



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD JANUARY 1 – MARCH 31, 2014

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1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2014 - March 31, 2014
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
Fax. +90 216 560 7001
Corporate Website. www.flypgs.com
Investor Relations Website.
<http://www.pegasusinvestorrelations.com>

Branch Information :

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

B- CAPITAL, SHAREHOLDING AND ORGANIZATION STRUCTURE OF PEGASUS

As part of the initial public offering of its shares in April 2013, Pegasus adopted the authorized capital system and increased its issued capital to TL 102,272,000 from TL 75,000,000, within the authorized capital ceiling of TL 500,000,000. No changes have taken place with respect to the Company's shareholding structure since December 31, 2013. Information on the capital and shareholding structure of Pegasus as of March 31, 2014 is shown in the table below.

Shareholder	March 31, 2014	
	Number of Shares	Shareholding Ratio
Esas Holding A.Ş. ("Esas Holding")	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%
Emine Kamyılı	874,810	0.86%
Ali İsmail Sabancı	874,810	0.86%
Kazım Köseoğlu	437,405	0.43%
Can Köseoğlu	437,405	0.43%
Total	102,272,000	100%

As of March 31, 2014, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket Sabancı and his family and as of March 31, 2014 has investments in the aviation, retail and entertainment, food, healthcare and real estate sectors in and outside of Turkey. Esas Holding is fully owned by Şevket Sabancı and the members of his family.

C- INFORMATION ON BUSINESS ACTIVITIES

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

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

Pegasus focuses on providing high-frequency services on short- and medium-haul, point-to-point and transit routes on its domestic and international network primarily from its main hub in Istanbul Sabiha Gökçen International Airport. Pegasus also offers scheduled flights from other domestic hubs, primarily in Adana, Antalya and İzmir. As of March 31, 2014, Pegasus offered scheduled passenger services on 30 domestic routes in Turkey and 49 international routes to European (including North Cyprus), CIS and Middle Eastern destinations, serving a flight network covering 79 destinations in 30 different countries.

Pegasus also offers a number of services ancillary to the core air passenger services and generates revenue through the provision of these services, including pre-order and in-flight sales of beverages and food, sales of duty-free items on board international flights, excess baggage, reservation change and cancellation fees, airport check-in and seat selection fees. In the first three months of 2014, the revenue recorded from ancillary services constituted 21.7% of total revenue for the period, while ancillary revenue increased by 75.5% year-over-year.

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 3.7% of total revenue in the first three months of 2014.

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

Articles 6, 12, 13, 16 and 17 of the Pegasus Articles of Association were amended at the Annual General Assembly Meeting dated March 31, 2014 and the amendments were published in the Trade Registry Gazette dated 24 April 2014 and numbered 8556. An up-to-date copy of the Pegasus Articles of Association consolidating all amendments to date as well as information on Trade Registry Gazettes where past amendments were published are available in our Investor Relations website.

Detailed information on the said amendments is provided in Section (3/A) of our Activity Report.

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

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

Name / Surname	Duty	Term of Office
Ali İsmail Sabancı	Chairman of the Board of Directors	March 27, 2013 - 2014 GK ⁽¹⁾
Hüseyin Çağatay Özdoğru	Vice-Chairman of the Board of Directors	March 27, 2013 - 2014 GK ⁽¹⁾
Mehmet Cem Kozlu	Independent Director	March 27, 2013 - 2014 GK ⁽¹⁾
Mehmet Sağiroğlu	Independent Director	March 27, 2013 - 2014 GK ⁽¹⁾
Şükrü Emre Berkin	Independent Director	March 27, 2013 - 2014 GK ⁽¹⁾
Conor John McCarthy	Non-executive Board Member	March 27, 2013 - 2014 GK ⁽¹⁾
Raymond Douglas Webster	Non-executive Board Member	March 27, 2013 - 2014 GK ⁽¹⁾⁽²⁾
Sertaç Haybat	Board Member and CEO	March 27, 2013 - 2014 GK ⁽¹⁾
⁽¹⁾	Appointed for a term of one year at the Annual General Assembly dated March 31, 2014	
⁽²⁾	Raymond Douglas Webster resigned as member of the Board of Directors effective as of April 25, 2014 and Saad Hassan Hammad was appointed to replace him for the remaining term of office as per Article 363 of the Turkish Commercial Code. The appointment will be submitted for the approval of our shareholders at the next General Assembly Meeting.	

