



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2016

MARCH 6, 2017

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ANNUAL ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – DECEMBER 31, 2016

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2016 – December 31, 2016
Commercial Title : Pegasus Hava Taşımacılığı A.Ş.
Trade Registration : Istanbul Trade Registry / 261186
Headquarters : Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı, No: 11/A
Kurtköy 34912 Pendik / Istanbul
Contact Information : Telephone. +90 216 560 7000
Corporate Website. www.flypgs.com
Investor Relations
Website. <http://www.pegasusinvestorrelations.com>

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, 2016 and December 31, 2016, respectively, is shown in the table below.

<i>Shareholder</i>	<u>January 1, 2016</u>		<u>December 31, 2016</u>	
	<i>Number of Shares</i>	<i>Shareholding Ratio</i>	<i>Number of Shares</i>	<i>Shareholding Ratio</i>
Esas Holding A.Ş. ("Esas Holding")	64,353,570	62.92%	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%	35,294,000	34.51%
Emine KAMIŞLI	874,810	0.86%	874,810	0.86%
Ali İsmail SABANCI	874,810	0.86%	874,810	0.86%
Kazım KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Can KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Total	102,272,000	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, 2016 and December 31, 2016 are as follows.

<i>Shareholder</i>	<u>January 1, 2016</u>	<u>December 31, 2016</u>
	<i>Shareholding Ratio</i>	<i>Shareholding Ratio</i>
Emine KAMIŞLI	%13.44	%13.44
Ali İsmail SABANCI	%13.44	%13.44
Şevket SABANCI	%10.34	%10.34
Zerin SABANCI	%10.34	%10.34
Kazım KÖSEOĞLU	%7.47	%7.47
Can KÖSEOĞLU	%7.47	%7.47
Fethi Ali KAMIŞLI	%0.75	%0.75
Kerem KAMIŞLI	%0.75	%0.75
Emrecan Şevket SABANCI	%0.75	%0.75
Kaan Ali SABANCI	%0.75	%0.75
Publicly Traded	%34.51	%34.51
Total	%100	%100

As of December 31, 2016, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket SABANCI and his family and as of December 31, 2016 has investments in the aviation, retail and entertainment, healthcare, food and real estate sectors in and outside of Turkey. Esas Holding is fully owned by Şevket SABANCI and the members of his family.

Our Company's management organization chart as of December 31, 2016 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 2016 at 9.5%, the cumulative annual growth rate of passengers flying with Pegasus reached 22% 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, 2012 and 2013 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, Ankara, Antalya and İzmir. As of December 31, 2016, Pegasus offered scheduled passenger services on 32 domestic routes in Turkey and 69 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 101 destinations in 40 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 2016, the revenue recorded from ancillary services constituted 22% of total revenue for the period, while ancillary revenue increased by 23% year-over-year from 2015.

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 5% of total revenue in 2016.

D- INFORMATION ON PRIVILEGED SHARES

Pegasus has not issued any privileged shares.

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

The changes proposed by the Board of Directors in its decision dated January 28, 2016 to Articles 10 and 11 of the Company Articles on Association with the aim of removing the maximum number limitation on members of the Board of Directors to be appointed by the General Assembly and allowing the Board of Directors to delegate authority on establishing mortgage and pledge on Company assets were approved by the Capital Markets Board on February 5, 2016 and by the Ministry of Customs and Trade on February 23, 2016. The proposed amendments have been approved by our shareholders at the Ordinary General Assembly Meeting dated April 7, 2016.

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 on our Investor Relations Website.

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 December 31, 2016, the Board of Directors consisted of eight members. The identity, duty and term of office of each Director are indicated in the following chart.

<u>Name / Surname</u>	<u>Duty</u>	<u>Term of Office</u>
Ali İsmail SABANCI	Chairman of the Board	April 7, 2016 - 2016 GA ⁽¹⁾
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairman of the Board	April 7, 2016 - 2016 GA ⁽¹⁾
Mehmet Cem KOZLU	Independent Director	April 7, 2016 - 2016 GA ⁽¹⁾
Saad Hassan HAMMAD	Independent Director	April 7, 2016 - 2016 GA ⁽¹⁾
Şükrü Emre BERKİN	Non-Executive Director	April 7, 2016 - 2016 GA ⁽¹⁾
Sertaç HAYBAT	Non-Executive Director	April 7, 2016 - 2016 GA ⁽¹⁾
Hatice Zeynep Bodur OKYAY	Independent Director	July 14, 2016 - 2016 GA ⁽²⁾
Stephen Mark GRIFFITHS	Independent Director	Nov. 11, 2016 - 2016 GA ⁽³⁾

⁽¹⁾ Appointed for a term of one year at the Annual General Assembly Meeting dated April 7, 2016.

⁽²⁾ Appointed to succeed Conor John McCARTHY upon his resignation dated July 14, 2016 to serve for the remainder of his term of office. The Capital Markets Board non-objection for Hatice Zeynep Bodur OKYAY to serve as an Independent Director was received on October 11, 2016.

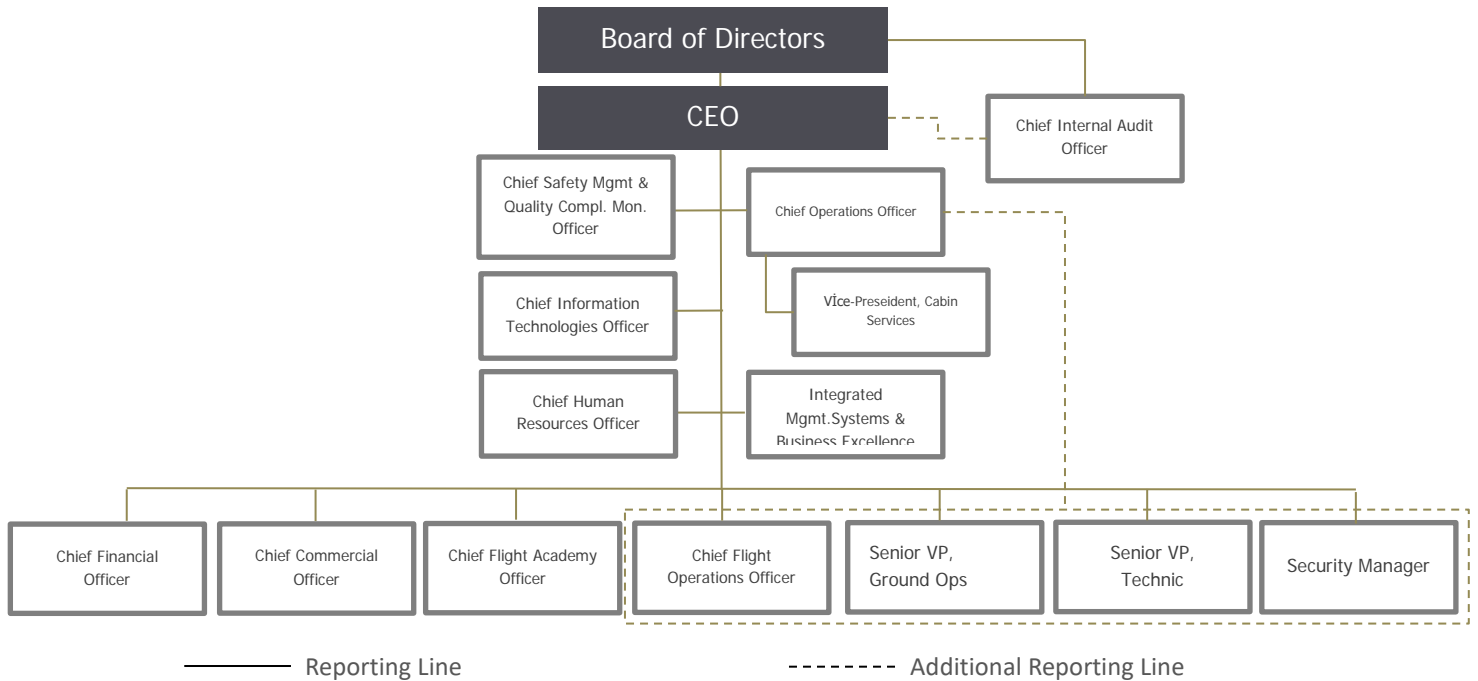
⁽³⁾ Appointed at the Extraordinary General Assembly Meeting dated November 11, 2016 to serve until the Annual General Assembly Meeting for the year 2016. The Capital Markets Board non-objection for Stephen Mark GRIFFITHS to serve as an Independent Director was received on January 16, 2017.

b)- Senior Management: Pegasus senior management comprises the General Manager, Chief Internal Audit Officer and executives directly reporting to the General Manager. Information on Pegasus senior management and their duties as of December 31, 2016 is provided in the following chart.

<u>Name / Surname</u>	<u>Duty</u>
Mehmet NANE	President & General Manager (CEO)
Güliz ÖZTÜRK	Chief Commercial Officer
Nasuh Nazif ÇETİN	Chief Operations Officer
Reha ÖZDEMİR	Chief Flight Operations Officer
Serhan ULGA	Chief Financial Officer
Aycan KURTOĞLU	Chief Information Technologies Officer ⁽¹⁾
Boğaç UĞURLUTEĞİN	Senior Vice-President, Ground Handling
Dilara OĞUR	Chief Human Resources Officer
Ergün DEMİRCİ	Senior Vice-President, Technic
Kemal Mustafa HELVACIOĞLU	Chief Flight Academy Officer
Mine ÖZTÜRK	Chief Internal Audit Officer
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer
Tayfun Bora	Security Manager

⁽¹⁾ On February 28, 2017, Ayca KURTOĞLU stepped down as Chief Information Technologies Officer and Barış FINDIK was appointed to succeed her effective as the same date.

Pegasus management organization chart is as follows:



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, 2016 was 5,257. This number, as of December 31, 2016 covers the members of our senior management listed above.

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 Annual General Assembly Meeting dated April 7 2016 and the Extraordinary General Assembly Meeting dated November 11, 2016, 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, at the Annual General Assembly Meeting held on April 7, 2016, our shareholders will be informed that in 2015, no material transactions realized 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.

Information on the related party transactions entered into by our Company in 2016 has been provided in Note 6 to the Consolidated Financial Statements for the Accounting Period between January 1 – December 31, 2016, "Related Party Transactions".

Furthermore, as of December 31, 2016, Ali İsmail SABANCI, 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 İsmail SABANCI 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 in 2016. The Company believes that the above transactions and engagements do not give rise to any conflict of interest for Pegasus or its subsidiaries.

