹⁾
Sertaç Haybat	Member of the Board and CEO	Yes	March27,2013- 2014 GA ⁽¹⁾
⁽¹⁾	Appointed for a term of one year at the Annual General Assembly Meeting dated March 27, 2013.		
⁽²⁾	Appointed by the Board of Directors on April 1, 2013 to replace resigning Directors, Michael Charles Lee and İnan Tanrıöver, for the remainder of their term of office as per Article 363 of the Turkish Commercial Code. Said appointment has been approved by the shareholders at the Extraordinary General Assembly Meeting dated April 22, 2013.		

The resumé of each Director and the independence statements provided to our Company by our independent Directors are provided in the following paragraphs. As the appointment of all of the members of the Board of Directors took place prior to the public offering of our Company shares there are no reports prepared by the Corporate Governance Committee or the Board of Directors in 2013 with respect to the fulfillment by our independent Directors of the independence criteria set out in the Corporate Governance Principles.

Ali İsmail Sabancı - Chairman of the Board of Directors

Ali İsmail Sabancı has served as the Chairman of our Board of Directors since January 2005. He previously held several positions at Morgan Stanley & Co. Incorporated and Akbank T.A.Ş. between 1991 and 1997. He also served as the head of projects of Hacı Ömer Sabancı Holding A.Ş. between 1887 and 2001 and as the executive assistant general manager for strategy and business development between 2001 and 2004. Ali Sabancı serves as a member of the board of directors of Esas Holding and several other Esas Holding Group Companies since 2004. He has a master's degree in Economics and Politics granted by Tufts University and bachelor's degree in International Finance obtained from Columbia University Business Administration Faculty. He is the Chairman of Young Entrepreneurs Board within the Union of Chambers and Commodities of Turkey and also member to Istanbul Chamber of Industry (ISO) and Turkish-American Business Council (TAK).

Hüseyin Çağatay Özdoğru - Vice-Chairman of the Board of Directors

Hüseyin Çağatay Özdoğru has served as a member of our Board of Directors since February 2007 and since March 2010 he is serving as the Vice-Chairman of the Board. Between 1991 and 2002 he served in a wide range of IT firms in Turkey and in the United States, including Koç Unisys, IBM Turk and Global One Corporation and held various engineering and sales positions. During his tenure as the head of IT & telecommunications industry for Hacı Ömer

Sabancı Holding A.Ş. between 2002 and 2005, he served as general manager, assistant general manager and executive member of the board of directors for group companies such as Turk.Net, Akinternet, I-BimSA and Sabancı Telekom. Çağatay Özdoğru joined Esas Holding in June 2005 as a member of the executive committee. Currently, he also serves as a member of the board of directors of Esas Holding and several other Esas Holding Group Companies, besides his duty as the Esas Holding CEO. Çağatay Özdoğru holds a Bachelor's Degree in Electronic and Telecommunication from Istanbul Technical University and a Master's Degree in Telecommunication granted by George Washington University.

Mehmet Cem Kozlu - Independent Director

Mehmet Cem Kozlu has served as an independent member of our Board of Directors since April 2013. Cem Kozlu served as the chairman of the board of directors and CEO at Türk Hava Yolları A.O. between 1988 and 1991 and in this timeframe he also served as the chairman of the Association of European Airlines in 1990. After having served as a member of the Turkish Parliament between 1991 and 1995, he took a second term as the chairman of Turkish Airlines between 1997 and 2003. Cem Kozlu held several positions at The Coca-Cola Company between 1996 and 2006 where his last position was the president of the company's Central Europe, Eurasia and Middle East operations. Since 2006, he has continued to serve as consultant to Coca-Cola Eurasia and Africa Group. Cem Kozlu served as the chairman of the International Airline Training Fund between 2008 and 2010 and continues to serve as member of board of directors or advisor in various companies. Cem Kozlu holds a bachelor's degree from Denison University and an MBA degree from Stanford University. He also holds a Ph.D. in administrative sciences from Boğaziçi University.

Independence Statement

Pegasus Hava Taşımacılığı A.Ş.

