



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2018

MARCH 4, 2019

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(Convenience translation of a report originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Shareholders of Pegasus Hava Taşımacılığı Anonim Şirketi

1) Opinion

We have audited the annual report of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group") for the period of 1/1/2018-31/12/2018.

In our opinion, the consolidated financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Group are presented fairly and consistent, in all material respects, with the audited full set consolidated financial statements and the information we obtained during the audit.

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Report section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Our Auditor's Opinion on the Full Set Consolidated Financial Statements

We have expressed an unqualified opinion in our auditor's report dated March 4, 2019 on the full set consolidated financial statements of the Group for the period of 1/1/2018-31/12/2018.

4) The Responsibility of the Board of Directors on the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the following items:

- a) Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.
- b) Preparation and fair presentation of the annual report; reflecting the operations of the Group for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the consolidated financial statements. The development of the Group and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.
- c) The annual report also includes the matters below:
 - Subsequent events occurred after the end of the fiscal year which have significance,
 - The research and development activities of the Group,
 - Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Customs and Trade and related institutions.

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5) Auditor's Responsibilities for the Audit of the Annual Report

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué, on whether the consolidated financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Group's audited consolidated financial statements and to prepare a report including our opinion.

The independent audit we have performed is conducted in accordance with InAS and the standards on auditing as issued by the Capital Markets Board of Turkey. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the consolidated financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the consolidated financial statements.

The name of the engagement partner who supervised and concluded this audit is Sinem Arı Öz.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



Sinem Arı Öz, SMMM
Partner

March 4, 2019
İstanbul, Turkey

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ANNUAL ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2018

This Report is prepared in accordance with the Regulation on the Determination of the Minimum Content of Company Annual Reports published by the Turkish Ministry of Commerce, the Corporate Governance Communiqué No. II-17.1 and the Corporate Governance Principles published by the Turkish Capital Markets Board and other applicable provisions of Turkish law.

As used in this Report, the following terms shall have the meanings indicated below:

- **“Air Manas”** refers to Air Manas Air Company LLC, a consolidated subsidiary of Pegasus.
- **“Board”** or **“Board of Directors”** refers to the Pegasus Board of Directors.
- **“Company”** or **“Pegasus”** refers to Pegasus Hava Taşımacılığı A.Ş., more fully described in Section 1/A of this Report.
- **“Esas Holding”** refers to Esas Holding A.Ş., the controlling shareholder of Pegasus.
- **“Hitit CS”** refers to Hitit Bilgisayar Hizmetleri A.Ş., a joint venture affiliate of Pegasus.
- **“IzAir”** refers to İHY İzmir Havayolları A.Ş., a former consolidated subsidiary of Pegasus that was acquired by way of merger in 2018.
- **“PFTC”** refers to Pegasus Uçuş Eğitim Merkezi A.Ş., a joint venture affiliate of Pegasus.
- **“PHT”** refers to Pegasus Havacılık Teknolojileri ve Ticaret A.Ş., a consolidated subsidiary of Pegasus.
- **“Principles”** refers to the Corporate Governance Principles published by the Turkish Capital Markets Board.
- **“Report”** refers to this Annual Report of the Pegasus Board of Directors.

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2018 – December 31, 2018
Commercial Title : Pegasus Hava Taşımacılığı A.Ş.
Trade Registration : Istanbul Trade Registry / 261186
Headquarters : Aeropark, Yenışehir Mahallesi, Osmanlı Bulvarı, No: 11/A
Kurtköy 34912 Pendik / Istanbul
Contact Information : Telephone. +90 216 560 7000
Corporate Website. www.flypgs.com
Investor Relations Website.
<http://www.pegasusinvestorrelations.com>

B- VISION, MISSION AND STRATEGIC TARGETS OF PEGASUS

Pegasus operates in line with the strategic targets determined by our Board of Directors in accordance with 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 monitored by the Board of Directors on a regular basis with comparisons against the budgeted targets. Our Board of Directors also reviews the Company's strategic targets and the Company's progress in terms of strategic key performance indicators on a regular basis.

C- CAPITAL, SHAREHOLDING AND ORGANIZATION STRUCTURE OF PEGASUS

Pegasus has an issued capital of TL 102,299,707, within the authorized capital ceiling of TL 500,000,000. Information on the capital and shareholding structure of Pegasus as of January 1, 2018 and December 31, 2018, respectively, is shown in the table below.

Shareholder	January 1, 2018		December 31, 2018	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Esas Holding	64,353,570	62.92%	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%	35,294,000	34.53%
- Publicly Traded Shares Prior to IzAir Merger	35,294,000	34.51%	35,294,000	34.50%
- Shares issued for IzAir Merger	-	-	27,707	0,03%
Emine KAMIŞLI	874,810	0.86%	874,810	0.86%
Ali İsmail SABANCI	874,810	0.86%	874,810	0.86%
Kazım KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Can KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Total	102,272,000	100.00%	102,299,707	100.00%

The issued capital of Pegasus increased by TL 27,707 as part of the merger by acquisition of IzAir, a consolidated subsidiary of Pegasus, which became effective as of December 17, 2018. As a result of the exercise of exit rights by certain number of former IzAir shareholders Pegasus purchased its own shares worth TL 425.04 and these shares are held by Pegasus as of the date of publication of this Report. Please refer to Section 1/K of this Report for more information on the IzAir Merger.

As of December 31, 2018, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket SABANCI and his family and has investments in the aviation, retail and entertainment, manufacturing, food, real estate and several other sectors in and outside of Turkey. Esas Holding is fully owned by Şevket SABANCI and the members of his family.

Our Company's management organization chart as of December 31, 2018 is provided in Section 1/F of this Report.

D- INFORMATION ON BUSINESS ACTIVITIES

Pegasus is Turkey's leading low-cost airline. Pegasus operated charter flights since 1990. Following its acquisition by Esas Holding at the beginning of 2005, Pegasus changed its business model, introducing a low-cost network carrier model for the first time 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 and international routes. Between 2009 and 2018, Pegasus' cumulative average annual passenger growth more than doubled Turkish market's 11% CAGR and reached 26%. Pegasus also became the fastest growing airline among the 25 largest European airlines in terms of seat capacity in 2011, 2012 and 2013 according to the Official Airline Guide (OAG). With a growing, young and modern fleet of 82 aircraft with 5.74 average aircraft age as of December 31, 2018, Pegasus aims to be the leading low-cost airline in the region.

Pegasus provides 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. As of December 31, 2018, Pegasus offered scheduled passenger services on 36 domestic routes in Turkey and 71 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 108 destinations in 41 different countries.

Pegasus' business model is based on a strong focus on efficient operations and cost control, and revenue generation through various services ancillary to the core air passenger services. In 2018, the Company's CASK, non-fuel was recorded as €c 2.34, while revenue recorded from ancillary services constituted 24% of total revenue for the period. In 2018, Pegasus continued to derive 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 6% of total revenue for the period.

In 2018, Pegasus increased its focus on digitalization, customer experience and organizational development, three areas where it intends to seek continuous development in 2019 as well. Pegasus received numerous accolades in recognition of its performance in these areas, a summary of which is provided in Section 7/A of this Report.

E- INFORMATION ON PRIVILEGED SHARES

Pegasus has not issued any privileged shares. Therefore, there are no voting privileges attached to Pegasus shares or any preference in respect of the nomination of Board members or the allocation of any distribution or payment to be made from Company profits.

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

a)- Management Body: The management body of Pegasus is the Board of Directors. Within the framework of Article 10 of our Articles of Association, the Board of Directors must be composed of at least five members, eligible for up to three years. As of December 31, 2018, the Board of Directors consisted of eight members. Beyond the minimum requirements of the Principles, four independent members served in our Board of Directors in 2018. All independent nominees were nominated by the Corporate Governance Committee, obtained the Capital Markets Board non-objection and were appointed in such capacity at the Annual General Assembly Meeting held on April 4, 2018. Apart from the independent Board members, two other members served in the capacity of non-executive directors.

The identity, duty and term of office of each Board member are indicated below.

Name / SURNAME	Duty	Serves Since ⁽¹⁾	Committee Duties
Ali İsmail SABANCI	Chairperson of the Board	2005	-
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairperson of the Board	2006	-

Sertaç HAYBAT	Non-Executive Board Member	2005	Chair, Safety Comm. Member, Risk Comm.
Mehmet Cem KOZLU	Independent Board Member	2013	Chair, Audit Comm. Member, Corp. Gov. Comm. Member, Safety Comm.
Saad Hassan HAMMAD	Independent Board Member	2015	Chair, Risk Comm. Member, Audit Comm.
Hatice Zeynep Bodur OKYAY	Independent Board Member	2016	-
Stephen Mark GRIFFITHS	Independent Board Member	2016	Chair, Corp. Gov. Comm.
Michael Glyn POWELL	Non-Executive Board Member	2018	Member, Corp. Gov. Comm.

⁽¹⁾ Board appointments are made annually at the discretion of our shareholders and our current Board members were appointed for a term of one year at the Annual General Assembly Meeting dated April 4, 2018.

Information on the duties assumed elsewhere by our Board members in 2018 is provided in Annex-2 to this Report. Independency statements by our independent Board members are provided in Annex-3 to this Report.