Pegasus acts prudently to prevent any conflict of interests with the entities providing services such as investment advice and rating services to it. In 2016, there are no transactions to report that gave rise to a conflict of interest in this regard.

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 2016 as well as gross payments for their duties as chairman or member at the relevant Board committees amounted to TL 1,096,037.89.

In 2016, the total salary and bonus fees paid to the General Manger 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 16,074,373.11.

3- RESEARCH AND DEVELOPMENT ACTIVITIES

As part of paperless cockpit studies aimed at reducing weight on board and increased operational efficiency undertaken by our Flight Performance & Navigation Department, the Electronic Flight Bag (*EFB*) Project implemented in 2015 was enhanced by the introduction of new software including "e-Trip Info", "e-Load Sheet" and "e-Flight Plan" in 2016 and the Company achieved its goal of 100% paperless cockpit. On the other hand, studies on electronic flight charts developed by Pegasus in collaboration with the Ministry of Science, Industry and Technology and Istanbul Technical University produced results and the maps developed under this project came into use in 2016. The special visual approach maps developed resulted in shorter landing routes, shorter travel times and fuel efficiency. Furthermore, significant improvements were achieved in several other innovation, technology and design projects, as part of which tools such as "Aircraft Tracker" and "Pegasus Analytics – Dashboard" became functional, allowing for smart review of operational efficiency and a more simplified and effective operational performance.

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 International Civil Aviation Organization (ICAO) data, scheduled passenger movement of 2.3 billion in 2006 reached 3.6 as of the end of 2015, showing an annual increase above 4.5% except in 2008 and 2009. International scheduled passenger movement alone increased from 808 million in 2006 to 1.4 billion in 2015 and showed an increase in each year covered in this period. According to the forecasts published by the International Air Transport Association (IATA), total passengers to be carried by air transportation is expected to rise to 7.2 billion by 2035. IATA forecasts indicate that the main driver in this increase will come from the Asia-Pacific region and that the assumptions may be affected by the increase or decrease in the globalization trend.

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 12 years. Between 2003 and 2015 real Turkish GDP compound annual growth rate (CAGR) was 14%, while according to the data published by the General Directorate of State Airports Authority (DHMI) the upwards trend in terms of number of domestic passengers with CAGR of 26% in the same period was more than 1.8 times the growth in GDP. Number of domestic and international passengers increased by CAGR of 14.5% between 2003 and 2015. 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.

However, in line with the increased geopolitical risks and security threats arising in the region surrounding Turkey in 2016, the total number of passengers showed a decrease of 4.1% on a year-over-year basis. DHMI data indicates an increase in the number of domestic passengers by 5.8% while the number of international passengers drop by 15.5%. Likewise, according to the Istanbul Provincial Culture and Tourism Directorate data, the number of tourists arriving

in Istanbul through Istanbul Atatürk and Sabiha Gökçen Airports and Haydarpaşa, Pendik, Zeytinburnu and Karaköy Ports decreased by 26.4% in the first 11 months of 2016 compared to the same period in 2015. This change in the international traffic, including transit traffic, resulted in the first annual decrease in passengers carried by air since 2003.

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 2016 at 14%, the cumulative annual growth rate of the scheduled passengers flying with Pegasus reached 22% 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, 2012 and 2013 according to the Official Airline Guide (OAG).

Total number of passengers carried by Pegasus in 2016 was 24.1 million and this number represents a 8.1% increase from 2015. The total number of passengers carried in domestic and international flights in, into and from Turkey in the same period was 174 million according to the data provided by DHMI, which indicates a 4.1% decrease from 2015.

Flying to 32 domestic destinations as of December 31, 2016, Pegasus increased total number of domestic passengers carried by 10.7% compared to 2015 and reached 15.3 million passengers and 82.9% load factor ratio. On the international scale, as of December 31, 2016, Pegasus flew to 69 destinations in 40 countries and increased the total number of passengers carried by 3.9% compared to 2015 to 8.9 million passengers in total, realizing a 72.1% load factor ratio.

The table below indicates Pegasus market share trend in terms of domestic and international scheduled passenger numbers between 2013 and 2016:

<u>Pegasus Market Share Data (2013 – 2016)</u>				
	2013	2014	2015	2016
Domestic	27%	28.0%	28.3%	29.80%
International	9%	9.4%	9.8%	11.90%

Source: Pegasus, DHMI

Despite the increase in the number of passengers carried and the Company’s increased market share, Pegasus started implemented a “3C Initiatives” action plan in the second half of 2016 in response to the Turkish aviation market development in 2016, increased geopolitical risks, lower demand in international travel and decrease in tourism revenue, slowdown in domestic growth and increased risks with respect to currency fluctuations. Review of cost items, process simplification, workforce optimization, revenue management initiatives and several other actions resulted in an improved CASK performance and further actions were implemented with respect to improving the Company’s cash position and fleet capacity management. Actions aimed at improving CASK, Cash and Capacity performance as part of the “3C Initiatives” will continue into 2017.

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 2015 is provided in Section (5/C) of the Report.

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

Information relating to the aircraft operated by Pegasus and its consolidated subsidiaries as of December 31, 2016 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		31.12.2016	31.12.2015	Growth (%)	31.12.2016	31.12.2015	Growth (%)	31.12.2016
B737-400	3,148	1	1	0	168	168	-	18,75
B737-800	4,360	60	57	5	11,290	10,723	9	6,48
A320CEO	3,300	9	4	125	2,172	1,620	34	2,84
A320NEO	3,700	9	0	-	1,674	-	-	0,18
TOTAL		82	67	22	15,304	12,511	22	5,41

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. As of December 31, 2016, nine A320neo aircraft joined Pegasus fleet and Pegasus became the first customer of CFM-Leap series engine used on A320neo 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 75 firm order aircraft and 25 option aircraft (assuming the option is exercised in full) under the Airbus order, expected to be delivered between 2016 and 2022, amount to approximately USD 12 billion as of December 31, 2016.

The delivery schedule for the A320neo/A321neo aircraft subject to our firm order with Airbus is as follows:

Aircraft Type	2016	2017	2018	2019	2020	2021	2022
A320neo	9	3	10	7	13	8	7
A321neo	-	-	-	7	-	5	6

() 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.*

In 2016, Pegasus placed a new order with Boeing for the purchase of five new B737-800NG aircraft. While the aircraft subject to this order were initially scheduled to be delivered in 2017 an agreement was reached with Boeing for the deferral of three aircraft deliveries until 2018. 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 these aircraft, amount to approximately USD 505 million.

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 published on our Investor Relations Website.

As of December 31, 2016, the Internal Audit Department of Pegasus comprises the Chief Internal Audit Executive, one Internal Audit Senior Specialist and one Internal Audit Specialist.

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, 2016. As of December 31, 2016 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
Air Manas Air Company LLC ("Air Manas")	Kyrgyzstan / Scheduled and unscheduled air transportation	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary
IHY İzmir Havayolları A.Ş. ("IzAir")	Turkey / Scheduled and unscheduled air transportation	TL 59,500,000	TL 41,125,000	69.12%	Subsidiary
Pegasus Havacılık Teknolojileri ve Ticaret A.Ş. ("PAT")	Turkey / Simulated flight training	TL 100,000	TL 100,000	100.00%	Subsidiary
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Turkey / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture/ Associate
Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar")	Information Technologies Solutions	TL 200,000	TL 100,000	50.00%	Joint Venture/ Associate

On May 13, 2016, Pegasus Havacılık Teknolojileri A.Ş. ("Pegasus Aviation Technologies") was incorporated as a 100% subsidiary of Pegasus to operate in the field of synthetic flight training devices services and flight training.

On May 30, 2016, Pegasus exercised its call option with respect to 10% stake in Hitit Bilgisayar, a Turkish information technologies company providing IT system solutions in transportation, and acquired the corresponding Group (B) shares from the existing shareholders of Hitit Bilgisayar for a compensation of USD 14,500,000. Following the exercise of the call option the Company's shareholding in Hitit Bilgisayar reached 50%.

E- SHARE BUYBACK TRANSACTIONS

There were no share buyback transactions for the year 2016.

Pursuant to the "Pegasus Share Buyback Policy" adopted by the resolution of Board of Directors dated November 20, 2013 and numbered 403, available on 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 2015.

In 2016, Pegasus was subject to several planned and non-planned investigations and audits by the General Directorate of Civil Aviation, Ministry of Labor and Social Security and Ministry of Environment and Urbanism with respect to operational and technical compliance, environmental compliance for operations carried out at the Istanbul Sabiha Gökçen Airport, employment law compliance. The operations of the Company may, from time to time, be subject to routine or one-off investigations by other administrative bodies authorized in Turkey and abroad. As a result of the said inspections and audits the Company was imposed administrative fines in the amount of TL 535,267 in 2016.

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, 2016, 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, 2016, 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 between January 1 – December 31, 2016. 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, there were no administrative or judicial sanctions imposed against Pegasus or our Directors for any action in violation of the law in 2016.

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 2016 that have not been fulfilled. The operational results of our Company for the year 2016 are in line with the strategic targets disclosed by Pegasus in the prospectus disclosed on April 13, 2013, and since then, periodically shared with the investor community. In this respect, Pegasus increased the destinations flown both domestically and internationally in the targeted regions and the total number of passengers carried in 2016 shows a 28.1% increase from 2013 year-end result. Pegasus also increased the number of aircraft in fleet, utilization of aircraft and

revenue generated from ancillary services, and in respect of the latter an ancillary revenue per passenger of TL 33.82 was reached as of December 31, 2016.

Our consolidated subsidiary Air Manas extended its operations network by serving two new destinations in Russia and China in 2016.

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

An Extraordinary General Assembly Meeting was held on November 11, 2016. The decisions adopted at this meeting, summarized below, were registered with the Istanbul Trade Registry on November 28, 2016:

1. Stephen Mark GRIFFITHS, nominated by the Corporate Governance Committee and the Board of Directors was appointed as a Director to serve until the Annual General Assembly Meeting for the year 2016.
2. The Board appointment of Hatice Zeynep Bodur OKYAY dated July 14, 2016, to replace Conor John McCARTHY for the remainder of his term of office was approved.
3. Parallel to the compensation of Directors approved at the Annual General Assembly Meeting dated April 7, 2016, the meeting attendance entitlement for Sertaç HAYBAT, Hatice Zeynep Bodur OKYAY and Stephen Mark GRIFFITHS was determined as gross Euro 12,000. It was also agreed that the three non-executive Directors receive gross Euro 10,000 for each Committee chairman duty and gross Euro 5,000 for each Committee member duty they assume.
4. Sertaç HAYBAT, Hatice Zeynep Bodur OKYAY and Stephen Mark GRIFFITHS were authorized to enter into transactions falling within the scope of Articles 395 and 396 of the Turkish Commercial Code.
5. The changes proposed by the Board of Directors by its decision dated October 11, 2016 and numbered 556 to the "Pegasus Donations and Charitable Contributions Policy" were approved.