Aeropark Yenişehir Mahallesi Osmanlı Bulvarı No: 11 Kurtköy
Pendik 34912 İstanbul Türkiye

1 April 2013

Re : Statement of Independence relating to Corporate Governance Principles

In relation to my tenure as the independent director of Pegasus Hava Taşımacılığı A.Ş. (the "Company"), I hereby declare that I fulfill the independency criteria set out in the following corporate governance principles numbered 4.3.6 and 4.3.7 of the Communiqué Series: IV, No: 56 regarding the Determination and Implementation of Corporate Governance Principles (the "Communiqué") of the Capital Markets Board of Turkey, entered into force upon publication in the Official Gazette dated 30 December 2011 and numbered 28158 and currently remaining in force with subsequent amendments.

4.3.6 *A person who has served as a director in the company's board of directors for more than 6 years during the past 10 years cannot be appointed as an independent director.*

4.3.7 *A director fulfilling all of the following criteria qualifies as an independent director.*

- (a)** *No direct or indirect employment in a management position undertaking important duties and responsibilities, equity or an important commercial relationship should have taken place between the independent director, his/her spouse or his/her relatives up to and including second degree on one side and the company, a related party of the company or a legal entity in relation with, in terms of equity or management, a shareholder of the company with direct or indirect shareholding equal to or above 10% on the other, at any time during the past 5 years;*
- (b)** *The independent director should not have worked for and acted as a member of the board of directors in any entity conducting all or a specific part of the activities and the organization of the company within the framework of an agreement, most notably companies providing audit, rating and consultancy services, at any time during the past 5 years;*

- (c) *The independent director should not have been a shareholder, employee or a member of the board of directors in any entity providing goods and services to the company on an important scale, at any time during the past 5 years,*
- (d) *Even if the independent director is a shareholder of the company due to the requirements of his position as a director, such shareholding must not exceed 1% of the capital and should not be represented by any privileged shares,*
- (e) *The independent director must have acquired the vocational education, knowledge and experience necessary to duly perform the duties he/she is to undertake in this position,*
- (f) *The independent director should not be working full time in a governmental entity or institution after his/her appointment, unless he/she is a professor at the university who is allowed to act as an independent director according to the applicable legislation,*
- (g) *The independent director should be residing in Turkey according to the Income Tax Law;*
- (h) *The independent director should have strong ethical standards, professional reputation and experience allowing him/her to make positive contributions to the company's activities, keep his/her independence regarding any conflict of interest between the company's shareholders, and decide freely making the rights of stakeholders into consideration,*
- (i) *The independent director should be in a position to spend sufficient time for the company matters enabling him/her to follow-up on the activities of the company and fully perform his/her duties as an independent director.*

Respectfully yours,

Mehmet Cem Kozlu

Mehmet Sađırođlu - Independent Director

Mr. Sađırođlu has served as an independent member of our Board of Directors since April 2013. Mehmet Sađırođlu held several positions at Türkiye Demirdöküm Fabrikaları A.Ş. between 1976 and 1980 and at Türkiye Sinai Kalkınma Bankası between 1980 and 1999 where his last position was head of corporate finance. Mehmet Sađırođlu later served as an executive manager and later as the member of the board of directors at Global Yatırım Holding A.Ş. between 2001 and 2006. In 2005 he also served as a member of the board of directors at TÜPRAŞ Türkiye Petrol Rafinerileri A.Ş. Between 2011 and 2012 Mehmet Sađırođlu was the CEO of IEG Global Kurumsal Finansman A.Ş. and also served as the chairman of the Association of Listed Companies' Executives (Koteder) between May 2012 and October 2013. Mehmet Sađırođlu currently serves as independent director at Alarko GYO A.Ş. Mehmet Sađırođlu holds a bachelor's degree in business administration from Bođaziçi University.

Independence Statement

Pegasus Hava Taşımacılığı A.Ş.

*Aeropark Yenişehir Mahallesi Osmanlı Bulvarı No: 11 Kurtköy
Pendik 34912 İstanbul Türkiye*

1 April 2013

Re : Statement of Independence relating to Corporate Governance Principles

In relation to my tenure as the independent director of Pegasus Hava Taşımacılığı A.Ş. (the "Company"), I hereby declare that I fulfill the independency criteria set out in the following corporate governance principles numbered 4.3.6 and 4.3.7 of the Communiqué Series: IV, No: 56 regarding the Determination and Implementation of Corporate Governance Principles (the "Communiqué") of the Capital Markets Board of Turkey, entered into force upon publication in the Official Gazette dated 30 December 2011 and numbered 28158 and currently remaining in force with subsequent amendments.