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

Name / Surname	Duty
Sertaç Haybat	President & CEO
Serhan Ulga	Senior Vice-President, Finance, CFO
Güliz Öztürk	Senior Vice-President, Commerce
Nadir Kabaş	Senior Vice-President, Flight Operations
Servet Ulaşan	Senior Vice-President, Technical
Nurçin Özsoy	Senior Vice-President, Cabin Services
Nasuh Nazif Çetin	Senior Vice-President, Foreign subsidiaries
Boğaç Uğurluteğin	Senior Vice-President, Ground Operations
Kemal Mustafa Helvacıoğlu	Vice-President, Safety Management and Quality
Aycan Kurtuğlu	Vice-President, Information Technologies
Verda Beste Taşar	Vice-President, Investor Relations
Cahit Taşbaş	Vice-President, Flight Training
Mine Öztürk	Vice-President, Internal Audit
Barbaros Kubatoğlu	Vice-President, Financial Controller
Tamer Yüzüak	Vice-President, Strategic Planning and Finance
Sezer Özmutlu	Vice-President, Revenue Control
Zeynep Didem Egeli	Vice-President, Human Resources
Emre Pekesen	Vice-President, Sale
Onur Dedeköylü	Vice-President, Marketing
Turgut Atay	Vice-President, Network
Aydın Alpa	Vice-President, Cargo
Muzaffer Şimşek	Vice-President, Flight Operations (Head Pilot)
Ömer Kaya	Vice-President, Performance & CIT
Tahsin İstanbullu	Vice-President, Technic
Ersel Geyik	Vice-President, Support Services
Tayfun Bora	Manager, Security
Gürol Yüksel	CEO, İHY İzmir Havayolları A.Ş.
İlgar Alptekin	CEO, Air Manas Air Company LLC

c)- Number of Employees: The total number of full time employed Family Members of Pegasus and its consolidated subsidiaries defined in Section (1/F) of this Report, as of December 31, 2013 and March 31, 2014, respectively were 3,105 and 3,190. This number covers the members of our senior management listed above.

F- 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 March 31, 2014. As of March 31, 2014 Pegasus did not have any indirect subsidiaries or joint ventures.

Commercial Title	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share Percentage	Affiliation with Pegasus
IHY İzmir Havayolları A.Ş. ("İzAir")	Turkey / Scheduled and unscheduled air transportation	TL 59,500,000	TL 41,125,000	69.12%	Subsidiary ⁽¹⁾
İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.Ş. ("İzmirliiler Otelcilik")	Turkey / Hotel and gas station operations	TL 4,205,000	TL 2,499,995	59.45%	Subsidiary
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	T.C. / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture
Air Manas Air Company LLC ("Air Manas")	Kyrgyzstan / Scheduled and unscheduled air transportation	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary

2- FINANCIAL STATUS

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

Since 2005, Pegasus placed firm orders with Boeing for a total of 40 new B737-800NG aircraft and, as of March 31, 2014, 38 aircraft have been taken delivery. Pegasus expects to take delivery of the remaining two aircraft under the Boeing orders in 2015.

In addition to the aircraft subject to the Boeing orders, as of March 31, 2014 Pegasus consolidated fleet includes a total of 13 aircraft obtained through operational lease agreements.

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

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

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		March 31, 2013 ⁽¹⁾	March 31, 2014	Growth (%)	March 31, 2013 ⁽¹⁾	March 31, 2014	Growth (%)	March 31, 2014
B737-400	3,148	2	1	-50.0	336	168	-50.0	16.00
B737-800	4,360	38	47	23.7	7,182	8,883	23.7	4.15
Airbus A320	3,900	-	4	400.0	-	720	400.0	0.20
TOPLAM		40	52	30.0	8,238	9,771	8.6	4.07

⁽¹⁾ Aircraft data as of March 31, 2013 excludes the three B737-800 aircraft comprising the IzAir fleet and allocated for joint split charter operations between Antalya and various cities in Germany under the Air Berlin Turkey brand name.

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

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

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

As of the date of this Report, and subject to the market conditions and changes that may take place in connection therewith, Pegasus expects to increase the number of aircraft in its consolidated fleet to 54 in the 2014 summer season and 55 as at the end of 2014.

