

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.

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

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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.”

GROUNDINGS 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.”

GROUNDINGS 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 |

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- 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
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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 (TAIK).

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 HAMDAD

Independent Director

Duties Assumed Elsewhere in 2016

| | | |
|----|----------------------|----------------------------|
| 1. | Flybe Group plc U.K. | Executive Director and CEO |
|----|----------------------|----------------------------|

**Hatice Zeynep Bodur
OKYAY**

Independent Director

| <i>Duties Assumed Elsewhere in 2016</i> | | |
|---|--|--------------------|
| 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

| <i>Duties Assumed Elsewhere in 2016</i> | | |
|---|--------------------|-------------------------|
| 1. | London Underground | Chief Operating Officer |

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 ⁽¹⁾</i> |
| 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, on March 15, May 11, July 26, and November 29, 2016. 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

ANNEX. STATEMENTS OF INDEPENDENCE OF INDEPENDENT DIRECTORS RELATING 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,

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

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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

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⁽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.

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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,
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- (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

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⁽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

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