4.3.6 *A person who has served as a director in the company's board of directors for more than 6 years during the past 10 years cannot be appointed as an independent director.*

4.3.7 A director fulfilling all of the following criteria qualifies as an independent director.

- (a) No direct or indirect employment in a management position undertaking important duties and responsibilities, equity or an important commercial relationship should have taken place between the independent director, his/her spouse or his/her relatives up to and including second degree on one side and the company, a related party of the company or a legal entity in relation with, in terms of equity or management, a shareholder of the company with direct or indirect shareholding equal to or above 10% on the other, at any time during the past 5 years;
- (b) The independent director should not have worked for and acted as a member of the board of directors in any entity conducting all or a specific part of the activities and the organization of the company within the framework of an agreement, most notably companies providing audit, rating and consultancy services, at any time during the past 5 years;
- (c) The independent director should not have been a shareholder, employee or a member of the board of directors in any entity providing goods and services to the company on an important scale, at any time during the past 5 years,
- (d) Even if the independent director is a shareholder of the company due to the requirements of his position as a director, such shareholding must not exceed 1% of the capital and should not be represented by any privileged shares,
- (e) The independent director must have acquired the vocational education, knowledge and experience necessary to duly perform the duties he/she is to undertake in this position,
- (f) The independent director should not be working full time in a governmental entity or institution after his/her appointment, unless he/she is a professor at the university who is allowed to act as an independent director according to the applicable legislation,
- (g) The independent director should be residing in Turkey according to the Income Tax Law;
- (h) The independent director should have strong ethical standards, professional reputation and experience allowing him/her to make positive contributions to the company's activities, keep his/her independence regarding any conflict of interest between the company's shareholders, and decide freely make taking the rights of stakeholders into consideration,
- (i) The independent director should be in a position to spend sufficient time for the company matters enabling him/her to follow-up on the activities of the company and fully perform his/her duties as an independent director.

Respectfully yours,

Mehmet Sağıroğlu

Raymond Douglas Webster - Independent Director

Raymond Douglas Webster, is an independent member of our Board of Directors and has served as a member of our Board of Directors since May 2008. From 1965 to 1996, Mr. Webster worked for Air New Zealand Limited, where he held various positions in the engineering and cargo business units, marketing, sales and operations in New Zealand and in the Americas, and in 1993, he was assigned as the general manager of strategic planning where he was responsible for identification, evaluation and implementation of corporate development options, including concept development and planning of start-up low-cost airline companies serving short-haul routes in the Australasian market. Mr. Webster worked for EasyJet plc between 1996 and 2005, serving first as the managing director later taking over the duties of chief executive officer prior to the company's listing on the London Exchange Market. Mr. Webster holds a bachelor's degree in electrical engineering from Canterbury University, New Zealand, a master's degree in aeronautical engineering from Cranfield University in the United Kingdom and a master's degree in business from Stanford University.

Independence Statement

Pegasus Hava Taşımacılığı A.Ş.

Aeropark Yenişehir Mahallesi Osmanlı Bulvarı No: 11 Kurtköy

Pendik 34912 İstanbul Türkiye

1 April 2013

Re : Statement of Independence relating to Corporate Governance Principles

In relation to my tenure as the independent director of Pegasus Hava Taşımacılığı A.Ş. (the “Company”), I hereby declare that I fulfill the independency criteria set out in the following corporate governance principles numbered 4.3.6 and 4.3.7 of the Communiqué Series: IV, No: 56 regarding the Determination and Implementation of Corporate Governance Principles (the “Communiqué”) of the Capital Markets Board of Turkey, entered into force upon publication in the Official Gazette dated 30 December 2011 and numbered 28158 and currently remaining in force with subsequent amendments.