B- 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 - March 31, 2014 compared against the same period in 2013 and the year-over-year changes for the relevant line items are set out in the following charts:

Pegasus Operational Results for the Period January 1, 2014 - March 31, 2014			
Domestic	March 31, 2014	March 31, 2013	Change %
<u>Number of passengers (million)</u>	2.61	2.10	23.8
<u>Number of seats (million)</u>	3.20	2.61	22.4
<u>Load factor (%)</u>	81.50	80.50	0.9
<u>Cycle</u>	17,077	13,858	23.2
<u>Passengers per cycle</u>	153	152	0.5
<u>ASK ⁽¹⁾ (million)</u>	1,885	1,502	25.5
International ⁽²⁾			
<u>Number of passengers (million)</u>	1.47	1.15	28.3
<u>Number of seats (million)</u>	1.98	1.54	28.7
<u>Load factor (%)</u>	74.30	74.50	(0.2)
<u>Cycle</u>	10,803	8,381	28.9
<u>Passengers per cycle</u>	136	137	(0.5)
<u>ASK (million)</u>	2,921	2,241	30.4
<u>Transfer passengers ratio (%) ⁽³⁾</u>	27.20	24.60	10.6
Total			
<u>Number of passengers (million)</u>	4.08	3.25	25.4
<u>Number of seats (million)</u>	5.18	4.15	24.7
<u>Load factor (%)</u>	78.70	78,30	0.4
<u>Cycle</u>	27,880	22,239	25.4
<u>Passengers per cycle</u>	146	146	0.0
<u>ASK (million)</u>	4,807	3,743	28.4
<u>Block hours ⁽⁴⁾</u>	47,213	36,613	29.0

<u>Average daily aircraft utilization (hours)</u>	10.9	10.9	0.0
<u>Destinations flown</u> ⁽⁵⁾	80	70	14.3
➤ <u>Domestic</u>	30	29	3.5
➤ <u>International</u>	50	41	22.0
<u>Number of aircraft in fleet</u> ⁽⁶⁾	52	40	30
⁽¹⁾ Refers to available seat kilometers, and is equal to the number of seats available for passengers during a specified period multiplied by the number of kilometers that those seats are flown.			
⁽²⁾ Includes charter operational results.			
⁽³⁾ Represents the percentage of a combination of two or more successive Pegasus operated flights that a passenger takes under one ticket and includes at least one international scheduled flight, among all international flights.			
⁽⁴⁾ Refers to the hours from an aircraft's take-off to landing (including taxi time)			
⁽⁵⁾ Includes destinations announced and for which ticket sales have commenced			
⁽⁶⁾ As of December 31, 2013, includes the aircraft in IzAir and Air Manas fleets whereas for December 31, 2012, excludes the three B737-800 aircraft comprising the IzAir fleet and allocated for joint split charter operations between Antalya and various cities in Germany under the Air Berlin Turkey brand name			

Pegasus Financial Results for the Period January 1, 2014 - March 31, 2014			
<u>Summary Balance Sheet</u>	March 31, 2014	December 31, 2013	Change %
<u>Current assets</u>	1,263,981,438	1,191,494,023	6.08
<u>Fixed assets</u>	2,313,440,815	2,306,710,614	0.29
<u>Total assets</u>	3,577,422,253	3,498,204,637	2.26
<u>Short-term liabilities</u>	838,302,651	677,597,387	23.72
<u>Long-term liabilities</u>	1,668,846,147	1,674,380,165	(0.33)
<u>Shareholders' equity</u>	1,070,273,455	1,146,227,085	(6.63)
<u>Summary Profit and Loss Statement</u>	March 31, 2014	March 31, 2013	Change %
<u>Sales income</u>	512,131,486	386,043,713	32.66
<u>Gross profit</u>	(50,476,779)	37,370,497	(235.07)
<u>Profit/(loss) from operations</u>	(126,097,834)	20,530,772	(714.19)
<u>Operating profit before financial income/(expense)</u>	(123,325,625)	21,961,702	(661.55)
<u>Profit/(loss) before tax</u>	(114,364,859)	471,591	(24,350.86)
<u>Profit/(loss) for the period</u>	(104,524,595)	(6,333,226)	(1,550.42)
<u>Earnings/(loss) per share</u>	(1.00)	(0.08)	(1,150.00)
<u>Changes in Financial Position</u>	March 31, 2014	December 31, 2013	Change %
<u>Cash and cash equivalents</u>	857,780,444	877,401,671	(2.24)
<u>Financial liabilities</u>	1,615,645,330	1,626,359,342	(0.66)
<u>Net debt position</u> ⁽¹⁾	757,864,886	748,957,671	(1.19)
⁽¹⁾ Net debt position = Financial liabilities - Cash and cash equivalents			

C- FINANCING SOURCES AND CAPITAL MARKETS INSTRUMENTS ISSUED BY PEGASUS

Pegasus finances approximately 85% of the purchase price for the aircraft acquired by way of financial lease through loans obtained from various banks. As of March 31, 2014, the outstanding balance of the total loans borrowed for the financing of 27 aircraft acquired by way of financial lease is TL 1,611.3 million.

Furthermore, as of March 31, 2014, Pegasus and its subsidiaries have drawn TL 3.7 million on cash loans and TL 355 million on non-cash loans under their 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.