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

Pegasus carried out donations, charitable contributions and social responsibility projects in line with the "Pegasus Donations and Charitable Contributions Policy" and the "Pegasus Corporate Social Responsibility Policy" in 2016. Both policies are accessible through our Investor Relations Website.

At the Annual General Assembly Meeting held on April 7, 2016, the General Assembly, in accordance with Article 19 of the Capital Markets Law No. 6362 and Article 11 of the Company Articles of Association, determined the ceiling for donations to be made by the Company in 2016 as TL 5,000,000. At the Extraordinary General Assembly Meeting held on November 11, 2016, "Pegasus Donations and Charitable Contributions Policy" was amended to allow for donations to be made for solidarity purposes aside for education, health and aviation.

The donations made by the Company as of December 31, 2016 totaled TL 1,814,555. This number excludes other corporate social responsibility projects targeted at several groups who were provided with transportation and flight-related training with the aim of providing social value.

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 6, 2017, notes that *"in all transactions between our Company and Esas Holding or its subsidiaries between January 1, 2016 and December 31, 2016, 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 5 to the Consolidated Financial Statements for the Accounting Period between January 1 – December 31, 2016. The said financial statements are available on our Investor Relations Website.

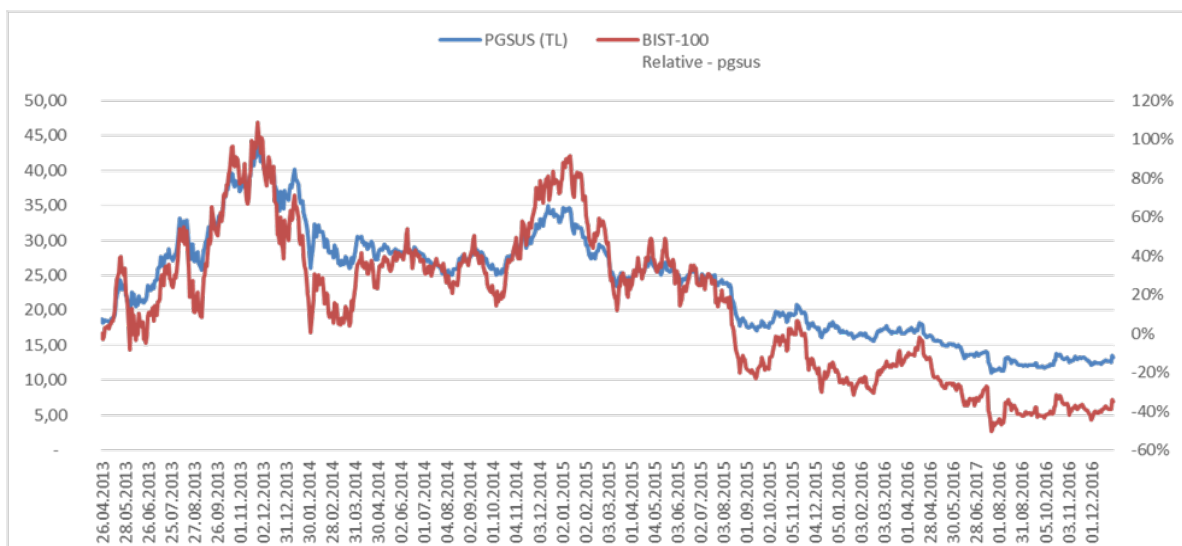
5-FINANCIAL STATUS

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, 2016, 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	: STAR MARKET
Indices	: BIST SERVICES / BIST ISTANBUL / BIST ALL / BIST ALL-100 / BIST-50 / BIST TRANSPORTATION / BIST STAR / BISTKYUR CORPORATE GOVERNANCE / BIST SUSTAINABILITY
BIST Ticker	: PGSUS
Bloomberg Ticker	: PGSUS.TI
Reuters Ticker	: PGSUS.IS

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, 2016:



Pegasus shares closed at TL 18.75 on the first trade day, *i.e.*, April 26, 2013 and closed at TL 14.15 on December 31, 2016. Between April 26, 2013 and December 31, 2016 the lowest value Pegasus shares experienced was TL 11.10 (July 21, 2016) and the highest value Pegasus shares reached was TL 43.50 (November 25, 2013).

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, 2016, 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, 2016 compared against the same period in 2015 and the year-over-year changes for the relevant line items are set out in the following charts:

Overall	Jan. – Dec. 2016	Jan. – Dec. 2015	Y-O-Y Change %
Number of passengers (<i>million</i>)	24.14	22.34	8.1
Cycle	166,691	152,213	9.5
Number of seats (<i>million</i>)	30.73	28.26	8.7
Load factor (%)	78.6	79.0	-0.48 pp
ASK ⁽¹⁾ (<i>million</i>)	30,510	27,969	9.1
Passengers per cycle	145	147	-1.3
Avg. daily aircraft utilization (<i>hours</i>) ⁽²⁾	12.0	12.5	-4.2
Domestic			
Number of passengers (<i>million</i>)	15.29	13.81	10.7
Cycle	98,857	90,010	9.8
Number of seats (<i>million</i>)	18.45	16.86	9.4
Load factor (%)	82.9	81.9	0.93 pp
ASK ⁽¹⁾ (<i>million</i>)	11,141	9,899	12.5
Passengers per cycle	155	153	0.8

International ⁽³⁾

Number of passengers (million)	8.85	8.52	3.9
Cycle	67,834	62,203	9.1
Number of seats (million)	12.28	11.40	7.7
Load factor (%)	72.1	74.8	-2.66 pp
ASK ⁽¹⁾ (million)	19,369	18,070	7.2
Passengers per cycle	131	137	-4.7

⁽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⁾ Refers to the hours from an aircraft's take-off to landing (including taxi time).

⁽³⁾ Includes charter operational results.

Summary Balance Sheet

(thousand TL)	31.12.2016	31.12.2015	Change (%)
Current assets	1,459,826	1,833,732	-20
Fixed assets	4,158,192	2,264,365	84
Total assets	5,618,018	4,098,097	37
Short-term liabilities	1,038,827	991,846	5
Long-term liabilities	3,009,870	1,653,520	82
Shareholders' equity	1,569,321	1,452,732	8

Summary P&L

(thousand TL)	Jan.-Dec. 2016	Jan.-Dec. 2015	Change (%)
Sales income	3,707,471	3,488,271	6
Gross profit	196,169	433,287	-57
Profit/(loss) from operations	-105,955	269,357	-208
Operating profit before financial income/(expense)	-77,514	289,586	-188
Profit/(loss) before tax	-143,670	182,379	-188
Profit/(loss) for the period	-136,183	111,864	-238
Earnings/(loss) per share	-0.0013	0.0011	-236

Changes in Financial Position

(thousand TL)	31.12.2016	31.12.2015	Change (%)
Cash and cash equivalents	692,271	954,974	-28
Financial liabilities	2,676,566	1,415,437	89
Net debt position ⁽¹⁾	1,984,295	460,463	331

⁽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 Boeing and Airbus aircraft acquired by way of financial lease through loans obtained from various banks. As of December 31, 2016, the outstanding balance of the total loans borrowed for the financing of 33 aircraft acquired by way of financial lease is TL 2,603,745,525.

As of December 31, 2016, Pegasus and its subsidiaries do not have any drawn cash loans but have a total outstanding non-cash loans totaling TL 622,650,144 under credit lines with various Turkish and foreign banks. 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, 2016 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

As of December 31, 2016, the Company's shareholders' equity totaled TL 1,569,321,345. However, as stated in Section (4/A) of this Report, in consideration of the increased geopolitical risks, lower demand in international travel and decrease in tourism revenue, slowdown in domestic growth and increased risks with respect to currency fluctuations, the Company started implementing a set of actions referred to as the "3C Initiatives" in the second half of 2016 aimed at improving CASK, Cash and Capacity performance. In this respect, review of cost items, process simplification, workforce optimization, revenue management initiatives and several other actions resulted in an improved CASK performance and further actions were implemented with respect to improving the Company's cash position and fleet capacity management. The actions under the "3C Initiatives" will continue into 2017.

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 accounts based on Turkish Financial Reporting Standards and based on our statutory records prepared in accordance with the Turkish Tax Procedure Law No. 213, the Company incurred net loss for the year 2016 in the amount of TL 134,182,998 and TL 507,558,400.75, respectively. Therefore no distributable profit emerged for the year 2016.

The Company Articles of Association do not provide for any privileges in respect of profit distribution.

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 main risks to which the Company is exposed, the relevant departments responsible for the scrutiny and management of these risks and the measurement tools and tolerance limits applicable to these risks are determined by the Committee on the Early Detection of Risks. Risk areas thus defined are regularly reviewed, re-evaluated and the mitigating actions implemented by Management in response to these risks are periodically submitted for the review and evaluation of the Committee. The risk evaluation analysis reviewed by the Committee and recommendations by the Committee are communicated to the Board of Directors once every two months.

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 was approved by the same Board resolution and has been publicly announced through the Public Disclosure Platform and our Investor Relations website. In 2016, our Independent Director Saad Hassan HAMMAD assumed the role of Committee chairman while our non-executive Director Sertaç HAYBAT and İnan TANRIÖVER served as members of the Committee.

Pursuant to its Charter the Committee convenes 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. In 2016, the Committee convened for meetings five times on March 15, May 11, July 26, October 13 and November 29. Risk review as of the end of 2016 was conducted on January 31, 2017.

The Committee performed duties determined in its Charter and in this respect, 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 and periodically reports its findings to the Board of Directors. The Committee reported its works and its findings and recommendations on risks faced by the Company to the Board of Directors once every two months in accordance with the provisions of Article 378 of the Turkish Commercial Code.

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

Following his appointment as a non-executive Director at the Extraordinary General Assembly Meeting dated November 11, 2016, the Company sought the approval of the Capital Markets Board for Stephen Mark GRIFFITHS to serve as an Independent Director of the Company. By its letter dated January 9, 2017, the Capital Markets Board provided its non-objection for Stephen Mark GRIFFITHS to serve as an Independent Director.