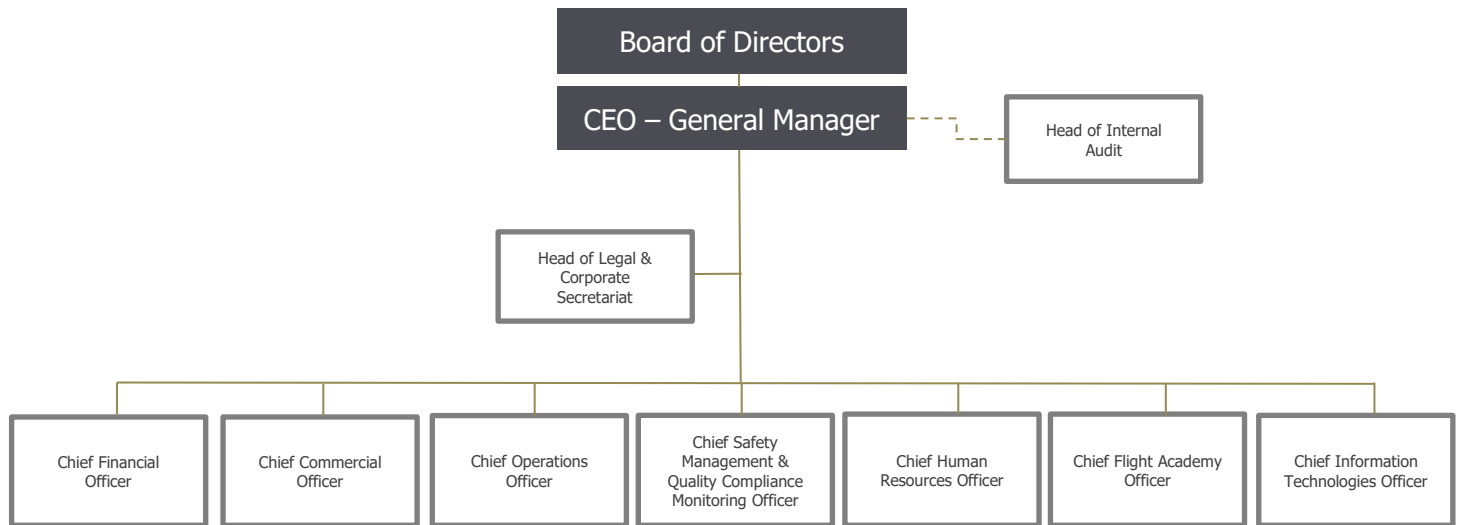
b)- Senior Management: Pegasus senior management comprises the General Manager (CEO) and executives directly reporting to the CEO. Information on Pegasus senior management and their duties as of December 31, 2018 is provided in the following chart.

Name / SURNAME	Duty	Serves in Pegasus Since ⁽¹⁾	Serves in Position Since ⁽²⁾
Mehmet T. NANE	President & General Manager (CEO)	2016	2016
Güliz ÖZTÜRK	Chief Commercial Officer	2005	2010
M. Barbaros KUBATOĞLU	Chief Financial Officer	2007	2018
Nasuh N. ÇETİN	Chief Operations Officer	2013	2016
Aydın YUMRUTAŞ	Chief Flight Academy Officer	2010	2018
Barış FINDIK	Chief Information Technologies Officer	2017	2017
Dilara OĞUR	Chief Human Resources Officer	2015	2015
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer	2008	2017
Ali UZUN	Head of Legal and Corporate Secretariat (General Counsel)	2013	2018
Özgür DİNÇER	Head of Internal Audit	2017	2017

⁽¹⁾ Indicates service in Pegasus Group Companies.

⁽²⁾ Indicates service in the stated duty.

Pegasus management organization chart is as follows:



———— Reporting Line

----- Additional Reporting Line

c)- Number of Employees: The total number of full-time employees of Pegasus and its consolidated subsidiaries defined in Section 4/D of this Report, as of December 31, 2018 was 5.621. This number includes the members of our senior management listed above. There are no employees under a collective bargaining agreement. Information on benefits provided to Pegasus to our employees are detailed in the [Pegasus Compensation and Indemnification Policy](#) available in our Investor Relations Website.

G- INFORMATION ON TRANSACTIONS BETWEEN PEGASUS AND BOARD MEMBERS, COMPETING BUSINESS ACTIVITIES OF BOARD MEMBERS AND CONFLICT OF INTEREST REGARDING INVESTMENT ADVICE, RATING AND SIMILAR SERVICES PROCURED BY PEGASUS

At the Annual General Assembly Meeting held on April 4, 2018, our shareholders authorized our Board members, in accordance with Articles 395 and 396 of the Turkish Commercial Code No. 6102, to enter into transactions with Pegasus on their own behalf and on behalf of others and to engage in commercial business falling within the area of activity of Pegasus.

At the same meeting, our shareholders were informed under a separate agenda item, as per the provisions of Principle 1.3.6, that in the previous year:

- no material transactions realized between Pegasus or its subsidiaries on one hand and our controlling shareholders, Board members, members of our senior management with administrative responsibility or their spouses or relatives up to and including the second degree on the other hand, that would create a conflict of interest, or
- any other instance where any of the foregoing persons engaged in competing business on their own account or on the account of others or through any enterprise where they act as a shareholder with unlimited liability.

Information on the related party transactions entered into by our Company in 2018 was provided in Note 5 to the Consolidated Financial Statements for the Accounting Period between January 1 – December 31, 2018, "Related Party Transactions".

In 2018, several Board members held executive and non-executive duties in entities that operate in the field of aviation while none of these entities competed with or entered into a significant transaction with Pegasus in a manner that would fall within the scope of Principle 1.3.6.

- Our Chairperson, Ali İsmail SABANCI served as a non-executive director in Air Berlin plc (United Kingdom) until February 2018. Mr. SABANCI's non-executive director tenure at Air Berlin plc continued since May 2009, at a time when Esas Holding acquired 12.02% stake in Air Berlin plc.
- Our non-executive Board member Michael Glyn POWELL is the executive chairperson of Flybondi Limited (United Kingdom), investing in the first low-cost airline based in Argentina. Another non-executive Board member Sertaç HAYBAT also serves as a non-executive board member of Flybondi Limited.
- Our independent Board member Saad H. HAMMAD serves as an independent director of Jetlines, an ultra-low-cost carrier based in Vancouver, Canada.

- In October 2018, our independent Board member Stephen Mark GRIFFITHS was appointed as the chief operating officer for London Stansted Airport as part of the Manchester Airports Group (United Kingdom).
- Our independent Board member M. Cem KOZLU serves as a member of the supervisory board and the audit committee of DO & CO AG (Austria).

The Company believes that the above transactions and engagements do not give rise to any conflict of interest for Pegasus or its subsidiaries.

Pegasus acts prudently to prevent any conflict of interests with the entities providing services such as investment advice and rating services to it. In 2018, there are no transactions to report that gave rise to a conflict of interest in this respect.

H- WORKING PRINCIPLES OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

The Working Procedures and Principles of our Board of Directors are determined in writing. Subject to the provisions of the mandatory provisions of Turkish 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 Association authorize our Board of Directors 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. Board members are expected to attend all meetings, devote sufficient preparation time ahead of each meeting and present their opinions at each meeting. The Chairperson of the Board is expected to facilitate the efficient participation of all Board members at the meeting.

The records relating to the work of the Board of Directors are kept in writing and available to all Board members. Board members 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, the Board 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 Board member has one vote. Unless one of the Board members requests a meeting, the Board can also adopt decisions by the written approval of simple majority of its members to a written proposal submitted by a Board member or by the Company

management. Each resolution passed at the Board of Directors is put into writing and signed by the sufficient number of Board members and are kept in the Resolution Ledger of the Board of Directors.

In 2018, the Board held four meetings on March 20, May 24, August 16-17 and December 11, 2018. The overall attendance rate for the meetings was 96.9% in 2018.

Based on the resolution of our Board of Directors dated April 5, 2018 numbered 622 Audit Committee, Corporate Governance, Risk and Safety Committees were re-composed as follows.

Audit Committee		
Chairperson	Mehmet Cem KOZLU	<i>Independent Board Member</i>
Member	Saad Hassan HAMMAD	<i>Independent Board Member</i>
Corporate Governance Committee		
Chairperson	Stephen Mark GRIFFITHS	<i>Independent Board Member</i>
Member	M. Cem KOZLU	<i>Independent Board Member</i>
Member	Michael G. POWELL	<i>Non-Executive Board Member</i>
Member	H. Nur KARABACAK	<i>Investor Relations Manager</i>
Committee on Early Detection of Risks		
Chairperson	Saad Hassan HAMMAD	<i>Independent Board Member</i>
Member	Sertaç HAYBAT	<i>Non-Executive Board Member</i>
Member	İnan TANRIOVER	<i>Non-Board Member Expert</i>
Safety Committee		
Chairperson	Sertaç HAYBAT	<i>Non-Executive Board Member</i>
Member	Mehmet Cem KOZLU	<i>Independent Board Member</i>
Member	Mehmet T. NANE	<i>CEO</i>

In determining the composition of the structure of the Board Committees the Board of Directors aims to form a balanced distribution of work in consideration of the number of non-executive and independent Board Members and the legal requirements for the composition of each committee.