4.3.6 *A person who has served as a director in the company’s board of directors for more than 6 years during the past 10 years cannot be appointed as an independent director.*

4.3.7 *A director fulfilling all of the following criteria qualifies as an independent director.*

- (a) No direct or indirect employment in a management position undertaking important duties and responsibilities, equity or an important commercial relationship should have taken place between the independent director, his/her spouse or his/her relatives up to and including second degree on one side and the company, a related party of the company or a legal entity in relation with, in terms of equity or management, a shareholder of the company with direct or indirect shareholding equal to or above 10% on the other, at any time during the past 5 years;*
- (b) The independent director should not have worked for and acted as a member of the board of directors in any entity conducting all or a specific part of the activities and the organization of the company within the framework of an agreement, most notably companies providing audit, rating and consultancy services, at any time during the past 5 years;*
- (c) The independent director should not have been a shareholder, employee or a member of the board of directors in any entity providing goods and services to the company on an important scale, at any time during the past 5 years,*
- (d) Even if the independent director is a shareholder of the company due to the requirements of his position as a director, such shareholding must not exceed 1% of the capital and should not be represented by any privileged shares,*
- (e) The independent director must have acquired the vocational education, knowledge and experience necessary to duly perform the duties he/she is to undertake in this position,*
- (f) The independent director should not be working full time in a governmental entity or institution after his/her appointment, unless he/she is a professor at the university who is allowed to act as an independent director according to the applicable legislation,*
- (g) The independent director should be residing in Turkey according to the Income Tax Law;¹*
- (h) The independent director should have strong ethical standards, professional reputation and experience allowing him/her to make positive contributions to the company’s activities, keep his/her independence regarding any conflict of interest between the company’s shareholders, and decide freely make taking the rights of stakeholders into consideration,*
- (i) The independent director should be in a position to spend sufficient time for the company matters enabling him/her to follow-up on the activities of the company and fully perform his/her duties as an independent director.*

Respectfully yours,

Raymond Douglas Webster

¹ Pursuant to Article 5 Paragraph 8 of the Communiqué it is sufficient for at least half of the independent directors to fulfill this criterion.

Conor John McCarthy - **Member of the Board**

Conor John McCarthy has served as a member of our board of directors since February 2012. Mr. McCarthy started working for Aer Lingus in 1978 and spent a total of 18 years with the company in engineering, operations, maintenance, commercial planning, marketing, route economics, finance, strategic management, fleet planning and general management. After leaving Aer Lingus in 1996 as the chief executive officer of Aer Lingus Commuter, Mr. McCarthy joined Ryanair and served as its director of group operations until 2000. Mr. McCarthy is currently the executive chairman at Dublin Aerospace Ltd. and served as a member of the board of directors in Air Asia, which he also helped to co-found. He is also the managing director of PlaneConsult.com. Mr. McCarthy holds a bachelor's degree in engineering from Trinity College Dublin.

Şükrü Emre Berkin - **Member of the Board**

Şükrü Emre Berkin, has served as a member of Board of Directors since March 2010. Emre Berkin started working for Digital Equipment Corporation in 1983 and served in sales, consultancy, support and service positions in United States and in Turkey. Between 1993 and 2006, Emre Berkin worked for Microsoft Corporation holding various positions, including Vice President of Europe, Middle East and Africa Regions and as Head of Middle East and Africa operations. He was also the first general manager of Microsoft Turkey. Emre Berkin currently runs an independent consulting practice focused on international business development, mergers and acquisitions, funding and investments, and he also serves as a member of the boards of directors of various companies in and outside of Turkey. Emre Berkin has a Master's Degree in Computer Engineering granted by DePaul University and a Bachelor's Degree in Electronic and Telecommunication from Middle East Technical University.

Sertaç Haybat - **Member of the Board and CEO**

Sertaç Haybat, has served as our General Manager (CEO) and a member of our Board of Directors since 2005. He started working in the airline industry as the maintenance manager for Bursa Airlines in 1979. he worked for Turkish Airlines in three different occasions, first between 1982 and 1987 as a member of the engineering team, later between 1989 and 1993 as strategic planning and investments manager, marketing director and as sales director for Singapore, Malaysia and Indonesia, and between 1997 and 2003, as a member of the executive management team responsible for finance and corporate planning. Sertaç Haybat also served as a member of the board of directors of SunExpress until 2003. Sertaç Haybat holds a Bachelor's Degree in aviation engineering granted by Manchester University in 1976. He was elected as the Chairman of Turkish Private Aviation Enterprises Association (TOSHID) in December 2012 and still holds this position.