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

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

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

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

The risk management policies implemented by Pegasus in the first three months of 2014 within the framework of the limits and guidance set out by the Board of Directors with respect to market risk (currency risk, interest rate risk and cost of fuel risk), credit risk and liquidity risk are set out in Note 21 to the Consolidated Financial Statements of the Company for the 3-month Period ended on March 31, 2014.

3- OTHER MATTERS

A- INFORMATION ON THE ANNUAL GENERAL ASSEMBLY MEETING FOR THE YEAR 2013

The Annual General Assembly Meeting of the Company for the year 2013 was held on Monday, March 31, 2014 at Pendik Green Park Hotel, Kaynarca Mahallesi, Erol Kaya Caddesi No: 204 Pendik, Istanbul and the following matters were discussed and approved at the said meeting.

- a) The Annual Activity Report of the Board of Directors, the Independent Auditor's Report and the Consolidated Financial Statements relating to the year 2013 were unanimously approved by the shareholders attending the Meeting.

- b) The members of the Board of Directors were unanimously released by the shareholders attending the Meeting, for transactions, accounts and activities relating to the year 2013.
- c) "Pegasus Dividend Policy" was unanimously approved by the shareholders attending the Meeting.
- d) The shareholders attending the Meeting unanimously resolved on the deduction of the 2013 profit from the accumulated previous years' losses of the Company.
- e) "Pegasus Compensation and Indemnification Policy" was submitted for the information of the shareholders at the Meeting.
- f) The shareholders attending the Meeting resolved by majority on the determination of the number of Directors as eight, that the following persons be appointed to serve as Directors for a period of one year until the Annual General Assembly Meeting for the year 2014: Ali İsmail Sabancı, Hüseyin Çağatay Özdoğru, Sertaç Haybat, Conor John McCarthy, Raymond Douglas Webster, Mehmet Cem Kozlu, Mehmet Sağıroğlu and Şükrü Emre Berkin (the latter three to serve as independent Directors as per the provisions of the Corporate Governance Principles of the Capital Markets Board) and that the Directors be authorized for transactions falling within the scope of Articles 395 and 396 of the Turkish Commercial Code.
- g) The honorarium and other payments to be made to the Directors for their duty were unanimously determined by the shareholders attending the Meeting.
- h) The shareholders attending the Meeting were informed that no transactions falling within the scope of Article 1.3.6 of the Corporate Governance Principles annexed to the Corporate Governance Communiqué No: II-17.1 have occurred in 2013.
- i) DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (member of Deloitte Touche Tohmatsu Limited) was appointed as the Company's independent auditor for the independent audit of the Company's consolidated financial statements and other obligations of the company with respect to independent audit, unanimously by the shareholders attending the Meeting.
- j) Amendment of Articles 4, 6, 12, 13, 16 and 17 of the Pegasus Articles of Association as shown in **Annex - 1** was unanimously approved by the shareholders attending the Meeting.
- k) Amendment of sub-paragraphs (b) and (l) of Article 8 of the Bylaws Regarding the Working Principles and Procedures of the Pegasus General Assembly as shown in **Annex - 2** was unanimously approved by the shareholders attending the Meeting.
- l) "Pegasus Donations and Charitable Contributions Policy" was approved by the majority of the shareholders attending the Meeting, information on the donations and charitable contributions by the Company in 2013 was submitted for the information of the shareholders at the Meeting and the ceiling for donations and charitable contributions to be made by Pegasus in 2014 was determined as TL 250,000 by the majority of the shareholders attending the Meeting.
- m) "Pegasus Information Policy" was submitted for the information of the shareholders at the Meeting.

- n) The shareholders attending the Meeting were informed of the security, pledge and mortgage provided by the Company in 2013 within the scope of Article 12 of the Corporate Governance Communiqué No: II-17.1.

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

After March 31, 2014, Pegasus obtained flight rights from Istanbul Sabiha Gökçen Airport to Bahrain, Prague, Geneva and Mineralnye Vody and is planning to commence flights on these routes starting from the end of May and June. Including these routes the flight network of Pegasus reached 30 domestic and 53 international destinations, and 83 in the aggregate.

Raymond Douglas Webster resigned as member of the Board of Directors effective as of April 25, 2014 and Saad Hassan Hammad, a British citizen, was appointed to replace him for the remainder of his term of office by a resolution of our Board of Directors with the same date. In line with the provisions of Article 363 of the Turkish Commercial Code the appointment will be submitted for the approval of our shareholders at the next General Assembly Meeting.