In accordance with the requirements of the Principles, all of the members of the Audit Committee and the chairmen of the Audit, Corporate Governance and Risk Committees are appointed from among independent Board members while executive Board members assume no active duty in the said Committees. Our Board 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 the Board 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.

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.

Summary of the work undertaken by the Board Committees established as per the requirements of the Principles in 2018 are as follows:

Audit Committee

The Audit Committee held four meetings on March 2, May 17, August 10 and November 8, 2018, 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 December 31, 2017 and on March 31, June 30 and September 30, 2018 and shared its favorable opinion with the Board. The Committee prepared the proposal for the appointment of the independent audit firm for 2018 audit requirements, oversaw the activities of the Company's Internal Audit Department, its work plan and budget. In 2018, a new two-year Internal Audit Plan was introduced, and significant improvement was achieved in terms of Internal Audit Reporting. In 2018, Pegasus Ethical Behavior Guide was revised under the auspices of the Committee, and Pegasus ethical compliance framework was significantly overhauled to pave way for a more structured, efficient and measurable ethical governance framework. The Committee informed the Board of its activities at each Board meeting held in 2018.

Corporate Governance Committee

The Corporate Governance Committee held four meetings on March 20, May 24, August 16 and December 11, 2018, in attendance of all members. The Committee engaged in works within the framework of its Charter and in this respect, oversaw corporate governance compliance, the nomination of independent directors and the determination of nomination and compensation principles for Board members in 2018, reviewed various Board policies and scrutinized the operations of the Investor Relations Department. The Committee worked on the matters of succession planning and evaluation of performances of executive management and their regular observation. In 2018, significant improvement in IR strategy and reporting format and content was achieved. Also, in 2018, the Company attained the highest increase in independent corporate governance compliance rating in three years. The Committee informed the Board of its activities at each Board meeting held in 2018.

Committee on Early Detection of Risks

The Committee on the Early Detection of Risks held four meetings on March 15, May 22, August 15 and December 10, 2018, in attendance of all members. The Committee engaged in works within the framework of its Charter and in this respect established the main principles and control 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. Notable achievements in 2018 included the improvements in the Company-wide risk management through the introduction of Risk Review Board meetings preceding each Committee meeting to consolidate senior management view on the Company's risk ledger. The Company's risk ledger also improved through streamlining risk-related tasks assigned to different management units and through a periodic review mechanism introduced for existing and potential risks. The Committee informed the Board of its activities at each Board meeting held in 2018. The Committee also provided information on its work and its periodic evaluation of risks once every two months in accordance with the provisions of Article 378 of the Turkish Commercial Code.

I- INFORMATION ON THE EFFICIENT EXERCISE OF SHAREHOLDER RIGHTS

Pegasus Investor Relations is responsible for managing shareholder relations and reports to the Company CFO. Company Secretary works in collaboration with Pegasus Investor Relations

on all corporate governance matters. Our senior management staff responsible for shareholder relations and their contact information are provided below:

Mr. M. Barbaros KUBATOĞLU
Chief Financial Officer

Ms. H. Nur KARABACAK
Investor Relations Manager

Telephone : +90 216 560 7580

Fax : +90 216 560 8087

E-mail : pegasusyatirimciiliskileri@flypgs.com

Website : <http://www.pegasusinvestorrelations.com/>

In accordance with the requirements of the Capital Markets Board's Corporate Governance Communiqué No. II-17.1, Ms. KARABACAK is the head of the Company's investor relations unit and serves as a member of the Corporate Governance Committee. Nur KARABACAK is a fulltime employee of our Company reporting to the CFO and holds Capital Markets–Level 3 and Corporate Governance Rating Licenses. Pegasus Investor Relations Manager carries out all investor relations activities under the scrutiny of the Committee. Pegasus investor relations strategy, key targets, activities, performance results are regularly reported to the Committee and the Board of Directors. In 2018, the regular updates were reported to the Board and the Committee on March 20, May 24, August 16, and December 11.

Throughout 2018, the Company responded to inquiries submitted by our shareholders without discrimination, through telephone, e-mails or meetings and attended targeted roadshows/conferences.

Information on the principles, methods and frequency of communication of information to our shareholders is detailed in the [Pegasus Information Policy](#) available in our Investor Relations Website.

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. Pegasus Investor Relations Website forms the principal communication platform for investor communication.

Also, information we are required to make available as per the "**Information Society Services**" related provisions of the Turkish Commercial Code No. 6012, is published on the e-COMPANY platform of the Central Registry Agency accessible by a link in our Investor Relations Website (<https://e-sirket.mkk.com.tr/esir/Dashboard.jsp#/sirketbilgileri/11366>).

The inquiries received by the Investor Relations Unit were answered within the framework of the law and the Pegasus Information Policy and in 2018, several questions raised by shareholders at the Annual General Assembly Meeting held on April 4, 2018 were answered in detail and in writing on April 16, 2018 through a statement published on the Investor Relations Website.

No requests for special audit of a specific matter were submitted to Pegasus in 2018. 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.

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.

J- INFORMATION ON SHAREHOLDER MEETINGS HELD IN THE REPORTING PERIOD

The Annual General Assembly meeting of our Company for the year 2017 was held on April 4, 2018 at 10:00 am local time at the Company Headquarters in Istanbul.

The meeting invitation and the agenda were published in the Trade Registry Gazette dated March 13, 2018 and numbered 9535, on page 277, in our Investor Relations Website, on the Public Disclosure Platform and the Electronic General Assembly Portal within the time limits prescribed by the law. Written invitations were also 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.

Shareholders representing TL 74,941,103 (73.28% of the Company capital) were represented at the meeting, thereby constituting the requisite meeting quorum. Mr. H. Çağatay ÖZDOĞRU, Vice-Chairperson of the Board of Directors, Mr. Mehmet T. NANE, Company General Manager (CEO), Mr. M. Barbaros KUBATOĞLU, Company CFO responsible for financial reporting, and representing the Company's independent auditor, DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, Mr. Cem TOVİL attended the meeting in person.

The decisions of our shareholders adopted at the Annual General Assembly meeting held on April 4, 2018 are indicated in the table below:

April 4, 2018 Annual General Assembly Resolutions	Vote
• Approval of the Annual Activity Report, the Auditor Report and the Financial Statements for the year 2017	Majority
• Release of the members of the Board of Directors for operations and accounts pertaining to the year 2017	Majority
• Allocation of the 2017 profit to pay-off previous years' losses account	Majority
• Appointment of the members of the Board of Directors for a term of one year	Majority
• Determination of payments to be made to Board members during the term of appointment	Majority
• 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	Majority
• Appointment of Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of Ernst & Young Global Limited) as the independent audit firm for the year 2018 as per the provisions of Article 399 of the Turkish Commercial Code	Majority
• Determination of a ceiling for donations to be made by the Company in 2018	Unanimity

The agenda, list of attendees, meeting minutes and written answers submitted to several questions at the meeting are published on our Investor Relations website.

There were no transactions to report in 2017 that had to be submitted for the approval of our shareholders, where the approval of the majority of the independent Board members was required and not received with respect to a resolution of the Board of Directors.

K- INFORMATION ON IZAIR MERGER

On September 4, 2018, Pegasus and IzAir announced an intended merger between the two entities whereby Pegasus would acquire IzAir, an entity in which it held 98.63% stake at that time, through acquisition by merger in accordance with the simplified merger method prescribed in the relevant provisions of the Capital Markets Law No. 6362, the Merger and Demerger Communiqué No. II-23.2 of the Capital Markets Board, the Turkish Commercial Code No. 6102 and the Corporate Tax Law No. 5520.

The Turkish General Directorate of Civil Aviation approval for the contemplated merger was obtained on September 19, 2018 and the Capital Markets Board approval for the merger notice was obtained on November 8, 2018.

The merger agreement, the proposed amendments to the Pegasus Articles of Association, the merger notice approved by the Capital Markets Board, the expert report, the financial statements as of June 30, 2018 forming the basis for the merger, the financial reports and audit reports for the past three years and the estimated opening balance sheet following merger, prepared for the merger were published on the Public Disclosure Platform and the Investor Relations Website.

The merger was finally approved by the Boards of Directors of the two entities on December 13, 2018 and was registered with the Istanbul and Izmir Trade Registries on December 17, 2018. On the same date, the issued capital of Pegasus was re-registered as TL 102,299,707, following an increase of TL 27,707 from previous TL 102,272,000 and the newly issued shares were allotted to the other shareholders of IzAir who would become shareholders in Pegasus following IzAir's dissolution. These shareholders were also granted an exit right allowing them to sell their allotment to Pegasus at a price equal to TL 31,78 per share, the base price according to which Pegasus valuation was calculated for the merger. As a result of the exercise of exit rights by certain number of former IzAir shareholders Pegasus purchased its own shares worth TL 425.04 and these shares are held by Pegasus as of the date of publication of this Report.

2- FINANCIAL BENEFITS PROVIDED TO BOARD MEMBERS AND SENIOR MANAGEMENT

Pursuant to the Pegasus Articles of Association, Board members 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 Board members, stock options or payment plans based on the company's performance cannot be used. Nevertheless, remuneration of independent Board members 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, **"2018 Nomination and Compensation Principles and Criteria for Pegasus Board of Directors"** was determined by the decision of the Corporate Governance Committee, which was published as Annex-6 to the [Information Document](#) prepared for the Annual General

Assembly meeting held on April 4, 2018 and communicated to our investors through our Investor Relations Website, the Public Disclosure Platform and the Electronic General Assembly Portal.