All of our Directors have been authorized to enter into transactions with the Company and to undertake business transactions competing with Pegasus on their own or third parties' behalf as per the Articles 395 and 396 of the Turkish Commercial Code No. 6102 through the resolution of our shareholders at the Annual General Assembly meeting dated March 27, 2013 and the Extraordinary General Assembly Meeting dated April 22, 2013. The ability of our Directors to undertake duties in other Companies is, in principle, not restricted. However; in the event of a potential conflict of interest or a proposed appointment that is likely to have an influence on the Director's ability to discharge duties and obligations to Pegasus the Directors are required to inform our Company in advance.

The duties assumed by our Directors outside of our Company in 2013 are indicated in the table below:

Name / Surname	Duty	Duties Assumed Elsewhere in 2013 ²
Ali İsmail Sabancı	Chairman of the Board	<ol style="list-style-type: none"> 1. Esas Holding A.Ş. (Group Company) <i>Member of the Board</i> 2. AFM Uluslararası Film Prodüksiyon Tic. ve San. A.Ş. (Group Company) <i>Chairman of the Board</i> 3. Mars Entertainment Group A.Ş. (Group Company) <i>Chairman of the Board</i> 4. Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş. (Group Company) <i>Member of the Board</i> 5. Mars Medya Sinema Reklamcılık A.Ş. (Group Company) <i>Member of the Board</i> 6. Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company) <i>Member of the Board</i> 7. Kültür ve Gösteri Merkezi İşletmecilik A.Ş. (Group Company) <i>Member of the Board</i> 8. Air Berlin plc <i>Member of the Board</i> 9. Callpex Çağrı Merkezi ve Müşteri Hizmetleri A.Ş. <i>Member of the Board</i> 10. RM Arşiv Yönetim Hizmetleri A.Ş. <i>Member of the Board</i> 11. Saray Bahçe Alışveriş Merkezi Ticaret A.Ş. <i>Member of the Board</i>
Hüseyin Çağatay Özdoğru	Vice-Chairman of the Board	<ol style="list-style-type: none"> 1. Esas Holding A.Ş. (Group Company) <i>Member of the Board and CEO</i> 2. AFM Uluslararası Film Prodüksiyon Tic. ve San. A.Ş. (Group Company) <i>Member of the Board</i> 3. Mars Entertainment Group A.Ş. (Group Company) <i>Member of the Board</i> 4. Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş. (Group Company) <i>Chairman of the Board</i> 5. Mars Medya Sinema Reklamcılık A.Ş. (Group Company) <i>Member of the Board</i> 6. Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company) <i>Member of the Board</i> 7. Esaslıgrup Gıda San. ve Tic. A.Ş. (Group Company) <i>Member of the Board</i>

² **NTD:** To be updated in line with information received from Directors.

		<p>8. Esas Hava Taşımacılık Turizm ve Ticaret A.Ş. (Group Company) <i>Chairman of the Board</i></p> <p>9. Acil Yardım Akademisi A.Ş. (Group Company) <i>Member of the Board</i></p> <p>10 Odea İnşaat Turizm Yatırımları ve Dış Ticaret A.Ş. (Group Company) <i>Chairman of the Board</i></p> <p>11 Kiraz 1 Gayrimenkul ve Yatırım Danışmanlığı A.Ş. (Group Company) <i>Member of the Board</i></p> <p>12 Kiraz 2 Gayrimenkul ve Yatırım Danışmanlığı A.Ş. (Group Company) <i>Member of the Board</i></p> <p>13 Peyman Kuruyemiş Gıda Ak. Kimyevi Madde Tarım Ürünleri Sanayi Ticaret A.Ş. (Group Company) <i>Chairman of the Board</i></p> <p>14 Esbon Süt Ürünleri San. Tic. A.Ş. (Group Company) <i>Member of the Board</i></p> <p>15 Esom Mağazacılık Ticaret A.Ş. (Group Company) <i>Member of the Board</i></p> <p>16 Kiraz 4 LLC A.B.D. (Group Company) <i>Member of the Board</i></p> <p>17 Kültür ve Gösteri Merkezi İşletmecilik A.Ş. (Group Company) <i>Member of the Board</i></p> <p>18 Kauçuk Yiyecek İçecek Hizmetleri Tic. A.Ş. (Group Company) <i>Member of the Board</i></p> <p>19 Kron Telekomünikasyon A.Ş. <i>Member of the Board</i></p>
Mehmet Cem Kozlu	Independent Director	<p>1. Anadolu Endüstri Holding A.Ş. <i>Member of the Board</i></p> <p>2. Evyap Holding A.Ş. <i>Member of the Board</i></p> <p>3. Evyap Asya <i>Chairman of the Board</i></p> <p>4. Coca-Cola Satış ve Dağıtım A.Ş. <i>Member of the Board</i></p> <p>5. Noktacom Medya İnternet Hizmetleri San. ve Tic. A.Ş. <i>Chairman of the Board</i></p> <p>6. Kamil Yazıcı Yönetim ve Danışma A.Ş. <i>Member of the Board</i></p> <p>7. Anadolu Kafkasya Enerji Yatırımları A.Ş. <i>Member of the Board</i></p> <p>8. Yazıcılar Holding A.Ş. <i>Advisor</i></p> <p>9. Anadolu Termik Santralleri Elektrik Üretim A.Ş. <i>Member of the Board</i></p> <p>10 Anadolu Efes Biracılık Malt Sanayii A.Ş. <i>Member of the Board</i></p> <p>11 TAV Havalimanları Holding A.Ş. <i>Advisor</i></p> <p>12 Coca-Cola Avrasya & Afrika <i>Advisor</i></p> <p>13 The Marmara Hotels & Residences <i>Member of the Board</i></p> <p>14 Dış Ekonomik İlişkiler Kurulu <i>Member of the Board</i></p>