On April 25, 2014 our Board of Directors resolved to amend the Charters of the Audit, Corporate Governance and Risk Committees in consideration of the revisions brought to the Corporate Governance Principles by the Corporate Governance Communiqué No: II-17.1 and the amendments to the Pegasus Articles of Association approved by the shareholders at the Annual General Assembly Meeting dated March 31, 2014 and re-determined committee compositions as follows:

AUDIT COMMITTEE

Chairman: Mehmet Cem KOZLU

Member: Mehmet SAĞIROĞLU

CORPORATE GOVERNANCE COMMITTEE

Chairman: Şükrü Emre BERKİN

Members: Mehmet Cem KOZLU, Saad Hassan HAMMAD, Verda Beste TAŞAR

COMMITTEE ON THE EARLY DETECTION OF RISKS

Chairman: Mehmet SAĞIROĞLU

Members: Saad Hassan HAMMAD, İnan TANRIÖVER

SAFETY COMMITTEE

Chairman: Conor John McCARTHY

Members: Mehmet Cem KOZLU, Sertaç HAYBAT

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

None.

ANNEX - 1

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ ARTICLES OF ASSOCIATION FORMER TEXT

Headquarters and Branches:

Article 4:

The Company headquarters are located in Istanbul. The Company address is Aeropark Yenişehir Mahallesi Osmanlı Bulvarı No: 11 Kurtköy. Changes in the Company address is registered with the Trade Registry and announced in the Turkish Trade Registry Gazette and is further notified to the Ministry of Customs and Trade and the Capital Markets Board. Notifications delivered to the registered and announced address are deemed to be served on the Company. Failure to register the new Company address is deemed as a reason for dissolution.

The Company may establish branches, offices, representative offices and stores in and outside of Turkey in compliance with the applicable legal requirements, whenever it is deemed necessary, by notifying the Ministry of Customs and Trade and the Capital Markets Board.

Company Capital:

Article 6:

The Company has adopted the authorized capital system in accordance with the Capital Markets Law No. 6362 and has acceded to the authorized capital system based on the approval of the Capital Markets Board dated 22 February 2013 and numbered 6/178.

The authorized capital ceiling of the Company is TL 500,000,000.00 consisting of 500,000,000.00 shares each with a nominal value of TL 1.00.

The authorization granted by the Capital Markets Board for the authorized capital ceiling is valid for five years between 2013-2017. Even if the Company capital does not reach the ceiling at the end of this term, any subsequent capital increase by the Board of Directors requires the approvals of the Capital Markets Board and the Company General Assembly for the same or a new ceiling.

~~The Company quits the authorized capital system in case of failure to obtain the said authorization or the loss of qualifications needed for the authorized capital system.~~

The Company's paid capital is TL 102,272,000 and is fully paid in cash.

The shares representing the Company capital are dematerialized and are recorded in electronic form.

Within the framework of the Capital Markets Law

AMENDED TEXT

Headquarters and Branches:

Article 4:

The Company headquarters are located in Istanbul. The Company address is Aeropark Yenişehir Mahallesi Osmanlı Bulvarı No: 11/~~A~~ Kurtköy. Changes in the Company address is registered with the Trade Registry and announced in the Turkish Trade Registry Gazette and is further notified to the Ministry of Customs and Trade and the Capital Markets Board. Notifications delivered to the registered and announced address are deemed to be served on the Company. Failure to register the new Company address is deemed as a reason for dissolution.

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The authorized capital ceiling of the Company is TL 500,000,000.00 consisting of 500,000,000.00 shares each with a nominal value of TL 1.00.

The authorization granted by the Capital Markets Board for the authorized capital ceiling is valid for five years between 2013-2017. Even if the Company capital does not reach the ceiling at the end of this term, any subsequent capital increase by the Board of Directors requires the approvals of the Capital Markets Board and the Company General Assembly for the same or a new ceiling.

The Company's paid capital is TL 102,272,000 and is fully paid in cash.

The shares representing the Company capital are dematerialized and are recorded in electronic form.

Within the framework of the Capital Markets Law

and the Turkish Commercial Code, the Board of Directors is authorized to increase the Company's paid capital up to the authorized capital ceiling by issuing new shares, to restrict the pre-emption rights of existing shareholders and to issue shares with premium or below nominal value. The authority to restrict pre-emption rights of existing shareholders cannot be exercised in a way that will result in inequality among shareholders. No new shares can be issued until the previously issued shares are fully sold and paid for.

Following the completion of the capital increase in accordance with the provisions of this article the Board of Directors registers the revised text of this article relating to Company capital with the Trade Registry and announces the amendment in the Turkish Trade Registry Gazette.

**Meetings and Decisions of the Board of Directors:
Article 12:**

Members of the Board of Directors are called for meetings by registered mail ~~and~~ e-mail at least 5 days in advance. The meeting can be convened in the presence of all members without the need for any prior notice period.