The honorary payments to be made to our Board members based on their attendance to Board meetings and the annual payments made for their duty as chairperson or member in the Board Committees, on an individual basis, were determined by the shareholders at the Annual General Assembly meeting held on April 4, 2018 and was published in the meeting minutes.

The gross honorary fees paid to the members of our Board of Directors for the Board meetings they attended in 2018 as well as gross payments for their duties as chairperson or member at the relevant Board committees amounted to TL 1.648.855,25.

In 2018, the total salary and bonus fees paid to the General Manager (CEO), C-level Managers and Senior Vice-Presidents serving in our senior management team, and the income tax and social security contributions with respect to the same persons amounted to TL 11.311.895,42.

In 2018 there were no loans or security extended by Pegasus to the members of the Board or senior management.

3- RESEARCH AND DEVELOPMENT ACTIVITIES

Pegasus is dedicated to allocating resources for in-house information technology developments and research & development activities. In the recent years, projects such as Electronic Flight Bag (EFB) enabling operations to be carried out in a digitalized, paperless and much more agile manner in the cockpit were successfully implemented. The use of the EFB is constantly improved each year through additional modules contributing to better utilization of the aircraft and cockpit mobility and reporting. In 2018, aircraft tracker system at main hubs in Turkey, live weather and NOTAM (notice to airmen) reporting and technical information integration projects were fully implemented. Completed and ongoing innovation, technology and design projects will continue to positively impact operations, allowing for smart review of operational efficiency and a more simplified and effective operational performance.

Pegasus focused on increasing digital channels experience in 2018. To achieve this, our website and iOS and Android mobile applications were redesigned and redeveloped. Besides a new interface, Pegasus renewed the integration technologies between our digital channels and our core reservation system. These changes result in improved user experience and a more agile development platform for Pegasus. User experience developments made in our digital channels in 2018 include easyLogin, easyPayment, touch id and face id login options in terms of accessibility, Giropay, Sofort, Ideal, EDD and Masterpass, available in several countries, in terms of alternative payment methods. Our digital channels are being checked for color-blind users to ensure successful experience for our color-blind guests. Giftcard was launched as a new ancillary product available on our digital channels in 2018 and it allows sending gifts that can be used for purchasing tickets and services using Pegasus digital channels. Travel Assistance project was launched in 2018 and will continue to develop in 2019. This project aims to provide enhances guest services using Complex Event Processing Tools that handle real time events. Our guests are timely prompted by SMS notices about their services at airports or regarding their flights, in respect of arrival times, baggage carousel information at arrival and similar operational data.

Pegasus also focused on new ideas to improve terminal experience in 2018 and creating additional value to the customer journey in that area. Express Baggage service is a prominent example allowing our guests to deliver their registered baggage for their flight using professionally designed user interfaces at our main hub, Sabiha Gökçen Airport in Istanbul, at the starting point of a fast and a seamless travel. Pegasus also started using machine learning to track segmented customer volume in counter area to enhance customer satisfaction by reducing waiting time for check-in.

A complete digital experience and an improved guest experience is not possible unless these improvements touch our employees or operations. Pegasus initiated numerous actions in 2018 to deliver fast and reliable content and functions to our employees through a multi-platform intranet. The penetration of the digitalized systems is ensured by better accessibility, so that the tools can be accessed anywhere online and also through iOS and Android apps developed for our staff. Pegasus staff carries out their everyday tasks and mobilize their work processes. Internal applications and Pegasus online help line can be accessed quickly, any content that needs to be read is delivered to the target audience immediately and can be reported. Utilizing Robotic Process Automation tool starting from 2018, Pegasus also aims to maximize digital work force capability considering the growth rate of the Company. Appropriate routine functions for financial tasks are being executed by robotic process automation currently and we are working on enhancing the utilization of RPA within the organization for any appropriate function, report, alike.

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

A- SECTOR OUTLOOK

International Aviation Market

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

According to the Airline Industry Outlook 2019 published in December 2018 by the International Air Transport Association (IATA), demand and business growth manifested in terms of revenue passenger kilometers (number of revenue passengers and distance flown of each flight, indicating capacity that is earning revenue) realized at an annual rate of 5% in the past 20 years and is expected to remain slightly above the average growth rate in 2019. The same report also indicates a 10th consecutive year of global commercial airline profitability at an average EBIT margin of 6.0% for 2018.¹

Turkish Aviation Market

Since 2003 Turkish civil aviation market has been one of the fastest developing markets thanks to several regulatory amendments beginning with the removal of price tariffs on domestic flights in 2001. High airfares due to lack of competition in domestic flights prior to 2001 had prevented growth in the Turkish civil aviation market. Domestic competition emerged following the removal of taxes on air transportation, other than VAT on ticket prices, in 2003.

¹ <https://www.iata.org/publications/economics/Reports/Industry-Econ-Performance/Airline-Industry-Economic-Performance-December-2018-Presentations.pdf>

These changes made air transportation more affordable to Turkish citizens and triggered growth in the market.

The Turkish civil aviation industry significantly outperformed gross domestic product (GDP) in the last 10 years. Between 2007 and 2017 GDP growth of Turkey was on average 5%, while according to the data published by the General Directorate of State Airports Authority (DHMI) domestic passenger compound annual average growth rate in airline industry in Turkey at the same period was around 13%. Turkish aviation market also resisted macroeconomic fluctuations during this period. For example, despite a 4.7% contraction in GDP in 2009 number of domestic passengers increased by 17%.²

Following the first decrease in the total number of passengers since 2003 by 8.3% (4.1% in domestic passengers and 15.5% in international passengers) in 2016 on a year-over-year basis, triggered by the increased geopolitical risks and security threats arising in the region surrounding Turkey, a cumulative growth of 13% (7.8% in domestic passengers and 16.9% in international passengers) was achieved in 2017, followed by a cumulative growth of 11.2% (2.0% in domestic passengers and 17.1% in international passengers) in 2018.³

Development of Pegasus Market Share Since 2005

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

As a result of the successful implementation of this low-cost strategy, Pegasus experienced rapid expansion of its operations both in domestic and international routes. Between 2009 and 2018, Pegasus' cumulative average annual passenger growth more than doubled Turkish market's 11% CAGR and reached 26%. Pegasus also became the fastest growing airline among the 25 largest European airlines in terms of seat capacity in 2011, 2012 and 2013 according to the Official Airline Guide (OAG). With a growing, young and modern fleet of 82 aircraft with 5.74 average aircraft age as of December 31, 2018, Pegasus aims to be the leading low-cost airline in the region.

Total number of passengers carried by Pegasus in 2018 was 30.0 million and this number represents a 7.7% increase from 2017. Flying to 36 domestic destinations as of December 31, 2018, Pegasus increased total number of domestic passengers carried by 4.8% compared to 2017 and reached 17.7 million passengers with a load factor of 88.4%. On the international scale, as of December 31, 2018, Pegasus flew to 71 destinations in 41 countries and increased the total number of passengers carried by 11.9% compared to 2017 to 11.7 million passengers in total, realizing a load factor of 81.3%.

The table below indicates Pegasus market share trend in terms of domestic and international scheduled passenger numbers between 2015 and 2018:

Pegasus Market Share Data (2015 – 2018)

	2015	2016	2017	2018
Domestic	28.5%	29.9%	30.8%	31.4%
International	9.6%	11.6%	12.4%	12.2%

² <https://www.dhmi.gov.tr/sayfalar/istatistik.aspx>

³ <https://www.dhmi.gov.tr/sayfalar/istatistik.aspx>

Source: Pegasus, DHMI

Despite the increase in the number of passengers carried and the Company's increased market share, Pegasus had initiated a "3C Initiatives" action plan in the second half of 2016 in response to the market developments in 2016, that was successfully driven throughout 2017 and 2018. The action plan comprised the review of cost items, process simplification, workforce optimization, revenue management initiatives and several other actions and resulted in an improved CASK performance, cash position and fleet capacity management. In 2018, Pegasus committed to continued vigilance and an increased focus on the customer through various targeted customer experience initiatives and digitalization.

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

Comparative data on our Company's revenue generating activities, sales and productivity in 2018 is provided in Section 5/C of this Report.

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

Information relating to the aircraft operated by Pegasus and its consolidated subsidiaries as of December 31, 2018 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		31.12.2018	31.12.2017	Growth (%)	31.12.2018	31.12.2017	Growth (%)	31.12.2018
B737-400	3,148	1	1	0.0%	168	168	0.0%	20.75
B737-800	4,360	47	48	-2.1%	8,883	9,072	-2.1%	7.67
A320CEO	3,300	12	12	0.0%	2,172	2,172	0.0%	4.84
A320NEO	3,700	22	15	46.7%	4,092	2,790	46.7%	1.41
TOTAL		82	76	-7.9%	15,315	14,202	7.8%	5.74

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. In December 2017, Pegasus exercised its option for 25 additional aircraft and converted these option aircrafts to firm orders in A321neo configuration, subject to an additional option to reconvert the order to A320neo configuration subject to the applicable notice periods prior to the scheduled delivery of aircraft. Pegasus is the first customer of CFM-Leap series engine used on A320neo aircraft. As part of this order 7 A320neo aircraft joined Pegasus fleet in 2018.