Mehmet Sağırođlu	Independent Director	1. Alarko GYO A.Ş.	<i>Member of the Board</i>
Raymond Douglas Webster	Independent Director	1. Kuoni Travel Holding Ltd. İsviçre	<i>Member of the Board</i>
Conor John McCarthy	Member of the Board	1. Wordison Limited Trading (PlaneConsult) İrlanda 2. Dublin Aerospace Ltd. İrlanda	<i>Founder and CEO</i> <i>Chairman of the Board</i>
Şükrü Emre Berkin	Member of the Board	1. Alcatel Lucent Teletaş Telekomünikasyon A.Ş. 2. Anadolu Bilişim Hizmetleri A.Ş. 3. Garanti Bilişim Teknoloji ve Ticaret Türk A.Ş. 4. BASE Gayrimenkul Turizm ve Ticaret A.Ş. 5. ÇİT Kurumsal Danışmanlık ve Yatırım Ticaret A.Ş. 6. Noktacom Medya İnternet Hizmetleri San. ve Tic. A.Ş. 7. Hedef Medya Tanıtım İnteraktif Medya Pazarlama A.Ş. 8. Metis Bilgisayar Sistemleri San. ve Tic. A.Ş. 9. CBG Elektronik Tic. ve Sanal Mağazacılık Gıda San. ve Tic. A.Ş. 10 Thomas Cook Group plc Birleşik Krallık 11 Mekanistnet B.V. Hollanda 12 Samumed LLC	<i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Chairman of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i> <i>Member of the Board</i>
Sertaç Haybat	Member of the Board and CEO	1. İHY İzmir Havayolları A.Ş. (Group Company) 2. Pegasus Uçuş Eğitim Merkezi A.Ş. (Group Company)	<i>Chairman of the Board</i> <i>Chairman of the Board</i>

In addition to the above, pursuant to the mandatory Corporate Governance Principles, our shareholders will be informed of material transactions between Pegasus or its subsidiaries on one hand and our controlling shareholders, Directors, members of the senior management with administrative responsibility or their spouses or relatives up to and including the second degree on the other hand, that may create conflict of interest, as well as any other instances where any of the foregoing persons engage in competing business on their own account or on the account of others.

As of December 31, 2013 there is no female Director appointed at Pegasus or any decision by our Board of Directors with respect to compliance with the relevant provisions of the Corporate Governance Principles.

16. WORKING PRINCIPLES OF THE BOARD OF DIRECTORS

Working procedures and principles of our Board of Directors have been determined in writing by our Board of Directors in line with the relevant provisions of our Articles of

Association. Accordingly, without prejudice and any limitations to the mandatory provisions of the applicable law and the Articles of Association regarding the authority, responsibilities, duties of the members of the Board of Directors and the delegation thereof, the Board of Directors:

- manages and represents Pegasus by taking strategic decisions, maintaining its risk, growth and income balance at the most appropriate level and by giving priority to the long-term interests of Pegasus with a diligent risk-management approach;
- sets the strategic targets of Pegasus, determines the human and financial resources required by Pegasus and supervises the performance of the management; and
- further supervises the compliance of Pegasus' operations with the applicable legislation, the Articles of Association, the internal regulations and policies adopted by Pegasus.