Effective as of January 1, 2017, Ilgar ALPTEKİN stepped down as the General Manager of the Company's subsidiary Air Manas Air Company LLC and Talgat NURBAEV was appointed to succeed him as General Manager of the entity.

Effective as of February 17, 2017, Stephen Mark GRIFFITHS has been appointed as the Chairman of the Corporate Governance Committee succeeding Saad Hassan HAMMAD.

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

None.

8- RESPONSIBILITY STATEMENT FOR THE ACTIVITY REPORT

**RESPONSIBILITY STATEMENT AS PER ARTICLE 9 OF THE COMMUNIQUÉ NO. II-14.1
OF THE CAPITAL MARKETS BOARD**

The audited consolidated financial statements and the annual activity report of the Board of Directors for the period between January 1, 2016 and December 31, 2016, prepared in accordance with the Capital Markets Board Communiqué No: II-14.1 and approved by the Board of Directors by its decision dated March 6, 2017 and numbered 576 have been provided in the annex hereto.

We hereby inform you that the Consolidated Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, together with the notes thereto and the Annual Activity Report, in accordance with the regulations of the Capital Markets Board:

- a) Have been reviewed by us;
- b) Based on the information available to us as a result of our duty at the Company, do not contain any incorrect disclosure on material issues or any insufficiencies that may be misleading as of the date the disclosure is made;

- c) Based on the information available to us as a result of our duty at the Company, the financial statements prepared in accordance with the applicable financial reporting standards and based on the principle of consolidation, reflect fairly on the Company's assets, liabilities, financial standing and profit/loss for the relevant period, and the activity report, again based on the principle of consolidation, reflect fairly on the development of the business, performance and the important risks and uncertainties faced by the Company;

and we hereby declare our responsibility for this statement. Respectfully yours,

Mehmet Cem KOZLU
Chairman of the Audit
Committee and Board Member

Saad Hassan HAMMAD
Audit Committee and
Board Member

Serhan ULGA
Senior Vice-President,
Finance & CFO

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION I - CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

During the year that ended on December 31, 2016, the Corporate Governance Principles determined by the Capital Markets Board have been implemented by Pegasus as described below.

Immediately following the initial public offering of its shares in April 2013, Pegasus 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 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, 2016, our Company had not yet attained full compliance, 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 as of December 31, 2013. The said compliance rating was later revised in light of the changes to the Corporate Governance Principles brought by the Capital Markets Board's Corporate Governance Communiqué No. II-17.1 as 8.07. During the 2014 review of our corporate governance compliance, our compliance rating was re-determined as 8.77 on October 24, 2014, marking a 7% increase over a period of eight months. According to re-evaluation by the independent rating agency, on September 29, 2015, our compliance rating was re-determined as 9.03. Our governance compliance continued its consistent increase in 2016 where in the last evaluation on August 29, 2016 and the rating was re-determined as 9.17.

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.

Pegasus has been included in the BIST Corporate Governance Index since 2014 and remains committed to continuously reviewing domestic and international developments in corporate governance and further improving its corporate governance practices. As part of the initiatives for improving the Company's corporate governance practices, in 2016, Pegasus achieved improvement shareholder and stakeholder relations through various new Board of Directors' practices, corporate policies and procedures and the active participation of our Family Members to our Company's strategic planning process. Pegasus was also included in the BIST Sustainability Index in 2016 based on its performance for a number of sustainability criteria, including corporate governance.

The Corporate Governance Principles with which, as of December 31, 2016, our Company had not yet attained full compliance are listed below:

- 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.
- 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.
- Although honorarium entitlements and compensation relating to committee duties for the members of the Board of Directors are disclosed on an individual basis, salary and benefits provided to the members of Senior Management are not disclosed on an individual basis.

Under the auspices of the Corporate Governance Committee, we are undertaking studies to improve current corporate governance practices and are regularly reviewing the foregoing matters for any need to change existing practices. In this respect, the existing Board self-assessment scheme was revised in 2015 into a more advanced model and now includes tools for assessing performance at both committee and individual levels. New procedures have been developed by Board of Directors in order to evaluate the performances of the Chairman of the Board and the CEO in 2016. By choosing nominees for the Board among different candidates, Pegasus implemented the nomination framework set out in the Corporate Governance Principles. With respect to extending minority rights by virtue of an amendment to the Articles of Association, the Company's assessment is that given the Company's fulfillment of the minimum statutory requirements in this regard, the absence of extended minority rights does not create any conflict of interest. Finally, for the year 2016, the Company decided to continue to disclose Board and Senior Management remuneration and benefits on a consolidated basis, which is regarded to be in line with the practice adopted by other BIST Corporate Governance Index participants.

SECTION II - SHAREHOLDERS

2.1. INVESTOR RELATIONS UNIT

At Pegasus, relations with shareholders are undertaken by Pegasus Investor Relations, reporting to the Company CFO. Our senior management personnel responsible for shareholder relations and their contact information are provided below:

Serhan ULGA
Chief Financial Officer

Verda Beste TAŞAR
Investor Relations Manager

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

In accordance with the requirements of the Capital Markets Board's Corporate Governance Communiqué No. II-17.1, Verda Beste TAŞAR assumes the duty of heading the Company's investor relations unit and serves as a member of the Corporate Governance Committee. Beste TAŞAR is a full time employee of our Company reporting to the CFO and holds a Corporate Governance Rating License. Pegasus Investor Relations regularly reports its studies to our Board of Directors and our Corporate Governance Committee. In 2016, the studies with regular

updates have been reported to the Board of Directors and to the Corporate Governance Committee on March 17, May 11, August 21, and December 15. During the year term, the Company responded to inquiries submitted by our shareholders without discrimination, through telephone, e-mails or meetings. In this respect over 500 inquiries have been answered by telephone and e-mail and 211 meetings were held with individual and institutional investors in 2016. The Company also held 150 investor meetings at conferences attended in New York, Boston, London, Warsaw and Prague.

2.2. 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 in writing and publicly announced in the “**Pegasus Information Policy**”. The current text of the Pegasus Information Policy is accessible through our Investor Relations Website.

The inquiries mentioned in the above Section II – Shareholders/2.1. Investor Relations Unit have been answered within the framework of the law and the Pegasus Information Policy and in 2016 there has not been any other request for information or a request for special audit of a specific matter.

Our shareholders are entitled by law to request the appointment of a special auditor to review specific matters, and this statutory right is explicitly recognized in Article 16 of our Articles of Association.

2.3. GENERAL ASSEMBLY MEETINGS

Shareholders General Assembly convened for meetings twice in 2016.

The Annual General Assembly meeting of our Company relating to the year 2015 was held on April 7, 2016 at 10:00 am local time at Pendik Green Park Hotel, Kaynarca Mahallesi, Erol Kaya Caddesi No: 204 Pendik, Istanbul in attendance of Sabri KÖSE appointed as the Ministry of Customs and Trade representative by the letter of Provincial Commerce Directorate of the Governorship of Istanbul dated April 6, 2016.

The meeting invitation and the agenda were published in the Trade Registry Gazette dated March 14, 2016 and numbered 9031, on pages 142 and 143, on our Company's website, on the Public Disclosure Platform and the Electronic General Assembly Portal within the time limits prescribed by the law. Furthermore, written invitations have been communicated to the shareholders that are not subject to the exception set out in Article 29 Paragraph 2 of the Capital Markets Law No. 6362.

Of the 102,272,000 shares corresponding to the TL 102,272,000 Company capital, 874.892 shares were represented in person and 69.113.898 shares were represented by proxy and the requisite meeting quorum provided in the Articles of Association and the law was met. The Chairman of the Board of Directors Ali İsmail SABANCI, the Company CEO Mehmet Tevfik NANE and Cem TOVİL representing the Company's independent auditor were present at the meeting.

During the Annual General Assembly meeting, a question was raised by the participating shareholders, regarding female participation in the Board of Directors in line with the Capital Markets Board's Corporate Governance Principles. The Chairman of Board of Directors Ali İsmail SABANCI explained that the participation of at least one more member in Board of Directors was anticipated in 2016 and that priority will be given to a female candidate among equal nominees. No other questions were received.

Details regarding the questions raised by the shareholders during the meeting and the answers provided have been published as part of the meeting minutes on the Company website, the Public Disclosure Platform and the Electronic General Assembly portal.

The decisions of our shareholders adopted at the Ordinary General Assembly meeting held on April 7, 2016 are indicated in the table below:

Meeting Date	Resolutions
April 7, 2016 (Annual General Assembly)	<ul style="list-style-type: none"> • Approval of the Annual Report, the Auditor Report and the Financial Statements for the year 2015 • Release of the members of the Board of Directors for operations and accounts pertaining to the year 2015 • Allocation of the 2015 profit as extraordinary reserves • Approval of amendments to Article 10 of the Articles of Association regarding maximum number of directors to be appointed and Article 11 regarding Board of Directors authority on various matters • Authorization 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⁽¹⁾ • 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⁽²⁾ • Appointment of the independent audit firm for the year 2016 as per the provisions of Article 399 of the Turkish Commercial Code • Determination of a ceiling for donations to be made by the Company in 2016

⁽¹⁾ For more information, please refer to Section (1/F) and (2) of the 2015 Annual Report

⁽²⁾ For more information, please refer to Section (1/G) of the 2015 Annual Report

The Extraordinary General Assembly meeting of our Company was held on November 11, 2016 at 10:00 am local time at Company headquarter located at Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı No: 11/A Kurtköy 34912 Pendik İstanbul in attendance of Feyyaz BAL appointed as the Ministry of Customs and Trade representative by the letter of Provincial Commerce Directorate of the Governorship of Istanbul dated November 10, 2016.

The meeting invitation and the agenda were published in the Trade Registry Gazette dated October 20, 2016 and numbered 9180, on pages 638, on our Company's website, on the Public Disclosure Platform and the Electronic General Assembly Portal within the time limits prescribed by the law. Furthermore, written invitations have been communicated to the shareholders that are not subject to the exception in Article 29 Paragraph 2 of the Capital Markets Law No. 6362.

Of the 102,272,000 shares corresponding to the TL 102,272,000 Company capital, 5 shares were represented in person and 65.783.773 shares were represented by proxy and the requisite meeting quorum provided in the Articles of Association and the law was met. The vice chairman of the Board of Directors Hüseyin Çağatay ÖZDOĞRU, the Company CEO Mehmet Tevfik NANE and Cem TOVİL representing the Company's independent auditor were present at the meeting.