The delivery schedule for the A320neo/A321neo aircraft under our Airbus order is as follows:

Aircraft Type	2016	2017	2018	2019	2020	2021	2022	2023	2024
A320neo	9	6	7	7	13	8	7	0	0
A321neo	0	0	0	7	0	5	11	10	10

In addition to A320neo/A321neo order, in 2016 Pegasus had placed an order with Boeing for the purchase of five new B737-800NG aircraft. Three remaining aircraft under this order were delivered in 2018.

C- EVALUATION OF INTERNAL AUDIT AND INTERNAL CONTROL SYSTEMS

Pegasus Internal Audit Department was first established in June 2006 and since April 2011, the Company's Internal Audit Department continues its activities under the auspices of the Audit Committee. The Audit Committee was reorganized on August 17, 2013 to align its structure with the corporate governance principles determined by the Capital Markets Board.

The establishment of an efficient internal control system in Pegasus is carried out under the responsibility of the Board and under the scrutiny of the Audit Committee. In this context, the Committee takes into consideration information received from Pegasus management, the Internal Audit Department and the independent auditor and shares its opinion and recommendations on internal controls with the Board. The Audit Committee ensures that all actions are taken so that internal controls can be carried out in a sufficient and transparent manner. Pegasus Internal Audit Department performs its task under the scrutiny of the Audit Committee and according to the audit plan approved by the Committee. Besides the internal control function operated by the Internal Audit Department, Pegasus benefits from the work of various operational internal control units acting as part of management in accordance with civil aviation rules and Company policies.

As of December 31, 2018, the Internal Audit Department of Pegasus comprised the Head of Internal Audit, three Internal Audit Senior Specialist and one regular consultant.

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

The table below lists information relating to the direct subsidiaries and joint ventures of Pegasus as of December 31, 2018. As of December 31, 2018, Pegasus did not have any indirect subsidiaries or joint ventures. Pegasus was not subject to any cross-shareholding in 2018.

Affiliate	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share %	Affiliation with Pegasus
Air Manas	Kyrgyzstan / Scheduled and unscheduled air transport	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary
PHT	Turkey / Simulated flight training	TL 100,000	TL 100,000	100.00%	Subsidiary
PFTC	Turkey / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture/ Associate
Hitit CS	Turkey / Information Technologies Solutions	TL 200,000	TL 100,000	50.00%	Joint Venture/ Associate

E- SHARE BUYBACK TRANSACTIONS

There were no share buyback transactions for the year 2018.

As a result of the exercise of exit rights by certain number of former IzAir shareholders as part of the IzAir Merger, Pegasus purchased its own shares worth TL 425.04 and these shares are held by Pegasus as of the date of publication of this Report. The purchase of shares made in connection with the IzAir Merger is not subject to the Capital Markets Board share buyback regulations.

Pursuant to the [Pegasus Share Buyback Policy](#) adopted by the resolution of Board of Directors dated November 20, 2013 and numbered 403, available in our Investor Relations Website, Pegasus will implement any share buyback or accepting its own shares as lien in accordance with the mandatory provisions of the Turkish Commercial Code and the rules determined by the Capital Markets Board under the authority granted by the Capital Markets Law and all

share buyback transactions are publicly announced within the framework of the regulatory framework.

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

There were no requests for special audit by Pegasus shareholders in 2018.

In 2018, Pegasus was subject to several planned and non-planned investigations and audits by various civil aviation authorities, authorized environment protection, consumer protection, data protection, competition, fiscal and labor bodies in Turkey and in several other countries where it performs operations, with respect to operational, technical, environmental and regulatory compliance. The operations of the Company may, from time to time, be subject to routine or one-off investigations by other administrative bodies authorized in Turkey and abroad. As a result of the said inspections and audits the Company paid administrative fines in the amount of TL 3.2 million. Approximately 60% of the stated amount relates to a fine imposed by the Italian Competition and Consumer Protection Agency based on the allegation that certain display of information on the Company website was in violation of the applicable Italian law. Following payment, an administrative lawsuit was filed before the competent Italian courts for the cancellation of the fine.

G- IMPORTANT LEGISLATIVE AND REGULATORY CHANGES THAT MAY HAVE MATERIAL IMPACT ON THE COMPANY'S OPERATIONS

The following legislative and regulatory changes in 2018 were important for the Company's operations and triggered considerable work in terms of compliance planning and execution:

- Several regulations and decisions by the Turkish Data Protection Authority within the scope of the Turkish Personal Data Protection Law No. 6698, including the introduction of the Data Controllers' Registry as of October 1, 2018, and other data protection regulations adopted abroad. Pegasus published the requested information on the Registry as of December 31, 2018.
- Several regulations and decisions by the Turkish General Directorate of Civil Aviation within the scope of the Turkish Civil Aviation Law No. 2920, including revisions to the Flight and Duty Time Limitations Instruction for Flight Crew (SHT-FTL) dated January 23, 2018 aiming to align flight time rules with the updated EASA standards. Revised rules required a change the Company's flight and duty time planning, reducing to maximum allowed flight and duty times parallel to the applicable European Union regulations.
- Several Decree-Laws approved by the Turkish Parliament by Law No. 7078 in February 2018 provided for a re-listing of former Turkish Air Force Pilots to complete a minimum service time prescribed in Additional Temporary Article 98 of the Turkish Armed Forces Staff Law No. 926. Based on this legislative change a number of Company pilots were recalled for active duty in 2018.
- Income tax regime applicable for the flight crew operating at civil air carriers was amended by an amendment to the Income Tax Law No. 193. Flight crew members previously subject to an exemption in the Law are now subject to income tax accrual over 30% of their income. The Company was subject to a tax accrual and penalty on the same matter for the year 2014 and applied to benefit from the provisions of the Law No. 7143 regarding the Restructuring of Certain Tax and Other Receivables and the Amendment of Tax and Certain Other Laws, concluding the dispute regarding the

said tax accrual and penalty upon upfront payment for a total liability of approximately TL 19.8 million on July 31, 2018.

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

As of December 31, 2018, Pegasus or its consolidated subsidiaries are not defendants in any lawsuit the outcome of which, alone, is expected to affect the Company's financial status and its operations, especially that would affect the Company's scheduled and unscheduled flight operations. The total risk arising from these lawsuits and the contingency allocation for the said risk as of December 31, 2018, as well as information on lawsuits that have not been made subject to any contingency calculations but, if finalized against Pegasus, may affect the Company's financial status and its shares in subsidiaries negatively are provided in Note 15 to the Consolidated Financial Statements for the Accounting Period between January 1 – December 31, 2018. The said financial statements are available in our Investor Relations Website.

I- ADMINISTRATIVE OR JUDICIAL SANCTIONS IMPOSED AGAINST THE COMPANY OR THE BOARD MEMBERS FOR ACTIONS IN VIOLATION OF THE LAW

Save as disclosed in Section 4/F of this Report, there were no administrative or judicial sanctions imposed against Pegasus or our Board members for any action in violation of the law in 2018.

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

There are no shareholder decisions adopted at the Annual General Assembly Meeting held in 2018 that are not fulfilled. The operational results of our Company for the year 2018 are generally in line with the operational and financial targets periodically shared with the investor community. Total number of passengers carried, total ASK and international load factor remained below earlier guidance based on increased capacity in international routes in line with market developments. Communication is made available in the Investor Relations Website.⁴

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

There were no extraordinary General Assembly meetings held in 2018.

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

Pegasus carried out donations, charitable contributions and social responsibility projects in line with the [Pegasus Donations and Charitable Contributions Policy](#) and the [Pegasus Corporate Social Responsibility Policy](#) in 2018. Both policies are available in our Investor Relations Website.

At the Annual General Assembly Meeting held on April 4, 2018, the General Assembly, in accordance with Article 19 of the Capital Markets Law No. 6362 and Article 11 of the Company

⁴ <http://www.pegasusinvestorrelations.com/en/investor-package/investor-presentations>

Articles of Association, determined the ceiling for donations to be made by the Company in 2018 as TL 5,000,000.

The donations made by the Company as of December 31, 2018 totaled TL 454,137. The majority of this amount related to the first comprehensive corporate social responsibility (CSR) project implemented by Pegasus in recent years. “We’re Flying to the Future” project where Pegasus collaborated with two foundations operating at national level to address complex social issues will support 20 different projects developed by young activists between September 2018 and June 2019. An initial group of 10 projects were chosen from a pool of 270 applicants for the first part of the CSR project in 2018. ⁵

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

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

The relevant report prepared by the Company's Board of Directors on March 4, 2019, notes that *"in all transactions between our Company and Esas Holding or its subsidiaries between January 1, 2018 and December 31, 2018, according to the circumstances and conditions known to us at the time the transaction was made or a precaution was taken or not taken, an appropriate consideration was received, there are no precautions the Company has refrained from and there are no transactions or precautions that would require a settlement."*

Information on related party transactions entered into by our Company and our subsidiaries is provided in Note 5 to the Consolidated Financial Statements for the Accounting Period between January 1 – December 31, 2018. The said financial statements are available in our Investor Relations Website.