Our Articles of Associations authorize our Board of Directors to establish mortgage or pledge on the movable and immovable assets of the Company and to release such security for the purposes of obtaining loans, without further authorization from the General Assembly, to resolve on donations on behalf of the Company, within the ceiling to be determined by the General Assembly and subject to the restrictions that may be brought by the Capital Markets Board pursuant to Article 19 of the Capital Markets Law and to resolve on all matters that do not fall within the explicit authority of the General Assembly under the applicable law and the Articles of Association.

In line with the relevant provisions in our Articles of Association, our Board of Directors convenes for meetings and adopts resolutions whenever the Company business requires. However; the Board of Directors meets at least four times a year. Our Directors are expected to attend all meetings, devote sufficient preparation time ahead of each meeting and present their opinions at each meeting. Parallel to this expectation, the Chairman of the Board is expected to facilitate the efficient participation of all Directors at the meeting.

The records relating to the work of the Board of Directors are kept in writing and available to the Directors. Directors dissenting on any matter discussed during the meeting records his/her reasonable and detailed dissenting opinion in the records.

Save for special quorums required by law, our Board of Directors meets at the presence of simple majority of its members and adopts decisions by simple majority of those that are present at the meeting. Each Director has one vote. Unless one of the directors asks for a meeting, the Board of Directors can also adopt decisions by the written approval of simple majority of its members to a written proposal submitted by a director. Each resolution passed at the Board of Directors is put into writing and signed by the sufficient number of Directors and are kept in the Resolution Ledger of the Board of Directors.

In 2013, the Board of Directors held four meetings on March 25, 2013, June 26-27, 2013, September 26, 2013 and December 19, 2013. The overall attendance rate for the meetings was 90.63% in 2013.

17. NUMBER, STRUCTURE AND INDEPENDENCY OF COMMITTEES ESTABLISHED AT THE BOARD LEVEL

Based on the resolution of our Board of Directors dated August 17, 2013 and numbered 392, the Audit Committee, the Corporate Governance Committee and the Committee on the Early Detection of Risks were formed as follows, to assist the Board of Directors on various matters as outlined in the Corporate Governance Principles of the Capital Markets Board.

Audit Committee

Chairman	Mehmet Cem Kozlu	<i>Independent Director</i>
Member	Mehmet Sađırođlu	<i>Independent Director</i>

Corporate Governance Committee

Chairman	Raymond Douglas Webster	<i>Independent Director</i>
Member	Şükrü Emre Berkin	<i>Non-Executive Board Member</i>
Member	Mehmet Cem Kozlu	<i>Independent Director</i>

Committee on the Early Detection of Risks

Chairman	Mehmet Sađırođlu	<i>Independent Director</i>
Member	Ali İsmail Sabancı	<i>Executive Board Member</i>
Member	İnan Tanrıöver	<i>Non-Board Member Expert</i>

In accordance with the requirements of the Corporate Governance Principles of the Capital Markets Board, all of the members of the Audit Committee and the chairmen of the remaining Committees are appointed from among independent Directors and all members of the Corporate Governance Committee are non-executive members of the Board of Directors. The Board of Directors did not establish separate Compensation and Nomination Committees, and, in accordance with the Corporate Governance Principles, the duties pertaining to such functions have been assumed by the Corporate Governance Committee.

In addition to the above Committees formed in line with the requirements of the Corporate Governance Principles, a Safety Committee is established to assist our Board of Directors with respect to safety matters relating to our Company's aviation operations. Safety Committee is composed of our CEO and two non-executive members of the Board of Directors and as of December 31, 2013, Conor John McCarthy had been appointed as the Chairman of the Safety Committee while Raymond Douglas Webster and Sertaç Haybat are named as the other two members of the Committee.

The Committees record and maintain all of their works in writing and submit regular reports comprising information on their works and results of Committee meetings to the Board of Directors.