The location for the meeting of the Board of Directors is the Company headquarters. The Board of Directors may also convene for a meeting elsewhere in or outside of Turkey; in which case the Chairman of the Board of Directors will indicate the location of meeting in the ~~registered mail and e-mail~~ calling the directors for the meeting.

The Board of Directors convenes for meetings whenever the Company business requires; provided that the Board of Directors meets at least four times a year.

The 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. 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. For the validity of such decisions the proposal must have been delivered to all members of the Board of Directors. The Company complies with the corporate governance principles of the Capital Markets Board in relation to important transactions, related party transactions and transactions relating to the granting of mortgage, pledge and other security for the benefit of third parties.

Those that are entitled to attend meetings of the

and the Turkish Commercial Code, the Board of Directors is authorized to increase the Company's paid capital up to the authorized capital ceiling by issuing new shares, to restrict the pre-emption rights of existing shareholders and to issue shares with premium or below nominal value. The authority to restrict pre-emption rights of existing shareholders cannot be exercised in a way that will result in inequality among shareholders. No new shares can be issued until the previously issued shares are fully sold and paid for.

Following the completion of the capital increase in accordance with the provisions of this article the Board of Directors registers the revised text of this article relating to Company capital with the Trade Registry and announces the amendment in the Turkish Trade Registry Gazette.

**Meetings and Decisions of the Board of Directors:
Article 12:**

Members of the Board of Directors are called for meetings by registered mail or e-mail at least 5 days in advance. The meeting can be convened in the presence of all members without the need for any prior notice period.

The location for the meeting of the Board of Directors is the Company headquarters. The Board of Directors may also convene for a meeting elsewhere in or outside of Turkey; in which case the Chairman of the Board of Directors will indicate the location of meeting in the invitation calling the directors for the meeting.

The Board of Directors convenes for meetings whenever the Company business requires; provided that the Board of Directors meets at least four times a year.

The 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. 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. For the validity of such decisions the proposal must have been delivered to all members of the Board of Directors. The Company complies with the corporate governance principles of the Capital Markets Board in relation to important transactions, related party transactions and transactions relating to the granting of mortgage, pledge and other security for the benefit of third parties.

Those that are entitled to attend meetings of the

Board of Directors can attend such meetings electronically, in accordance with Article 1527 of the Turkish Commercial Code. The Company, in accordance with the Communiqué regarding Electronic Non-Shareholder Meetings in Joint Stock Companies, establishes the Electronic Meeting System allowing for the relevant persons to attend and vote electronically at these meetings or procures such services from established systems. The Company ensures that the system allows the relevant persons to exercise their legal rights at these meetings in accordance with the provisions of the Communiqué.

The Board of Directors is authorized to delegate all or a part of its authority and responsibility to one or more members of the Board of Directors or to third parties. In this case, the Board of Directors prepares an internal regulation in accordance with Article 367/1 of the Turkish Commercial Code. The Board of Directors may also establish committees or commissions according to its needs which may include members of the Board of Directors.

Responsibilities of the Board of Directors:

Article 13:

Every year at its first meeting following the annual General Assembly, the Board of Directors elects a Chairman and a Deputy Chairman to serve in his/her place in his/her absence.

The Audit Committee, the Corporate Governance Committee, ~~the Nominations Committee~~ and the Risk Committee will be established to support the Board of Directors as detailed below.

The Audit Committee supports the Board of Directors in relation to the surveillance of the functionality and the efficiency of the Company's accounting system, the audit and the public disclosure of financial information and the internal audit systems. The Audit Committee consists of two members, ~~both~~ to be appointed from among the independent members of the Board of Directors.

The Corporate Governance Committee supports the Board of Directors in relation to the Company's compliance with corporate governance principles, salary, bonus and performance evaluations, career planning and public disclosures. The Corporate Governance Committee consists of three members; provided that the chairman of the committee is appointed from among the independent members of the Board of Directors. The Board of Directors may appoint non-Board member specialists as members of the Corporate Governance

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Article 13:

Every year at its first meeting following the annual General Assembly, the Board of Directors elects a Chairman and a Deputy Chairman to serve in his/her place in his/her absence.

The Audit Committee, the Corporate Governance Committee and the Risk Committee will be established to support the Board of Directors as detailed below.

The Audit Committee supports the Board of Directors in relation to the surveillance of the functionality and the efficiency of the Company's accounting system, the audit and the public disclosure of financial information and the internal audit systems. The Audit Committee consists of at least two members, each to be appointed from among the independent members of the Board of Directors.