5-FINANCIAL STATUS

A- PEGASUS SHARE

Pegasus shares started trading on Borsa Istanbul on April 26, 2013 at the initial public offer price of TL 18.40. As of December 31, 2018, the indices including Pegasus shares and information on Pegasus shares are as follows:

Issuer	: PEGASUS HAVA TAŞIMACILIĞI A.Ş.
Trade Platforms	: BORSA ISTANBUL (BIST)
Market Segment	: STAR MARKET
Indices	: BIST SERVICES / BIST ISTANBUL / BIST ALL / BIST ALL-100 / BIST-50 / BIST TRANSPORTATION / BIST STAR / BISTKYUR CORPORATE GOVERNANCE / BIST SUSTAINABILITY
BIST Ticker	: PGSUS
Bloomberg Ticker	: PGSUS.TI

⁵ <https://www.yarinlaraucuyorum.com/>

Reuters Ticker

: PGSUS.IS

Provided below is a comparison between the performance of Pegasus shares against the performance of BIST-100 index from the first day of trading to December 31, 2018. Pegasus shares closed the year 2018 at a price of TL22.92/share with an annual drop of 32% compared to the year-end 2017 closing.



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

As of December 31, 2018, Pegasus is the second largest Turkish airline in terms of passengers carried. The Company's performance within the operational and financial targets regularly disclosed in investor presentations is set out in detail in Sections 4/J and 5/C of this Report.

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

Operational and financial results of Pegasus for the period between January 1 – December 31, 2018 compared against the same period in 2017 and the year-over-year changes for the relevant line items are set out in the following charts:

Overall Traffic Results	Jan. – Dec. 2018	Jan. – Dec. 2017	Y-O-Y Change %
Number of passengers (<i>million</i>)	29,97	27,82	7,7
Cycle	189.491	177.392	6,8
Number of seats (<i>million</i>)	35,06	32,88	6,7
Load factor (%)	85,5	84,6	0,9
ASK ⁽¹⁾ (<i>million</i>)	35.543	32.718	8,6
Passengers per cycle	158	157	0,9
Avg. daily aircraft utilization (<i>hours</i>) ⁽²⁾	12,6	12,1	4,0
Domestic			
Number of passengers (<i>million</i>)	17,69	16,89	4,8
Cycle	107.205	103.544	3,5
Number of seats (<i>million</i>)	20,02	19,37	3,4
Load factor (%)	88,4	87,2	1,4
ASK ⁽¹⁾ (<i>million</i>)	12.080	11.735	2,9
Passengers per cycle	165	163	1,2

International

Number of passengers (million)	11,70	10,45	11,9
Cycle	78.584	70.780	11,0
Number of seats (million)	14,39	12,98	10,9
Load factor (%)	81,3	80,5	0,8
ASK ⁽¹⁾ (million)	22.291	20.138	10,7
Passengers per cycle	149	148	0,8

Charter

Number of passengers (million)	0,58	0,48	21,4
Cycle	3.702	3.068	20,7
Number of seats (million)	0,65	0,53	23,2
ASK ⁽¹⁾ (million)	1.171	844	38,8

⁽¹⁾ Refers to available seat kilometers and is equal to the number of seats available for passengers during a specified period multiplied by the number of kilometers that those seats are flown.

⁽²⁾ Refers to the hours from an aircraft's take-off to landing (including taxi time).

Summary Balance Sheet ('000 TL)	31.12.2018	31.12.2017	Change (%)
Current assets	4.412.080	3.084.495	43%
Non-current assets	9.252.807	4.991.239	85%
Total assets	13.664.887	8.075.734	69%
Current liabilities	3.554.371	1.851.414	92%
Non-current liabilities	6.395.069	3.739.682	71%
Shareholders' equity	3.715.448	2.484.638	50%

Summary P&L ('000 TL)	31.12.2018	31.12.2017	Change (%)
Sales	8.296.736	5.348.573	55%
Gross profit	1.263.178	774.799	63%
Profit/(loss) from operations	791.722	461.742	71%
Operating profit before financial income/(expense)	823.215	633.854	30%
Profit/(loss) before tax	542.266	603.268	-10%
Profit/(loss) for the period	502.117	501.063	0%
Earnings/(loss) per share	4,9597	4,9109	1%

Changes in Financial Position ('000 TL)	31.12.2018	31.12.2017	Change (%)
Cash and cash equivalents	2.741.045	1.988.110	38%
Financial liabilities	6.522.084	3.608.480	81%
Net debt position ⁽¹⁾	3.781.039	1.620.370	133%

⁽¹⁾ Net debt position = Financial liabilities - Cash and cash equivalents

D- FINANCING SOURCES AND CAPITAL MARKETS INSTRUMENTS ISSUED BY PEGASUS

Pegasus finances approximately 85% of the purchase price for the Boeing and Airbus aircraft acquired by way of financial lease through loans obtained from various banks. As of December 31, 2018, the outstanding balance of the total loans borrowed for the financing of 38 aircraft acquired by way of financial lease is TL 5.727.205.389.

Furthermore, as of December 31, 2018, Pegasus and its subsidiaries had drawn TL 797.815.861 on cash loans and TL 1.627.549.630 on non-cash loans under credit lines with various Turkish and foreign banks. These credit lines are open credit facilities that can be generally used for terms ranging from 12 to 24 months. The Company believes it will have access to additional credit lines should it require supplementary short-term financing.

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

It is determined that as of December 31, 2018 the issued capital of 102,299,707 TL of the Company is maintained and Pegasus is not insolvent.

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

As of December 31, 2018, the Company's shareholders' equity totaled TL 3.715.447.648.

Pegasus had initiated a "3C Initiatives" action plan in the second half of 2016 in response to the market development in 2016, that was successfully driven throughout 2017 and 2018. The action plan comprised the review of cost items, process simplification, workforce optimization, revenue management initiatives and several other actions and resulted in an improved CASK performance, cash position and fleet capacity management. In 2018, Pegasus committed to continued vigilance and an increased focus on the customer through various targeted customer experience initiatives and digitalization and strengthened its equity position further.

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

[Pegasus Dividend Policy](#), adopted by the shareholders, is published in our Investor Relations Website and comprises the following principles with which Pegasus adheres in terms of dividend distributions:

- 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 targets and its financing requirements, in cash, in shares or a by using a combination of the two and the completion of distribution within the timeframe foreseen in the applicable law.
- The proposal for distribution of profit by our Board of Directors will be prepared in consideration of the above needs and will be submitted to the attention of our shareholders for discussion at the General Assembly. The Board of Directors must inform our shareholders at the General Assembly on how the profit will be used in the event there is no dividend distribution.
- Pegasus complies with the provisions of the Turkish Commercial Code No. 6102, the Capital Markets Law No. 6362 and the Corporate Governance Principles determined by the Capital Markets Board relating to the right to receive dividends and distribution of profit.

Pursuant to our accounts based on Turkish Financial Reporting Standards, the profit for the year 2018 realized as TL 502.117.015. The proposal of the Board of Directors regarding the use of profit for the year 2018 will be communicated to our shareholders prior to the Annual General Assembly Meeting relating to the year 2018.

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

6- RISKS AND THE EVALUATION OF THE MANAGEMENT BODY

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

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

The Committee on the Early Detection of Risks (Risk Committee) assists the Board with respect to the determination in advance, management and mitigation of the risks that may endanger the existence, development and the future of Pegasus.

When performing its risk detection and management duties, the Committee cooperates with other Board Committees and the Company management. In this respect, the Committee 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 and the senior management, and with the Safety Committee for the surveillance of risks regarding flight safety.

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

In 2018, management risk review, management and reporting processes were improved further to ensure that a comprehensive overview of all risks is regularly carried out by senior-management before each Committee meeting. Several other reporting improvements were made on the reporting content and review of risk exposure and reporting threshold levels.

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

Committee on the Early Detection of Risks (Risk Committee) was established by the resolution of our Board of Directors dated August 17, 2013 and is composed of three members, including the Committee Chairperson. The Committee Charter is available in our Investor Relations Website. In 2018, Saad H. HAMMAD, an independent Board member, acted as the Committee Chairperson while our non-executive Board member Sertaç HAYBAT and İnan TANRIÖVER served as members of the Committee.

Pursuant to its Charter, the Committee convenes and adopts decisions by majority. The Committee convenes for meetings at least four times a year. The timing of Committee meetings follows, to the extent possible, the schedule of the meetings of the Board of Directors by having a meeting ahead of each scheduled Board meeting. In case of urgency the Committee may convene for meetings at the request of the chairperson of the Committee or the chairperson of the Board of Directors. In 2018, the Committee held four meetings on March 15, May 22, August 15 and December 10.

The Committee performed duties determined in its Charter and in this respect, established the main principles and review processes with respect to the main risks determined on strategic, operational, financial, legal and other risks that may endanger the existence,

development and the future of Pegasus, and the implementation of necessary precautionary measures and the management of detected risks and periodically reports its findings to the Board of Directors. The Committee reported its works and its findings and recommendations on risks faced by the Company to the Board of Directors once every two months in accordance with the provisions of Article 378 of the Turkish Commercial Code.

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

These have been evaluated as part of the above explanations.