Prior to the meeting requests to have the following items added to the agenda for the first General Assembly meeting to be held were received between July 14 and August 4, 2016. The requests were dismissed by Board of Directors. Requests regarding the additional agenda requests and the grounds for dismissal have been communicated to the Shareholders in the General Assembly Information Document as described below;

REQUEST #1: "The dismissal of Hüseyin Çağatay ÖZDOĞRU, Sertaç HAYBAT and Serhan ULGA, members of the board of directors and senior management who have responsibility in

significant hedging losses incurred due to faulty fuel hedge contracts and the filing of a liability/indemnity lawsuit against them in respect of Articles 553 and 555 of the Turkish Commercial Code.”

GROUND FOR DISMISSAL BY THE BOARD OF DIRECTORS:

- (a) The management of our Company’s fuel- and currency fluctuations- related risks has been carried out under a policy adopted by the Board of Directors since August 2011 and the hedging transactions executed to date have been in line with the said Board policy;
- (b) The Board policy on the Company’s hedging strategy that provides for the hedging of up to 60% of the Company’s jet fuel requirements for 12 months going forward and up to the Company’s entire US\$ requirements for 12 months going forward, and the hedging volume and the impact of the executed transactions on the Company’s financial results have been shared with our shareholders in the prospectus for the initial public offering of the Company shares and through all subsequent financial reports, investor presentations and other information published on our Investor Relations Website;
- (c) The possibility that the Company may be negatively affected by the changes in jet fuel prices and currency fluctuations and that the Board policy on hedging or the execution of such policy may not be sufficient to overcome all risks and potential losses that may arise from such changes have been disclosed as the first three risk factors in the “Risk Factors” section of the prospectus for the initial public offering of the Company shares;
- (d) All air carriers implementing a hedging strategy have been negatively affected by the decline in jet fuel prices in the last two years (where Brent oil barrel prices fell from the level of US\$ 115 as of June, 2014 to the level of US\$ 28 as of January 20, 2016), that the Company’s hedging strategy has been comparable to similar practices implemented in the aviation sector, and these matters have been discussed in response to the questions raised by our shareholders at the General Assembly Meeting dated March 31, 2015 and have further been explained in detail to our shareholders as part of all subsequent financial reports;
- (e) Hüseyin Çağatay ÖZDOĞRU does not undertake any executive duty in respect of the Company’s hedging transactions, and the dismissal of Serhan ULGA, who serves as Senior Vice-President, Finance & CFO, is a matter that falls within the exclusive and unrelinquishable duties and responsibilities of the Board of Directors as per Article 375 of the Turkish Commercial Code No. 6102; (f) The dismissal of the members of our Board of Directors and Senior Management who have had significant contribution to our Company’s growth and success since 2005 is not deemed to be in the best interests of the Company and our shareholders;
- (f) In consideration of the above, no liability arises based on the hedging transactions in respect of Articles 553 and 555 of the Turkish Commercial Code No. 6102.

REQUEST #2: “Information to be provided to the General Assembly explaining the reasons for disregarding the depreciation of the Company’s share value at Borsa Istanbul close to 65% as of July 14, 2016, despite having published a share buyback policy adopted as per the resolution of the Board of Directors dated November 20, 2013 and numbered 403, thus failing to protect public shareholders and contributing to their loss.”

GROUND FOR DISMISSAL BY THE BOARD OF DIRECTORS:

- (a) The option of share buyback has been on the agenda of the Board of Directors as evidenced by the “Pegasus Share Buyback Policy” adopted by the resolution dated November 20, 2013 and numbered 403;
- (b) There are no undertakings or commitments made by our Company in respect of the implementation of share buyback under the said “Share Buyback Policy”;
- (c) The fact that other entities operating in the aviation sector whose shares are traded on Borsa Istanbul and are included in the BIST-30 index have experienced share price devaluation since the end of 2013 but have not implemented any share buyback transactions has also been taken into consideration;
- (d) The transactional and value performance of our Company’s shares on Borsa Istanbul and the initiatives undertaken by our Company to improve such performance are being regularly scrutinized by the Corporate Governance Committee and the Board of Directors;
- (e) There are no matters that are not publicly disclosed that may affect the value, the price of the Company’s shares or the investment decisions of the investors, and that the trading price of our Company’s shares on Borsa Istanbul is shaped by the market demand;
- (f) Allocation of the Company’s cash resources for the buyback of its own shares is not deemed to be in the best interests of the Company and our shareholders considering the ongoing investments and the commitments made by our Company in this respect and in particular, the negative effect of the decline in 2016 of the demand in international passenger traffic on the cash resources of our Company.

REQUEST #3: “The adoption of a decision for the buyback of the Company’s shares on Borsa Istanbul in accordance with the Share Buyback Communiqué No. 22.1 of the Capital Markets Board, due to the Company’s share price having fallen significantly below the initial public offering price in 2013.”

GROUND FOR DISMISSAL BY THE BOARD OF DIRECTORS: The allocation of the Company’s cash resources for the buyback of its own shares is not deemed to be in the best interests of the Company and our shareholders considering the ongoing investments and the commitments made by our Company in this respect and in particular, the negative effect of the decline in 2016 of the demand in international passenger traffic on the cash resources of our Company.

At the Extraordinary General Assembly meeting on November 11, 2016, a question was submitted by a shareholder, Mehmet Sabri KURT, regarding whether there was any intention for Share Buyback, as some companies apply, relating the decrease on price of Company’s shares on Borsa Istanbul. In response, the Company General Manager Mehmet Tevfik NANE stated that the power of taking decision regarding this issue belongs to Shareholders General Assembly and Board of Directors and that no decision has been taken on the matter.

The decisions of our shareholders adopted at the Extraordinary General Assembly meeting held on November 11, 2016 are indicated in the table below:

Meeting Date	Resolutions
November 11, 2016 (Extraordinary General Assembly)	<ul style="list-style-type: none">• Approval of appointing Ms. Hatice Zeynep Bodur OKYAY as member of Board of Directors following the resignation of Mr. Conor John McCARTHY in accordance with Article 363 of the Turkish Commercial Code

-
- Appointment of Mr. Stephen Mark GRIFFITHS as a non-executive member for the Board of Directors
 - Determination of payments to be made to non-executive Board members
 - Authorization of the members of the Board of Directors appointed after April 7, 2016 to enter into transactions falling within the scope of Articles 395 and 396 of the Turkish Commercial Code
 - Approval of the changes to the “**Pegasus Donations and Charitable Contributions Policy**” proposed by the Board of Directors
-

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

There were no transactions to report in 2016 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.

Shareholders attending the Annual General Assembly Meeting dated April 7, 2016 were informed of the donations made by the Company in 2016. In addition, the amendments in the Pegasus Donations and Charitable Contributions Policy, proposed by the Board of Directors, were approved in the Extraordinary General Assembly Meeting dated November 11, 2016. In scope of the amendments, the Company is allowed to make donations to persons, associations, foundations, non-governmental organizations and public institutions that operate in the field of solidarity, extending the scope of donations that can be made by the Company.

2.4. VOTING RIGHTS AND MINORITY RIGHTS

Pegasus has not issued any shares with voting privileges and is not party to any cross shareholding relationship. Pegasus does not engage in any practice hindering the exercise of minority shareholders representing at least 5% of the issued capital of the Company. However; 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.

2.5. 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 on our Investor Relations website. In line with legal requirements, "Pegasus Dividend Policy" became effective upon unanimous approval of the shareholders attending the Annual General Assembly Meeting dated March 31, 2014.

Pegasus Dividend Policy 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.

At the Annual General Assembly Meeting dated April 7, 2016, Company's activities in the line with growth strategy, the financing needs for new investment targets for the Company's fleet and the flight network and the need to maintain strengthened liquidity and with the purpose of realizing long-term shareholder value resolved to set aside the net distributable profit for the year 2016 as extraordinary reserves.

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

2.6. 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 III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. PEGASUS WEBSITE AND CONTENT

We are actively using our Corporate and Investor Relations Websites which are indicated below:

<http://www.flypgs.com>

<http://www.pegasusinvestorrelations.com>

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

In addition to the above, the 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 A.Ş.*) (<https://e-sirket.mkk.com.tr/esir/Dashboard.jsp#/sirketbilgileri/11366>) connected via a link on 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
 - Strategic Goals

- 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
 - Corporate Governance Compliance Report
 - Sustainability
- 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
 - Events
 - Investor Information Document
- Information Society Services

3.2. 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 following the approval of Board of Directors, are published in accordance with the applicable law and are made available on our Investor Relations Website.

SECTION IV - STAKEHOLDERS

4.1. 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, 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.

4.2. 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 in consideration of 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 business management processes. In this respect:

- Within the framework of Pegasus Ethical Behavior Guide, Pegasus undertakes to facilitate for all Family Members easy access to their superiors and members of our senior management and actively implements this principle;
- Studies are carried out to improve all matters directly affecting our Company's profitability. Meeting minutes, progress reports and other relevant information and documents are regularly made available to all Family Members through our corporate intranet portal.

4.3. HUMAN RESOURCES POLICY

Pegasus Human Resources aims to develop and implement fair, transparent, sensitive and innovative human resources strategies for sustainable and constantly improving success in business.

Pegasus Human Resources strategy is to be the Company everyone would like to work for in the aviation sector.

To reach our goals we;

- envisage and implement segmented and solution oriented human resources practices by taking into consideration the dynamics of the sector we operate in,
- encourage and promote our Family Members for high performance and constant improvement beginning with mapping out our workforce requirements and throughout employment term,

- conduct a performance evaluation process once in a year and involving mid-term evaluations based on our main objectives that reflect on our Family Members' self-development, earnings and career plans according to results of the performance evaluation,
- bring high potential employees to the Pegasus Family and train them for managerial responsibility and track self-development of our Family Members keeping them informed of horizontal and vertical career opportunities,
- compensate our Family Members mindful of their added value contribution to the Company and based on a fair, transparent and competitive compensation scheme focused on corporate strategy and individual achievements,
- construct the right norm staff plans and productive organization management structure by determining of effective and accurate labor force needs based on a job valuation system linked to the content of the job,
- give priority to make the right investment in the right person in line with our career planning practices supported by education and development opportunities which reveal the potential for our Family Members,
- create a solution for our Family Members' potential needs by throughout their career in Pegasus.

The organization structure of our Company and the performance and rewarding criteria implemented by our Company are announced to our Family Members and are made available in our corporate intranet portal. The hiring criteria we implement are also determined in writing.