The Corporate Governance Committee supports the Board of Directors in relation to the Company's compliance with corporate governance principles, determination of eligibility criteria for director and senior management positions and the persons who meet such eligibility criteria, salary, bonus and performance evaluations, career planning and public disclosures. The Corporate Governance Committee consists of at least three members; provided that the chairman of the committee is appointed from among the independent members of the Board of Directors. The Board of Directors may appoint non-Board

Committee.

~~The Nominations Committee supports the Board of Directors in relation to the determination of eligibility criteria for director and senior management positions and the persons who meet such eligibility criteria. The Nomination Committee consists of three members; provided that the chairman of the committee is appointed from among the independent members of the Board of Directors. The Board of Directors may appoint non-Board member specialists as members of the Nomination Committee.~~

The Risk Committee supports the Board of Directors in relation to the early detection of the risks that endanger the presence, development and continuity of the Company, the development of precautions and remedies in response to such risks and the administration and development of the Company's risk management systems. The Risk Committee consists of three members; provided that the chairman of the committee is appointed from among the independent members of the Board of Directors. The Board of Directors may appoint non-Board member specialists as members of the Risk Committee.

Members of the Audit Committee, the Corporate Governance Committee, and the ~~Nominations~~ Committee are appointed and the authority, responsibility, duties and the working principles of each committee are determined by the Board of Directors in accordance with the principles set out in the articles of association.

The Board of Directors may establish other committees and commissions consisting of directors or non-directors on various matters such as overseeing business, preparation for discussion items and the preparation of balance sheet with respect to material events.

Audit:

Article 16:

The Company complies with the Turkish Commercial Code, the Capital Markets Law and the relevant regulations issued in this framework with respect to the audit of the Company and other matters determined in the applicable legislation.

General Assembly of Shareholders:

Article 17:

The following principles apply to the Company's General Assembly meetings.

a) Invitation: The General Assembly convenes for ordinary and extraordinary sessions. The principles set out in the Turkish Commercial Code,

member specialists as members of the Corporate Governance Committee.

The Risk Committee supports the Board of Directors in relation to the early detection of the risks that endanger the presence, development and continuity of the Company, the development of precautions and remedies in response to such risks and the administration and development of the Company's risk management systems. The Risk Committee consists of **at least** three members; provided that the chairman of the committee is appointed from among the independent members of the Board of Directors. The Board of Directors may appoint non-Board member specialists as members of the Risk Committee.

Members of the Audit Committee, the Corporate Governance Committee and the **Risk** Committee are appointed and the authority, responsibility, duties and the working principles of each committee are determined by the Board of Directors in accordance with the principles set out in the articles of association.

The Board of Directors may establish other committees and commissions consisting of directors or non-directors on various matters such as overseeing business, preparation for discussion items and the preparation of balance sheet with respect to material events.

Audit:

Article 16:

The Company complies with the Turkish Commercial Code, the Capital Markets Law and the relevant regulations issued in this framework with respect to the audit of the Company, **statutory right of the shareholders regarding special audit** and other matters determined in the applicable legislation.

General Assembly of Shareholders:

Article 17:

The following principles apply to the Company's General Assembly meetings.

a) Invitation: The General Assembly convenes for ordinary and extraordinary sessions. The principles set out in the Turkish Commercial Code, the

the Capital Markets Law and the relevant regulations issued in this framework apply with respect to the invitation of the General Assembly. The call for the General Assembly is announced at least three weeks in advance, excluding the date for the call and the date of the meeting, through the Company's website, the Public Disclosure Platform and other methods determined by the Capital Markets Board.

b) Time of Meeting: Ordinary General Assembly convenes within three months following the end of each financial year while the extraordinary General Assembly meetings are held whenever the Company's business requires.

c) Voting and Appointment of Proxy: Voting rights at the General Assembly are calculated according to the ratio of the total nominal value of the shares owned by the shareholder to the total nominal value of the Company's paid capital. The shareholder can personally attend the General Assembly or appoint a proxy to do the same. The legal framework issued by the Capital Markets Board relating to proxy voting and deliberations on important transactions are reserved.

d) Discussions and Decision Quorum: The General Assembly discusses and resolves on the minimum requirements foreseen by the law. Pursuant to Article 29/4 of the Capital Markets Law, items determined by the Capital Markets Board must be included in the meeting agenda. General Assembly meetings and decision quorum applicable at such meetings are subject to the provisions of Article 29 of the Capital Markets Law. The Company complies with the corporate governance principles of the Capital Markets Board in relation to important transactions, related party transactions and transactions relating to the granting of mortgage, pledge and other security for the benefit of third parties.

e) Meeting Location: The General Assembly meets at the Company headquarters or at another convenient location in the same city.