7- OTHER MATTERS

A- STAKEHOLDER INITIATIVES

Overview

In 2018, Pegasus implemented a number of important initiatives aiming to create additional benefit for the investors, employees, customers and the community. These initiatives include the following:

- Investor Relations Website content was simplified for easier access to most recent and relevant information by visitors.
- All information published on the Investor Relations Webpage and on the Public Disclosure Platform, other than those that only concern domestic investors (e.g., Pegasus-IzAir merger documents), was prepared and simultaneously updated in Turkish and in English.
- A new platform was developed for the Pegasus corporate website allowing for better user experience and enhanced performance.
- Pegasus Corporate Website HR content was renewed to share detailed and accurate information on our HR policy, compensation rules, side benefits and job vacancies.
- Pegasus Ethical Behavior Guide was updated, and a more robust set of ethical reporting tools and ethical governance functions were introduced, triggering a significant increase in ethical awareness and concern at Pegasus.
- A confidential employee effectiveness survey was carried out throughout the Company in collaboration with an independent advisor. Focused Company training, personal development and personal education programs were developed and implemented for a wide group of participants. Participation of all employees in Company management was actively supported through written company policies and management initiatives in the areas of career planning and development, performance management, improvement of workplace environment and development of creative/innovative business ideas.
- Pegasus launched its first comprehensive corporate social responsibility (CSR) project in recent years: “*We’re Flying to the Future*” project. Pegasus collaborated with two foundations operating at national level to address complex social issues (*Toplum Gönüllüleri Vakfı & Sivil Toplum İçin Destek Vakfı*). The project will fund 20 different projects developed by young activists between September 2018 and June 2019. An initial

group of 10 projects were chosen from a pool of 270 applicants for the first part of the CSR project in 2018. ⁶

- Pegasus introduced a number of new products and services to its customers in 2018. These included the brand new “Pegasus BolBol” Loyalty Program launched in Summer 2018, the “Gift Card” product allowing for sending purchasing credits with monetary value for purchases at Pegasus to others, the first self-baggage drop service deployed at the Istanbul Sabiha Gökçen Airport and the “Travel Assistant” service providing timely flight-related information to our passengers about their flight, airport access, baggage delivery without charge.
- Pegasus revised and updated its General Rules applicable to each product and service purchased or used by its customers, providing a more transparent and accessible rule-set for the passengers. The same standard is offered in Turkish and in English and a full translation is offered in several other languages supported on www.flypgs.com.
- In 2018, Pegasus completed its registry record with the Data Controllers Registry (VERBİS) operated by the Turkish Personal Data Protection Authority, nine months in advance of the deadline for completion, providing its counterparties the minimum required standard of disclosure in terms of how, why and which personal data is processed by or on behalf of Pegasus for its operations.
- Pegasus actively participated in works relating to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) led by the International Civil Aviation Organization (ICAO).

The foregoing efforts were recognized by several Turkish and international awards, ratings and recognitions, including the following:

- In 2018, Pegasus received an award for its significant progress on “Integrated Talent Strategy” from Human Capital Management in the U.S., based on its execution of organizational restructuring, career planning and talent management work at the HR level.
- In 2018, Pegasus received the “Best HR Strategy from Overseas” award at the HR Excellence Awards and the winning award for “People & Performance – Managing Change” at the Peer Awards in the U.K. for its execution of organizational restructuring and change.
- Pegasus received the winning award at the 2018 British Safety Council International Safety Awards, among 590 Companies from different industries worldwide.
- Pegasus received the “Most Prestigious Brand in 2018” award in airlines category at the One Awards Integrated Marketing Awards, reflecting on the Company’s brand image on sample audience selected from 12 cities in Turkey.
- Pegasus received the winning award in “The Digital Turkish Airline of 2018” and “The Tourism Blog of 2018” categories at the 2018 Travel Technology Awards based on public voting of more than 70,000 participants.

⁶ <https://www.yarinlaraucuyorum.com/>

- Pegasus received the winning award at the 2018 International Customer Experience Awards in the category of “Customer Insights and Feedback”, where Pegasus came first among 150 projects participating from 26 different countries.
- In 2018, the renewed Pegasus Corporate Website received the first prize for “Services” category and also obtained the jury special award in the “Best Website of the Year” category at the 16th Golden Spider Web Awards in Turkey.
- In 2018, “*We’re Flying to the Future*” CSR project was awarded in the category of “Partnerships for Targets” at the Social Development Targets Academy Awards in Turkey.
- In 2018, Pegasus obtained a management band CDP score on the level of environmental stewardship and actions in managing climate change issues, above sector and regional average scores.
- Pegasus was awarded as the third largest Turkish services exporter at the “Turkey’s 500 Largest Exporters” survey carried out by the Turkish Exporter’s Assembly.

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 employees to engage in business management processes. In this respect:

- Within the framework of Pegasus Ethical Behavior Guide, Pegasus undertakes to facilitate for all Employees 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 and our work environments. Meeting minutes, progress reports and other relevant information and documents are regularly made available to all Employees through our corporate intranet portal.

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:

- implement segmented and solution oriented human resources practices by taking into consideration the dynamics of the sector we operate in,
- encourage and promote our employees 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 Employees' self-development, earnings and career plans according to results of the performance evaluation,
- bring high potential employees to the Pegasus and train them for managerial responsibility and track self-development of our Employees keeping them informed of horizontal and vertical career opportunities,
- compensate our employees 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 evaluation 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 Employees,
- create a solution for our employees' by determining their potential needs throughout their careers in Pegasus.

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

As Pegasus, we are further making the following commitments to our Employees 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.

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 on December 15, 2016 by the Pegasus Ethical Behavior Guide, which includes more comprehensive and explanatory rules of ethical behavior especially for our employees, has been adopted in the same date. Information on the [Pegasus Ethical Behavior Guide](#) is published on the Public Disclosure Platform and is available in our Investor Relations Website.

[Pegasus Corporate Social Responsibility Policy](#) was adopted by the decision of our Board of Directors dated November 20, 2013 and was subsequently been published in our Investor Relations Website and the Public Disclosure Platform November 22, 2013.

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 employees, 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 employees, 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 employees, 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.

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
None.

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

The following annexes have been incorporated into this Report by reference:

- **Annex-1:** Pegasus Corporate Governance Compliance Statement for the year 2018
- **Annex-2:** Information on Duties Assumed Elsewhere by Pegasus Board Members in 2018
- **Annex-3:** Independency Statements of Pegasus Independent Board Members
- **Annex-4:** 2018 Financial Report Responsibility Statement

ANNEX-1

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT FOR THE YEAR 2018

Pegasus enjoys a rich corporate governance culture that is shaped by a welcoming approach and desire for continuous improvement, and fostered by shareholders, board members, senior management and professional advisors. Pegasus is proud of its heritage of good corporate governance practices some of which date back to the launch of its low-cost scheduled flights business in 2005. These are outlined by a strong and independent board of directors with a global perspective on aviation, a strategy-driven, highly-motivated and successful management and staff and an accountable and transparent shareholder and stakeholder communication.

Following the initial public offering of its shares in April 2013, Pegasus achieved full compliance with the mandatory Corporate Governance Principles published by the Capital Markets Board and substantially complied with the non-mandatory Corporate Governance Principles. Pegasus is the only member of the BIST Corporate Governance Index to have obtained a qualifying corporate governance compliance rating within the same year of its initial public offering and has constantly improved its corporate governance compliance rating over the years.

In the previous years, Pegasus published its Corporate Governance Compliance Reports as an annex to the Annual Report of the Board of Directors in the narrative form then prescribed by the Capital Markets Board. Effective as of March 2019, corporate governance compliance will be reported through the Compliance Report Format (*URF*) and the Corporate Governance Information Document (*KYBF*) accessible through the Public Disclosure Platform (<https://www.kap.org.tr/en/sirket-bilgileri/ozet/1710-pegasus-hava-tasimaciligi-a-s>).

While certain information on shareholders, shareholder relations, board structure and functions, risk management and internal controls is provided in the relevant sections of the Annual Report, detailed information on corporate governance compliance is available in the Compliance Report Format and the Corporate Governance Information Document. Pegasus is committed to explain its approach on each principle in the referred documents and not only on those principles which are not fully complied by Pegasus.

The Corporate Governance Principles determined by the Capital Markets Board comprise of 97 principles, 24 of which are mandatory principles for Pegasus, which is classified as a Group 1 Company in terms of the implementation of the Capital Markets Board Corporate Governance Communiqué No. II-17.1.

In 2018, the Corporate Governance Principles were fully complied by Pegasus, subject to the following exceptions. Deviations from recommended practices, reasons for such deviations, alternative measures being implemented, and a short-term outlook are presented for each of these principles in the Compliance Report Format.

- 1.3.10 (Partial Compliance) – The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.

- 1.5.2 (No Compliance) – The Articles of Association extend the use of minority rights to those who own less than 1/20 of the outstanding shares and expand the scope of the minority rights.
- 1.7.1 (Partial Compliance) – There are no restrictions preventing shares from being transferred.
- 3.2.1 (Partial Compliance) – The Articles of Association, or the internal regulations (terms of reference/manuals), regulate the participation of employees in management.
- 3.2.2 (Partial Compliance) – Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.
- 3.3.5 (Partial Compliance) – Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.
- 3.3.8 (Partial Compliance) – The efficient recognition of freedom of association and collective bargaining rights is supported.
- 4.3.9 (Partial Compliance) – The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.
- 4.3.10 (No Compliance) – At least one member of the audit committee has 5 years of experience in audit/accounting and finance.
- 4.4.7 (Partial Compliance) – There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.
- 4.5.5 (Partial Compliance) – Board members serve in only one of the Board's committees.
- 4.6.5 (Partial Compliance) – The individual remuneration of board members and executives is disclosed in the annual report.