As Pegasus, we are further making the following commitments to our Family Members within the scope of the **"Pegasus Ethical Behavior Guide"**:

- Maintain honest, respectful, fair and trustful behavior based on reason, conscience and common sense while performing all our activities,
- Establish open, collaborative and friendly relationships in every aspect,
- Uphold, protect and incentivize the protection of the values set out in the Pegasus Ethical Behavior Guide,
- Act in conformity with all applicable laws, rules and regulations,
- Act honestly and ethical in case of conflicts of interest between responsibilities towards Pegasus and personal interests,
- Provide full, accurate and comprehensible information in the reports and documents which are made public or sent to the registered regulatory bodies,
- Work to preserve a Company culture and a working environment that promotes the ethical principles set out in the Ethical Behavior Guide in order to achieve Company targets, provide safety and satisfaction to our guests,

4.4. ETHICAL RULES AND SOCIAL RESPONSIBILITY

Following the initial public offering of its shares in April 2013, Pegasus published its first set of ethical rules, the Pegasus Rules of Business Ethics on December 4, 2013. The document was later superseded in 2016 by the Pegasus Ethical Behavior Guide, which includes more comprehensive and explanatory rules of ethical behavior especially for our Family Members, has been adopted in the same date.

"Pegasus Corporate Social Responsibility Policy" has been adopted by the decision of our Board of Directors dated November 20, 2013 and has subsequently been published on the

Public Disclosure Platform November 22, 2013, respectively. “Pegasus Corporate Social Responsibility Policy” documents are accessible through our Investor Relations Website.

Pegasus Ethical Behavior Guide defines Rules of Ethical Behavior 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 and sets this as the basis of all of its relations. Pegasus Ethical Behavior Guide covers all Pegasus Family Members, including all Pegasus Directors and employees and the directors and employees of our subsidiaries. Pegasus Ethical Behavior Guide determines the framework of the system which is implemented for the responsibilities of both our Company and Family Members, the implementation of the rules and resolution of conflicts.

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 V - BOARD OF DIRECTORS

5.1. STRUCTURE AND FORMATION OF THE BOARD OF 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 members to be appointed in line with the provisions of the Turkish Commercial Code and the Capital Markets Law.

As of December 31, 2016, our Board of Directors consisted of eight members. In line with the Corporate Governance Principles of the Capital Markets Board, three independent Directors served at our Board of Directors. Apart from independent Directors, three other Directors served in the capacity of non-executive 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 SABANCI	Chairman of the Board	Yes	07.04.2016 – 2016 GK ⁽¹⁾
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairman of the Board	Yes	07.04.2016 – 2016 GK ⁽¹⁾
Sertaç HAYBAT	Member of the Board	No	07.04.2016 – 2016 GK ⁽¹⁾
Şükrü Emre BERKİN	Member of the Board	No	07.04.2016 – 2016 GK ⁽¹⁾
Mehmet Cem KOZLU	Independent Director	No	07.04.2016 – 2016 GK ⁽¹⁾
Saad Hassan HAMMAD	Independent Director	No	07.04.2016 – 2016 GK ⁽¹⁾
Hatice Zeynep Bodur OKYAY	Independent Director ⁽²⁾	No	14.07.2016 – 2016 GK
Stephen Mark GRIFFITHS	Member of the Board ⁽³⁾	No	11.11.2016 – 2016 GK

⁽¹⁾ Appointed for a term of one year at the Annual General Assembly Meeting dated April 7, 2016.

⁽²⁾ Appointed by the Board of Directors after resignation of Mr. Conor John McCarthy to complete his term of office and this appointment was approved by our shareholders at the Extraordinary General Assembly on November 11, 2016.

⁽³⁾ Appointed at the Extraordinary General Assembly dated November 11, 2016, to serve until the Ordinary Annual General Assembly relating the year 2016. Based on an application filed by the Company on January 9, 2017 the Capital Market Board provided its non-objection for Stephen Mark GRIFFITHS to serve as an Independent Director.

According to the Corporate Governance Communiqué No. II-17.1 of the Capital Markets Board and Article 10 of the Company Articles of Association, evaluation of Independent Directors took place as stated below;

- Mehmet Cem KOZLU, Mehmet SAĞIROĞLU, Saad Hassan HAMMAD and Conor John McCARTHY were named as independent director nominees for 2016 based on the Corporate Governance Committee report dated January 28, 2016,
- Following Mehmet SAĞIROĞLU's decease, independent director nominees were revised as Mehmet Cem KOZLU, Saad Hassan HAMMAD and Conor John McCARTHY based on the Corporate Governance Committee report dated February 18, 2016 and nominations were approved by Capital Markets Board in its letter dated February 29, 2016.
- Due to resignation of Conor John McCARTHY on July 14, 2016, an application for Hatice Zeynep Bodur OKYAY to serve as an independent director was filed with Capital Markets Board based on the Corporate Governance Committee report dated July 14, 2016 and nomination was approved by Capital Markets Board in its letter dated October 5, 2016.
- Stephen Mark GRIFFITHS was appointed as a Board Member on November 11, 2016, who was later nominated as an independent director based on the Corporate Governance Committee report dated December 19, 2016 and his nomination was approved by the Capital Markets Board in its letter dated January 9, 2017.

Due to lack of minimum number of resident independent directors between January and July 2016, the related independent criterion sought by the Capital Markets Board on the issue was not implemented for a term of one year for Conor John McCARTHY as per the Capital Markets Board's letter dated February 29, 2016.

The résumé of each Director is provided below and the independence statements provided by the independent Directors to Pegasus are provided at the end of the Report.

Ali İsmail SABANCI

- Chairman of the Board

Ali İsmail SABANCI serves 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 1987 and 2001 and as the executive assistant general manager for strategy and business development between 2001 and 2004. Ali SABANCI 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

Hüseyin Çağatay ÖZDOĞRU served as a member of our Board of Directors since February 2007 and since March 2010 he serves 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.

Sertaç HAYBAT - **Non-Executive Director**

Sertaç HAYBAT, serves 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 hold this position till 2014.

Şükrü Emre BERKİN - **Non-Executive Director**

Şükrü Emre BERKİN, serves as a member of Board of Directors since March 2010. Between March 2014 and March 2015, he served as an independent director at Pegasus. 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 BERKİN 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 BERKİN 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 BERKİN 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.

Mehmet Cem KOZLU - **Independent Director**

Mehmet Cem KOZLU serves 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 1990 he also served as the chairman of the Association of European Airlines. 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.

Saad Hassan HAMMAD - **Independent Director**

Saad Hassan HAMMAD joined Pegasus as a non-executive member of the Board of Directors on April 25, 2014 and has served as an independent director since March 31, 2015. Saad HAMMAD most recently served as the CEO of Flybe Group plc, between August 2013 and October 2016 and has considerable executive and non-executive experience in the aviation sector. From 2005 to 2009 Saad HAMMAD served as the Chief Commercial Officer at easyJet plc and in 2011 and 2012 he served as a non-executive directors at Air Berlin plc and a member of the Finance Committee. Outside of aviation, Saad HAMMAD was from 2009 to 2013 the Managing Director at the Gores Group, an operations-focused private equity firm with approximately US\$ 4 billion under management. Previously, Saad

HAMMAD held a number of leadership positions in brand management, sales and marketing and retailing at Procter & Gamble, Thorn-EMI, Vision Express and the Minit Group. He was also Managing Director – Europe at Tibbett & Britten and CEO & Co-founder of Autocascade, a pan-European web-based yield management start-up focused on the automotive sector. Saad HAMMAD also served as a non-executive director of Optos plc, provider of medical retinal-imaging technology, where he was a member of the Audit and Remuneration Committees. Saad HAMMAD holds a BA (Hons) in Politics, Philosophy and Economics from Oxford University and an MBA from INSEAD. He is a citizen and a resident of the United Kingdom.

Hatice Zeynep Bodur OKYAY

- ***Independent Director***

Zeynep Bodur OKYAY joined Pegasus as a non-executive director on July 14, 2016 and has served as an independent director since October 2016. Since 1992, Zeynep Bodur OKYAY held a number of duties at the Kale Group with investments in ceramics, construction materials, construction chemicals, defense and aviation, machinery, energy, mining, transportation and IT. Having assumed several roles as part of ceramics production planning and production management between 1992 and 1995, she was later appointed as the president and executive committee member of the group's marketing companies and since 2007, serves as the president and CEO of the Kale Group. Zeynep Bodur OKYAY holds a bachelor's degree in management engineering obtained from the Istanbul Technical University and has completed the management program master's degree at Harvard University. Among her active duties assumed in various non-governmental organizations, associations, foundations and chambers, Zeynep Bodur OKYAY serves as the chairman of the general assembly of the Istanbul Chamber of Industry, vice-chairman of the Economic Development Foundation, board member of the Foreign Economic Relations Board, member of the board of trustees of the Turkish Education Foundation and vice-chairman of the female entrepreneurs board of the Union of Chambers and Commodity Exchanges of Turkey.

Stephen Mark GRIFFITHS

- ***Non-Executive Director***

Stephen Mark GRIFFITHS joined Pegasus as a non-executive member of the Board of Directors on November 11, 2016 and has served as an independent director since January 2017. Steve GRIFFITHS is currently the Chief Operating Officer of the London Underground and has considerable executive experience in the aviation sector. Between 1995 and 2013, Steve GRIFFITHS served in various positions at Virgin Atlantic Airways Limited. Between March 2009 and June 2013, Steve GRIFFITHS was the Chief Operating Officer of Virgin Atlantic, responsible for the safe, efficient and cost effective delivery of the airline operations and customer service promise, with leadership responsibility for 6,500 employees in flight operations, engineering, airports, cargo, pilots, cabin crew, safety and security and customer experience. Prior to that, Steve GRIFFITHS served as director of engineering between 2007 and 2009 and undertook various senior engineering positions between 1995 and 2007. Between 1986 and 1995, Steve GRIFFITHS served as senior service engineer at Rolls Royce plc. Steve GRIFFITHS holds HND in Mechanical Engineering and has completed the Advanced Leadership Development Programme at Cranfield University. He is a citizen and a resident of the United Kingdom.