Summaries of the works undertaken by our Board Committees established as per the requirements of the Corporate Governance Principles, since their establishment on August 17, 2013 are as follows:

Audit Committee

The Audit Committee held four meetings on August 19, September 17, November 4 and December 12, in attendance of all members. The Committee engaged in works within the framework of its Charter and in this respect reviewed our Company's financial reports for the periods ending on June 30 and September 30, 2013 and shared its favorable opinion with our Board of Directors. The Committee also oversaw the preparation of the Pegasus Rules of Business Ethics and submitted this document for the approval of the Board of Directors. The Audit Committee has informed the Board of Directors of its activities at the Board meetings dated September 26, 2013 and December 19, 2013.

Corporate Governance Committee

The Corporate Governance Committee held its first in-person meeting on December 18, 2013 in presence of all members. The Committee engaged in works within the framework of its Charter and in this respect oversaw the preparation of the Pegasus Information Policy and Pegasus Compensation and Indemnification Policy and submitted these documents for the approval of the Board of Directors. The Corporate Governance Committee has informed the Board of Directors of its activities at the Board meeting dated December 19, 2013.

Committee on the Early Detection of Risks

The Committee on the Early Detection of Risks held two meetings on September 23 and December 18, 2013 in presence of all members. The Committee engaged in works within the framework of its Charter and in this respect established the main principles and surveillance mechanisms for the determination and management of main risks on strategic, operational, financial, legal and other matters that may endanger the existence, development and future of Pegasus and oversaw the implementation of such principles and mechanisms. The Committee on the Early Detection of Risks has informed the Board of Directors of its activities at the Board meetings dated September 26, 2013 and December 19, 2013.

18. RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

Our Board of Directors is responsible for manages and represents Pegasus by taking strategic decisions, maintaining its risk, growth and income balance at the most appropriate level and by giving priority to the long-term interests of Pegasus with a diligent risk-management approach.

Committee on the Early Detection of Risks has been established by our Board of Directors to assist the Board of Directors in the determination in advance all types of risks, whether strategic, operational, financial, legal or otherwise that may endanger the existence, development and the future of Pegasus, the implementation of necessary precautionary measures and the management of detected risks.

While the Committee on the Early Detection of Risks operates responsible of the determination and surveillance of risks Company-wide, with respect to overseeing of certain specific risks, it acts in coordination with the other Board Committees and the relevant corporate departments acting under the CEO. In this respect, the surveillance of risks relating to our Company's financial reporting and internal control mechanisms is conducted in cooperation with the Audit Committee; the surveillance of risks relating to human resources

in respect of the members of the Board of Directors and the Company's senior management is conducted in cooperation with the Corporate Governance Committee and the surveillance of risks relating to aviation safety is conducted in cooperation with the Safety Committee.

19. VISION, MISSION AND STRATEGIC TARGETS OF PEGASUS

Pegasus operates in line with the strategic targets determined by our Board of Directors within the framework of our Company's mission and vision indicated below.

Our Mission

We believe that everybody has the right to fly. The Pegasus Family, our suppliers and our partners work together in cooperation to achieve this goal.

Our Vision

To be the leading low-cost airline in our region with our innovative, rational, conscious and responsible approach.

Our leadership criteria are the number of guests we carry, our response to customer expectations, our pricing policy and the added value we provide to the Pegasus Family.

Our annual budget is approved by our Board of Directors in advance of each fiscal year and our operational and financial results are closely monitored by the Board of Directors on a regular basis with comparisons against the budgeted targets. Our Board of Directors also reviews our Company's strategic targets on an annual basis.

20. FINANCIAL RIGHTS

Pegasus Directors are paid a monthly or annual salary or a per meeting payment to be determined by the General Assembly. The principles relating to the compensation of Directors are set out in the Pegasus Compensation and Indemnification Policy.

With respect to the remuneration of independent directors, stock options or payment plans based on the company's performance cannot be used. Nevertheless, remuneration of independent directors should be at a level sufficient to protect their independence.

The criteria and procedures relating to the compensation of Directors and proposals for the remuneration of and other benefits to be provided to the Directors are annually determined by the Corporate Governance Committee and submitted to the Board of Directors.

The aggregate of the honorary payments made to our Directors based on their attendance to Board meetings and the annual payments made for their duty as chairman or member in the Board Committees is disclosed in our Annual Report. In parallel, the sum of salary and bonus fees paid to the general manager and senior vice-presidents serving in our senior management team, and the income tax and social security contributions with respect to the same persons is also disclosed in our Company's Annual Report.