f) Electronic Participation at the General Assembly: Those that are entitled to attend General Assembly meetings can attend such meetings electronically, in accordance with Article 1527 of the Turkish Commercial Code. The Company, in accordance with the Regulation regarding Electronic General Assembly Meetings in Joint Stock Companies, establishes the electronic general assembly meeting system allowing for the relevant

Capital Markets Law and the relevant regulations issued in this framework apply with respect to the invitation of the General Assembly. The call for the General Assembly is announced at least three weeks in advance, excluding the date for the call and the date of the meeting, through the Company's website, the Public Disclosure Platform and other methods determined by the Capital Markets Board.

b) Time of Meeting: Ordinary General Assembly convenes within three months following the end of each financial year while the extraordinary General Assembly meetings are held whenever the Company's business requires.

c) Voting and Appointment of Proxy: Voting rights at the General Assembly are calculated according to the ratio of the total nominal value of the shares owned by the shareholder to the total nominal value of the Company's paid capital. The shareholder can personally attend the General Assembly or appoint a proxy to do the same. The legal framework issued by the Capital Markets Board relating to proxy voting and deliberations on important transactions are reserved.

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e) Meeting Location: The General Assembly meets at the Company headquarters or at another convenient location in the same city.

General Assembly meetings are open to stakeholders and the media as observers.

f) Electronic Participation at the General Assembly: Those that are entitled to attend General Assembly meetings can attend such meetings electronically, in accordance with Article 1527 of the Turkish Commercial Code. The Company, in accordance with the Regulation regarding Electronic General Assembly Meetings in Joint Stock Companies, establishes the electronic general assembly meeting system allowing for the relevant

persons to attend, vote, submit proposals and opinions electronically at these meetings or procures such services from established systems. The Company ensures that the system allows the relevant persons to exercise their legal rights at these meetings in accordance with the provisions of the Regulation. Relevant provisions of the capital markets legislation are reserved.

As per Article 419 of the Turkish Commercial Code, the internal bylaws covering the working principles and procedures relating to the General Assembly, prepared by the Board of Directors, becomes effective following the approval of the General Assembly. The internal bylaws is registered with the Trade Registry and are announced in the Turkish Trade Registry Gazette.

All matters relating to the General Assembly are conducted in accordance with the Turkish Commercial Code, the Capital Markets Law, the regulations of the Capital Markets Board relating to corporate governance principles and other regulations issued within this framework.

persons to attend, vote, submit proposals and opinions electronically at these meetings or procures such services from established systems. The Company ensures that the system allows the relevant persons to exercise their legal rights at these meetings in accordance with the provisions of the Regulation. Relevant provisions of the capital markets legislation are reserved.

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All matters relating to the General Assembly are conducted in accordance with the Turkish Commercial Code, the Capital Markets Law, the regulations of the Capital Markets Board relating to corporate governance principles and other regulations issued within this framework.

ANNEX - 2

BYLAWS REGARDING THE WORKING PRINCIPLES AND PROCEDURES OF THE SHAREHOLDERS GENERAL ASSEMBLY OF PEGASUS HAVA TAŞIMACILIĞI A.Ş

FORMER TEXT

Duty and Authority of the Chairing Authority

ARTICLE 8 – The chairing authority undertakes the following duties under the presidency of the chairman:

...

b) Inspecting and recording in the minutes their findings on whether the meeting invitation was published in the way required in the articles of association and in any case through the company website and the Turkish Trade Registry Gazette, whether the invitation was published at least ~~two~~ weeks prior to the meeting date excluding the publication and meeting dates, and whether shareholders named in the company share book and those evidencing their shareholding in the company and their address by a written notice to the company have been sent the invitation through registered and return-receipt mail.

...

l) Postponing discussions on the financial statements and other items in connection to a subsequent meeting to be held in one month's time at the request of shareholders representing at least one ~~tenth~~ of the company capital.

...

AMENDED TEXT

Duty and Authority of the Chairing Authority

ARTICLE 8 – The chairing authority undertakes the following duties under the presidency of the chairman:

...

b) Inspecting and recording in the minutes their findings on whether the meeting invitation was published in the way required in the articles of association and in any case through the company website and the Turkish Trade Registry Gazette, whether the invitation was published at least three weeks prior to the meeting date excluding the publication and meeting dates, and whether shareholders named in the company share book and those evidencing their shareholding in the company and their address by a written notice to the company have been sent the invitation through registered and return-receipt mail.

...

l) Postponing discussions on the financial statements and other items in connection to a subsequent meeting to be held in one month's time at the request of shareholders representing at least one twentieth of the company capital.

...