ANNEX-2

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ MEMBERS OF THE BOARD OF DIRECTORS DUTIES ASSUMED ELSEWHERE IN 2018

The résumés and information on duties assumed elsewhere in 2018 for each Board member is provided in this Annex.

Ali İsmail SABANCI	Chairperson of the Board
Ali İsmail SABANCI serves as the Chairperson of our Board of Directors since January 2005. He previously held several positions at Morgan Stanley & Co. Incorporated and AK bank 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 Chairperson 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 Association – American Chamber of Commerce in Turkey (TABA – AmCham).	
<i>Duties Assumed Elsewhere in 2018</i>	
1. Esas Holding A.Ş. (Group Company)	Board Member
2. Esas Burda Turizm ve İnş. San. Tic. A.Ş. (Group Company)	Board Member
3. Ayakkabı Dünyası Kun. San. ve Tic. A.Ş. (Group Company)	Chairperson
4. Air Berlin plc U.K	Board Member
5. Multimarka Ayakk. San. Ve Tic. A.Ş. (Group Company)	Chairperson
6. Saray Bahçe Alışveriş Merk. Tic. A.Ş. (Group Company)	Board Member
7. Kauçuk Yiyecek İçecek Hizmetleri Tic. A.Ş.	Board Member
8. Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company)	Board Member
9. Mars Spor Kulübü ve Tesisler İş. A.Ş. (Group Company)	Board Member
10. Beyoğlu Gazozu İçecek A.Ş.	Board Member
11. VCSA Teknolojik Yatırımlar ve Danışmanlık Hiz. A.Ş.	Chairperson

Hüseyin Çağatay ÖZDOĞRU	Vice-Chairperson 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-Chairperson 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.

Duties Assumed Elsewhere in 2018

1.	Esas Holding A.Ş. (Group Company)	Board Member & CEO
2.	Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company)	Board Member
3.	Mars Spor Kulübü ve Tesisleri İş. A.Ş. (Group Company)	Board Member
4.	Ayakkabı Dünyası Kun. San. ve Tic. A.Ş. (Group Company)	Board Member
5.	Esas Hava Taşımacılık Tur. ve Tic. A.Ş. (Group Company)	Chairperson
6.	Kiraz 1 Gayrimenkul ve Yat. Dan. A.Ş. (Group Company)	Board Member
7.	Kauçuk Yiyecek İçecek Hizm. Tic. A.Ş.	Board Member
8.	Denkar Denizcilik A.Ş. (Group Company)	Board Member
9.	Multimarka Ayakk. San. Ve Tic. A.Ş. (Group Company)	Vice-Chairperson
10.	Koroza Ambalaj San. Tic. A.Ş. (Group Company)	Board Member
11.	Sigortam Net İTÜ Basket	Chairperson

Sertaç HAYBAT

Non-Executive Board Member

Sertaç HAYBAT, served as our General Manager (CEO) between 2005 and 2016 and continues to serve as 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 Chairperson of Turkish Private Aviation Enterprises Association (TOSHID) in December 2012 and held this position until 2014. Sertaç HAYBAT also serves as a board member at Flybondi Limited.

Duties Assumed Elsewhere in 2018

1.	Flybondi Limited, U.K.	Board Member
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M. Cem KOZLU

Independent Board Member

Mehmet Cem KOZLU serves as an independent member of our Board of Directors since April 2013. Cem KOZLU served as the chairperson 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 chairperson 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 chairperson 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. He served as consultant to Coca-Cola Eurasia and Africa Group between 2007 - 2015. Cem KOZLU served as the chairperson 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.

Duties Assumed Elsewhere in 2018

1.	Anadolu Endüstri Holding A.Ş.	Board Member
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2.	Coca Cola İçecek A.Ş.	Board Member
3.	Kamil Yazıcı Yönetim ve Danışma A.Ş.	Board Member
4.	Türkiye Şişe ve Cam Fabrikaları A.Ş.	Independent Board Member
5.	Anadolu Efes Biracılık Malt Sanayii A.Ş.	Board Member
6.	Arçelik A.Ş.	Board Member
7.	DO & CO Aktiengesellschaft, Austria	Board Member
8.	Global İlişkiler Forumu	Chairperson

Saad H. HAMMAD	Independent Board Member
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 serves as the CEO for Key Travel since November 2017 and has considerable executive and non-executive experience in the aviation sector. Between August 2013 and October 2016 Saad HAMMAD served as the CEO of Flybe Group plc. 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 director 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.	

<i>Duties Assumed Elsewhere in 2018</i>		
1.	Key Travel, U.K.	CEO
2.	Jetlines, Canada	Independent Director

H. Zeynep Bodur OKYAY	Independent Board Member
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 chairperson of the general assembly of the Istanbul Chamber of Industry, vice-chairperson of the Economic Development Foundation, board member of the Foreign Economic Relations Board, and	

vice-chairperson of the female entrepreneurs board of the Union of Chambers and Commodity Exchanges of Turkey.

Duties Assumed Elsewhere in 2018

1.	H. İbrahim Bodur Holding A.Ş.	Executive Chairperson
2.	Kale Holding A.Ş.	Executive Chairperson
3.	Kaleseramik, Çanakkale Kalebodur Seramik Sanayi A.Ş.	Executive Chairperson
4.	Kale Havacılık Sanayi A.Ş.	Executive Chairperson
5.	Kalekim Kimyevi Maddeler Sanayi ve Ticaret A.Ş.	Executive Chairperson
6.	Bodur Gayrimenkul Geliştirme A.Ş.	Executive Chairperson
7.	Bodur Menkul İş Geliştirme Sanayi ve Ticaret A.Ş.	Executive Chairperson
8.	Kalebodur Gayrimenkul Geliştirme Yat. ve Tic. A.Ş.	Executive Chairperson
9.	Neo Agro Tarım A.Ş.	Executive Chairperson
10.	Mavruz Tarım A.Ş.	Executive Chairperson

Stephen M. GRIFFITHS

Independent Board Member

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. Since October 2018, Steve GRIFFITHS is acting as the Chief Operating Officer for London Stansted Airport as part of the Manchester Airport Group and has considerable executive experience in the aviation sector. Between 2015 and 2017, Steve GRIFFITHS was the Chief Operating Officer of the London Underground. 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.

Duties Assumed Elsewhere in 2018

1.	Oliver Wyman Consulting, U.K.	Independent Contractor
2.	London Underground, U.K.	Chief Operating Officer

Michael G. POWELL

Non-Executive Board Member

Michael Glyn POWELL has been appointed as non-executive member for the Board of Directors in April 2018. Mike POWELL has significant experience implementing the LCC business model and since June 2017, he has served as executive chairperson and interim CFO of the Flybondi Group. Between December 2015 and June 2017, Mike POWELL served as the CFO of the WizzAir Group, and between 2007 and 1997, he had experience in the equity market as head of aviation research and fund manager. Mike POWELL has a degree in Management Sciences from the University of Manchester. Mike POWELL is a citizen and resident of the United Kingdom.

Duties Assumed Elsewhere in 2018

1.	Flybondi Limited, U.K.	Executive Chairperson
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ANNEX-3

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ INDEPENDENT BOARD MEMBERS' INDEPENDENCE STATEMENTS FOR 2018

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 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,

M. Cem KOZLU

Independent Board Member

Saad H. HAMMAD

Independent Board Member

H. Zeynep Bodur OKYAY

Independent Board Member

Stephen M. GRIFFITHS

Independent Board Member

⁽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-4

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

The audited consolidated financial statements and the annual activity report of the Board of Directors for the period between January 1, 2018 and December 31, 2018, prepared in accordance with the Capital Markets Board Communiqué No: II-14.1 and approved by the Board of Directors by its decision dated March 4, 2019 and numbered 655 have been provided in the annex hereto.

We hereby inform you that the Consolidated Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, together with the notes thereto, the Annual Activity Report, the Corporate Governance Compliance Statement annexed thereto and the Corporate Governance Compliance Report (KYR) and the Corporate Governance Information Form (KYBF) referred to in the statement, prepared in accordance with the Capital Markets Board decision dated January 10, 2019 and numbered 2/49, in accordance with the regulations of the Capital Markets Board:

- a) Have been reviewed by us;
- b) Based on the information available to us as a result of our duty at the Company, do not contain any incorrect disclosure on material issues or any insufficiencies that may be misleading as of the date the disclosure is made;
- c) Based on the information available to us as a result of our duty at the Company, the financial statements prepared in accordance with the applicable financial reporting standards and based on the principle of consolidation, reflect fairly on the Company's assets, liabilities, financial standing and profit/loss for the relevant period, and the activity report, again based on the principle of consolidation, reflect fairly on the development of the business, performance and the important risks and uncertainties faced by the Company;

and we hereby declare our responsibility for this statement.

Respectfully yours,

Mehmet Cem KOZLU
Chairperson of the Audit
Committee and Board Member

Saad Hassan HAMMAD
Audit Committee and
Board Member

M. Barbaros KUBATOĞLU
Senior Vice-President,
Finance & CFO

We didn't start aviation in Turkey but
we transformed it!