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 meetings in 2016. 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 2016 are indicated below;

Ali İsmail SABANCI**Chairman of the Board****Duties Assumed Elsewhere in 2016**

1.	Esas Holding A.Ş. (Group Company)	Board Member
2.	Esas Burda Turizm ve İnşaat San. Tic. A.Ş. (Group Company)	Board Member
3.	Mars Entertainment Group A.Ş. (Group Company)	Chairman of the Board
4.	Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company)	Board Member
5.	U.N. RO-RO İşletmeleri A.Ş. (Group Company)	Board Member
6.	Trieste Holdco Denizcilik ve Taşımacılık A.Ş. (Group Company)	Board Member
7.	Trieste Midco Denizcilik ve Taşımacılık A.Ş. (Group Company)	Board Member
8.	Trieste Newholdco Denizcilik ve Taşımacılık A.Ş. (Group Company)	Board Member
9.	Ayakkabı Dünyası Kundura Sanayi ve Ticaret A.Ş. (Group Company)	Vice-Chairman of the Board
10.	Bin Çağrı Hizmetleri A.Ş.	Board Member
11.	Air Berlin plc U.K	Board Member
12.	Multimarka Ayakkabıcılık Sanayi ve Ticaret A.Ş.	Chairman of the Board
13.	Saray Bahçe Alışveriş Merkezi Ticaret A.Ş.	Board Member
14.	Kauçuk Yiyecek İçecek Hizmetleri ve Ticaret A.Ş.	Board Member

Hüseyin Çağatay ÖZDOĞRU**Vice-Chairman of the Board****Duties Assumed Elsewhere in 2016**

1.	Esas Holding A.Ş. (Group Company)	Board Member and CEO
2.	Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company)	Board Member
3.	U.N. RO-RO İşletmeleri A.Ş. (Group Company)	Board Member
4.	Ayakkabı Dünyası Kundura Sanayi ve Ticaret A.Ş. (Group Company)	Board Member
5.	Ayakkabı Dünyası Mağazacılık ve İnşaat A.Ş. (Group Company)	Board Member
6.	Esaslıgrup Gıda San. ve Tic. A.Ş. (Group Company)	Board Member
7.	Esas Hava Taşımacılık Turizm ve Ticaret A.Ş. (Group Company)	Chairman of the Board
8.	<i>In process of discharge</i> Acil Yardım Akademisi A.Ş. (Group Company)	Board Member
9.	Kiraz 1 Gayrimenkul ve Yatırım Danışmanlığı A.Ş. (Group Company)	Board Member
10.	<i>In process of discharge</i> Esbon Süt Ürünleri San. Tic. A.Ş. (Group Company)	Board Member
11.	Kiraz 4 LLC U.S.A. (Group Company)	Board Member
12.	Kauçuk Yiyecek İçecek Hizmetleri Tic. A.Ş. (Group Company)	Board Member
13.	Denkar Denizcilik A.Ş. (Group Company)	Board Member
14.	Multi Marka A.Ş. (Group Company)	Board Member
15.	Kron Telekomünikasyon A.Ş.	Board Member

Sertaç HAYBAT**Non-Executive Director****Duties Assumed Elsewhere in 2016**

1.	IHY İzmir Havayolları A.Ş. (Group Company)	Chairman of the Board
2.	Pegasus Uçuş Eğitim Merkezi A.Ş. (Group Company)	Chairman of the Board

Şükrü Emre BERKİN**Non-Executive Director****Duties Assumed Elsewhere in 2016**

1.	Thomas Cook Group plc U.K.	Board Member
2.	BASE Gayrimenkul Turizm ve Ticaret A.Ş.	Board Member

Mehmet Cem KOZLU**Independent Director****Duties Assumed Elsewhere in 2016**

1.	Anadolu Endüstri Holding A.Ş.	Board Member
2.	Evyap Holding A.Ş.	Consultant
3.	Evyap Asya	Chairman of the Board
4.	Coca-Cola Satış ve Dağıtım A.Ş.	Vice-Chairman of the Board
5.	Kamil Yazıcı Yönetim ve Danışma A.Ş.	Board Member
6.	Yazıcılar Holding A.Ş.	Consultant
7.	Anadolu Efes Biracılık Malt Sanayii A.Ş.	Board Member
8.	The Marmara Hotels & Residences	Advisory Board Member
9.	Do&Co the Gourmet Entertainment Company	Board Member
10.	Global İlişkiler Forumu	Board Member

Saad Hassan HAMMAD**Independent Director*****Duties Assumed Elsewhere in 2016***

1.	Flybe Group plc U.K.	Executive Director and CEO
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**Hatice Zeynep Bodur
OKYAY****Independent Director*****Duties Assumed Elsewhere in 2016***

1.	H. İbrahim Bodur Holding A.Ş.	Executive Chairman
2.	Kale Holding A.Ş.	Executive Chairman
3.	Kaleseramik, Çanakkale Kalebodur Seramik Sanayi A.Ş.	Executive Chairman
4.	Kale Havacılık Sanayi A.Ş.	Executive Chairman
5.	Kalekim Kimyevi Maddeler Sanayi ve Ticaret A.Ş.	Executive Chairman
6.	Bodur Gayrimenkul Geliştirme A.Ş.	Executive Chairman
7.	Bodur Menkul İş Geliştirme Sanayi ve Ticaret A.Ş.	Executive Chairman
8.	Kalebodur Gayrimenkul Geliştirme Yatırım ve Ticaret A.Ş.	Executive Chairman

Stephen Mark GRIFFITHS**Independent Director*****Duties Assumed Elsewhere in 2016***

1.	London Underground	Chief Operating Officer
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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.

The Board of Directors adopted the "**Pegasus Policy on Female Participation at the Board of Directors**" by its resolution dated 18 December 2014 and numbered 471 which reads "*While nominating candidates for the Board of Directors from a pool of prospective directors who are equal in terms of know-how, experience, knowledge and competency, female candidates shall be given priority. Corporate Governance Committee conducts the scrutiny of our Company's compliance with the Corporate Governance Principles published by the Capital markets Board in this respect.*" In this context, Hatice Zeynep Bodur OKYAY was the first female Board Member appointed by the Board of Directors on July 14, 2016 in accordance with the provisions of Article 363 of the Turkish Commercial Code.

5.2. 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, and while preventing conflicts of interest and balancing competing demands on Pegasus, supervises the performance of Pegasus and its 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, 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.

During the year, the Board of Directors held four meetings on March 17, May 12, August 21-22 and December 15, 2016. The overall attendance rate for the meetings was 96.55% in 2016.

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

Based on the resolutions of our Board of Directors dated February 18 and April 18, 2016 numbered 518 and 541, the Audit Committee, the Corporate Governance Committee and the Committee on the Early Detection of Risks were re-composed as follows. Saad Hassan HAMMAD has been appointed for the openings in the Committees from Mehmet SAĞIROĞLU as the member of Audit Committee and the chairman of Committee of Early Detection of Risks.

Audit Committee

Chairman	Mehmet Cem KOZLU	<i>Independent Director</i>
Member	Saad Hassan HAMMAD	<i>Independent Director</i>

Corporate Governance Committee

Chairman	Saad Hassan HAMMAD	<i>Independent Director</i> ⁽¹⁾
Member	Mehmet Cem KOZLU	<i>Independent Director</i>
Member	Şükrü Emre BERKİN	<i>Non-Executive Director</i>
Member	Verda Beste TAŞAR	<i>Investor Relations</i>

Committee on Early Detection of Risks

Chairman	Saad Hassan HAMMAD	<i>Independent Director</i>
Member	Sertaç HAYBAT	<i>Non-Executive Director</i>
Member	İnan TANRIÖVER	<i>Non-Board Member Expert</i>

⁽¹⁾ *Effective as of February 7, 2017, Stephen Mark GRIFFITHS succeeded Saad Hassan HAMMAD as the Chairman of the Corporate Governance Committee.*

In determining the composition of the structure of the Board Committees the Board of Directors aimed to form a balanced distribution of work in consideration of the number of Directors and Independent Directors and the legal requirements for the composition of each committee.

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 while executive Directors assume no active duty in the said Committees. 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, 2015, Conor John McCARTHY had been appointed as the Chairman of the Safety Committee while Mehmet Cem KOZLU 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 in 2016 are as follows:

Audit Committee

The Audit Committee held four meetings on March 2, May 10, August 19 and November 8, 2016 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 March 31, June 30, September 30, December 31, 2016 and shared its favorable opinion with our Board of Directors. The Committee also prepared the proposal for the appointment of the independent audit firm for 2016 audit requirements, oversaw the activities of the Company's Internal Audit Department, its work plan and budget. Meanwhile, the Committee supervised the preparation of the "Pegasus Ethical Behavior Guide" which was adopted on December, 2016. The Audit Committee has informed the Board of Directors of its activities at the Board meetings held in 2016.

Corporate Governance Committee

The Corporate Governance Committee held three meetings in 2016, on March 17, May 12, August 21 and December 15, in attendance of all members. The Committee engaged in works within the framework of its Charter and in this respect oversaw the nomination of independent directors and the determination of nomination and compensation principles

for Board of Directors in 2016, and well as scrutinizing the operations of the Vice-Presidency, Investor Relations. The Corporate Governance Committee worked on the matters of planning subrogation and evaluation of performances of executive management and their regular observation. The Corporate Governance Committee informed the Board of Directors of its activities at the Board meetings held in 2016.

Committee on Early Detection of Risks

The Committee on the Early Detection of Risks held five meetings in 2016, on March 15, May 11, July 26, and November 29, 2016 and discussed risk evaluation as of the end of 2016 at its meeting held on January 31, 2017. 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 provided information on its studies and risk evaluations once every two months in accordance with the provisions of Article 378 of the Turkish Commercial Code.

5.4. 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, and 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 General Manager. 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.

5.5. 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.

5.6. FINANCIAL RIGHTS

Pursuant to the relevant provisions of our Articles of Associations, Directors are paid a monthly or annual salary or meeting-based remuneration 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. In this respect, "**Nomination and Compensation Principles and Criteria for Pegasus Board of Directors**" has been determined by the decision of the Corporate Governance Committee dated April 7, 2016 and numbered 14, which was published as Article 8 in the Information Document prepared for the Ordinary Annual General Assembly meeting relating 2015, dated April 7, 2016 and communicated to our investors through our Corporate Website, the Public Disclosure Platform and the Electronic General Assembly Portal.

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 manger 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.

ANNEX. STATEMENTS OF INDEPENDENCE OF INDEPENDENT DIRECTORS RELATING TO THE YEAR 2016

To the attention of the Board of Directors and the Corporate Governance Committee of Pegasus Hava Taşımacılığı A.Ş.,

Re : Statement of Independence relating to Corporate Governance Principles

In relation to my nomination as an independent director of Pegasus Hava Taşımacılığı A.Ş. (the “**Company**”), I hereby declare that I fulfill the independency criteria set out in the below paragraph no. 4.3.6 of the corporate governance principles determined by the Capital Markets Board of Turkey as part of the Corporate Governance Communiqué No. II-17.1 (the “**Communiqué**”) that entered into force upon publication in the Official Gazette dated January 3, 2014 and numbered 28871.

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

- (a) No employment in a management position undertaking important duties and responsibilities, equity⁽¹⁾ or an important commercial relationship⁽²⁾ 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 public company, other companies controlled⁽³⁾ or materially influenced⁽⁴⁾ by the public company, shareholders having management control or material influence over the public company and other companies where such shareholders enjoy management control, at any time during the past 5 years;
- (b) The independent director should not have been a shareholder (with 5% stake or more), a manager undertaking important duties and responsibilities or a member of the board of directors in any entity providing or procuring products or services to/from the public company of an important scale at any time during the past 5 years, during the time such products or services were provided or procured by the public company, most notably the audit (including tax audit, statutory audit, internal audit), rating and consultancy services provided to the public company;
- (c) 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,
- (d) 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,
- (e) The independent director should be residing in Turkey⁽⁵⁾ according to the Income Tax Law No. 193 dated December 31, 1960;⁽⁶⁾
- (f) 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;
- (g) 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;
- (h) The independent director should not have served as a member of the public company's Board of Directors for more than 6 years during the past 10 years;
- (i) The independent director should not be serving as an independent director at more than three companies under the same management control or at more than five publicly traded companies; and
- (j) The independent director should not be registered as a representative for a legal entity appointed as member of the Board of Directors.

Respectfully yours,

Mehmet Cem KOZLU

⁽¹⁾ Equity relationship covers instances where more than 5% of the capital, voting rights or the total number of privileged shares are owned, alone or together with others listed in this sub-paragraph

⁽²⁾ Commercial relationship will be deemed important if the revenue or earning before tax derived from the transaction by either party represents 20% or more of its/his/her revenue or earning before tax from the same type of transactions

⁽³⁾ (Management) Control will be determined based on Turkish Financial Reporting Standard 10 Consolidated Financial Statements.

⁽⁴⁾ Material Influence will be determined based on Turkish Accounting Standard 28 Investments in Associates and Joint Ventures

⁽⁵⁾ Individuals are considered residents in Turkey, if (i) they are domiciled in Turkey in accordance with the Turkish Civil Code No. 4721, or (ii) they stay in Turkey for more than 6 months in a calendar year.

⁽⁶⁾ Pursuant to Article 5 Paragraph 6 of the Communiqué it is sufficient for at least half of the independent directors to fulfill this criterion

ANNEX. STATEMENTS OF INDEPENDENCE OF INDEPENDENT DIRECTORS RELATING TO THE YEAR 2016

To the attention of the Board of Directors and the Corporate Governance Committee of Pegasus Hava Taşımacılığı A.Ş.,

Re : Statement of Independence relating to Corporate Governance Principles

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

- (a) No employment in a management position undertaking important duties and responsibilities, equity⁽¹⁾ or an important commercial relationship⁽²⁾ 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 public company, other companies controlled⁽³⁾ or materially influenced⁽⁴⁾ by the public company, shareholders having management control or material influence over the public company and other companies where such shareholders enjoy management control, at any time during the past 5 years;
- (b) The independent director should not have been a shareholder (with 5% stake or more), a manager undertaking important duties and responsibilities or a member of the board of directors in any entity providing or procuring products or services to/from the public company of an important scale at any time during the past 5 years, during the time such products or services were provided or procured by the public company, most notably the audit (including tax audit, statutory audit, internal audit), rating and consultancy services provided to the public company;
- (c) 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,
- (d) 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,
- (e) The independent director should be residing in Turkey⁽⁵⁾ according to the Income Tax Law No. 193 dated December 31, 1960;⁽⁶⁾
- (f) 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;
- (g) 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;
- (h) The independent director should not have served as a member of the public company's Board of Directors for more than 6 years during the past 10 years;
- (i) The independent director should not be serving as an independent director at more than three companies under the same management control or at more than five publicly traded companies; and
- (j) The independent director should not be registered as a representative for a legal entity appointed as member of the Board of Directors.

Respectfully yours,

Saad Hassan HAMMAD

⁽¹⁾ Equity relationship covers instances where more than 5% of the capital, voting rights or the total number of privileged shares are owned, alone or together with others listed in this sub-paragraph

⁽²⁾ Commercial relationship will be deemed important if the revenue or earning before tax derived from the transaction by either party represents 20% or more of its/his/her revenue or earning before tax from the same type of transactions

⁽³⁾ (Management) Control will be determined based on Turkish Financial Reporting Standard 10 Consolidated Financial Statements.

⁽⁴⁾ Material Influence will be determined based on Turkish Accounting Standard 28 Investments in Associates and Joint Ventures

⁽⁵⁾ Individuals are considered residents in Turkey, if (i) they are domiciled in Turkey in accordance with the Turkish Civil Code No. 4721, or (ii) they stay in Turkey for more than 6 months in a calendar year.

⁽⁶⁾ Pursuant to Article 5 Paragraph 6 of the Communiqué it is sufficient for at least half of the independent directors to fulfill this criterion

ANNEX. STATEMENTS OF INDEPENDENCE OF INDEPENDENT DIRECTORS RELATING TO THE YEAR 2016

To the attention of the Board of Directors and the Corporate Governance Committee of Pegasus Hava Taşımacılığı A.Ş.,

Re : Statement of Independence relating to Corporate Governance Principles

In relation to my nomination as an independent director of Pegasus Hava Taşımacılığı A.Ş. (the “Company”), I hereby declare that I fulfill the independency criteria set out in the below paragraph no. 4.3.6 of the corporate governance principles determined by the Capital Markets Board of Turkey as part of the Corporate Governance Communiqué No. II-17.1 (the “Communiqué”) that entered into force upon publication in the Official Gazette dated January 3, 2014 and numbered 28871.

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

- (a) No employment in a management position undertaking important duties and responsibilities, equity⁽¹⁾ or an important commercial relationship⁽²⁾ 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 public company, other companies controlled⁽³⁾ or materially influenced⁽⁴⁾ by the public company, shareholders having management control or material influence over the public company and other companies where such shareholders enjoy management control, at any time during the past 5 years;
- (b) The independent director should not have been a shareholder (with 5% stake or more), a manager undertaking important duties and responsibilities or a member of the board of directors in any entity providing or procuring products or services to/from the public company of an important scale at any time during the past 5 years, during the time such products or services were provided or procured by the public company, most notably the audit (including tax audit, statutory audit, internal audit), rating and consultancy services provided to the public company;
- (c) 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,
- (d) 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,
- (e) The independent director should be residing in Turkey⁽⁵⁾ according to the Income Tax Law No. 193 dated December 31, 1960;⁽⁶⁾
- (f) 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;
- (g) 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;
- (h) The independent director should not have served as a member of the public company's Board of Directors for more than 6 years during the past 10 years;
- (i) The independent director should not be serving as an independent director at more than three companies under the same management control or at more than five publicly traded companies; and
- (j) The independent director should not be registered as a representative for a legal entity appointed as member of the Board of Directors.

Respectfully yours,

Hatice Zeynep Bodur OKYAY

⁽¹⁾ Equity relationship covers instances where more than 5% of the capital, voting rights or the total number of privileged shares are owned, alone or together with others listed in this sub-paragraph

⁽²⁾ Commercial relationship will be deemed important if the revenue or earning before tax derived from the transaction by either party represents 20% or more of its/his/her revenue or earning before tax from the same type of transactions

⁽³⁾ (Management) Control will be determined based on Turkish Financial Reporting Standard 10 Consolidated Financial Statements.

⁽⁴⁾ Material Influence will be determined based on Turkish Accounting Standard 28 Investments in Associates and Joint Ventures

⁽⁵⁾ Individuals are considered residents in Turkey, if (i) they are domiciled in Turkey in accordance with the Turkish Civil Code No. 4721, or (ii) they stay in Turkey for more than 6 months in a calendar year.

⁽⁶⁾ Pursuant to Article 5 Paragraph 6 of the Communiqué it is sufficient for at least half of the independent directors to fulfill this criterion

ANNEX. STATEMENTS OF INDEPENDENCE OF INDEPENDENT DIRECTORS RELATING TO THE YEAR 2016

To the attention of the Board of Directors and the Corporate Governance Committee of Pegasus Hava Taşımacılığı A.Ş.,

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

- (a) No employment in a management position undertaking important duties and responsibilities, equity⁽¹⁾ or an important commercial relationship⁽²⁾ 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 public company, other companies controlled⁽³⁾ or materially influenced⁽⁴⁾ by the public company, shareholders having management control or material influence over the public company and other companies where such shareholders enjoy management control, at any time during the past 5 years;
- (b) The independent director should not have been a shareholder (with 5% stake or more), a manager undertaking important duties and responsibilities or a member of the board of directors in any entity providing or procuring products or services to/from the public company of an important scale at any time during the past 5 years, during the time such products or services were provided or procured by the public company, most notably the audit (including tax audit, statutory audit, internal audit), rating and consultancy services provided to the public company;
- (c) 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,
- (d) 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,
- (e) The independent director should be residing in Turkey⁽⁵⁾ according to the Income Tax Law No. 193 dated December 31, 1960;⁽⁶⁾
- (f) 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;
- (g) 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;
- (h) The independent director should not have served as a member of the public company's Board of Directors for more than 6 years during the past 10 years;
- (i) The independent director should not be serving as an independent director at more than three companies under the same management control or at more than five publicly traded companies; and
- (j) The independent director should not be registered as a representative for a legal entity appointed as member of the Board of Directors.

Respectfully yours,

Stephen Mark GRIFFITHS

⁽¹⁾ Equity relationship covers instances where more than 5% of the capital, voting rights or the total number of privileged shares are owned, alone or together with others listed in this sub-paragraph

⁽²⁾ Commercial relationship will be deemed important if the revenue or earning before tax derived from the transaction by either party represents 20% or more of its/his/her revenue or earning before tax from the same type of transactions

⁽³⁾ (Management) Control will be determined based on Turkish Financial Reporting Standard 10 Consolidated Financial Statements.

⁽⁴⁾ Material Influence will be determined based on Turkish Accounting Standard 28 Investments in Associates and Joint Ventures

⁽⁵⁾ Individuals are considered residents in Turkey, if (i) they are domiciled in Turkey in accordance with the Turkish Civil Code No. 4721, or (ii) they stay in Turkey for more than 6 months in a calendar year.

⁽⁶⁾ Pursuant to Article 5 Paragraph 6 of the Communiqué it is sufficient for at least half of the independent directors to fulfill this criterion
