



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2020

MARCH 4, 2021

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Güney Bağımsız Denetim ve SMMM A.Ş.
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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 January – 31 December 2020.

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, 2021 on the full set consolidated financial statements of the Group for the period of 1 January – 31 December 2020.

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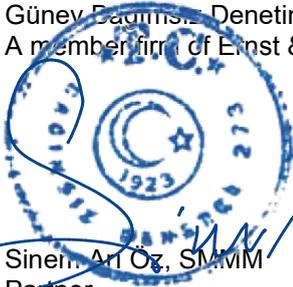
5) Auditor's Responsibilities for the Audit of the Annual Report

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, SM/MİM
Partner

March 4, 2021
İstanbul, Turkey

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ANNUAL ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2020

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:

- **“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.
- **“Hitit CS”** refers to Hitit Bilgisayar Hizmetleri A.Ş.
- **“PFTC”** refers to Pegasus Uçuş Eğitim Merkezi A.Ş.
- **“PHT”** refers to Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.
- **“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, 2020 – December 31, 2020
Commercial Title	: Pegasus Hava Taşımacılığı A.Ş.
Trade Registration	: Istanbul Trade Registry / 261186
Central Registry No.	: 0-7230-0470-8500017
Headquarters	: Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı, No: 11/A Kurtköy 34912 Pendik / Istanbul
Contact Information	: Telephone. +90 216 560 7000
	Corporate Website. www.flypgs.com
	Investor Relations Website. http://www.pegasusinvestorrelations.com

B- 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, 2020 and December 31, 2020, respectively, is shown in the table below.

Shareholder	January 1, 2020		December 31, 2020	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Esas Holding	64,353,570	62.91%	64,353,570	62,91%
Publicly Traded	35,321,707	34.53%	35,321,707	34.53%
- Publicly Traded Shares Prior to IzAir Merger	35,294,000	34.50%	35,294,000	34.50%
- Shares issued for IzAir Merger	27,707	0.03%	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	102,299,707	100.00%	102,299,707	100.00%

As of December 31, 2020, 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, 2020 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 2019, Pegasus' cumulative average annual passenger growth reached 18%, significantly outpacing the 9% annual average growth recorded by the Turkish market. 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 93 aircraft with 4.93 average aircraft age as of December 31, 2020, 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, 2020, Pegasus offered scheduled passenger services on 35 domestic routes in Turkey and 76 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 111 destinations in 43 different countries. Our operations across this network was negatively affected by COVID-19 related travel restrictions, as described below.

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 2020, the Company's CASK, non-fuel was recorded as €c 2.74, while revenue recorded from ancillary services constituted 34% of total revenue for the period. In 2020, 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 3% of total revenue for the period.

On March 30, 2020 we had announced forced suspension of all our domestic and international flights based on COVID-19 related restrictions imposed by the authorities. As part of transition to controlled social life, our domestic flights between limited destinations in Turkey determined by the Turkish General Directorate of Civil Aviation restarted on June 1, 2020 and our domestic network expanded gradually thereafter. We resumed our international operations on June 13, 2020 with a limited number of destinations and our schedule expanded in the following period to the extent permitted by continuing travel restrictions in our operating geography. Our forward booking capacity plans will be shaped according to the extend and duration of the current travel restrictions.

In 2020, Pegasus quickly responded to the negative implications of COVID-19 on the industry, on travel, on employee and passenger health and well-being. A wide range of operational, financial, commercial and organizational actions were implemented by Pegasus Management during this period. 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, 2020, the Board of Directors consisted of eight members. Three independent members served in our Board of Directors in 2020. 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 7, 2020. Apart from the independent Board members, three 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	Member, Risk Comm.
Mehmet Cem KOZLU	Non-Executive Board Member	2013	Member, Corp. Gov. Comm.
Hatice Zeynep Bodur OKYAY	Independent Board Member	2016	Chair, Audit Comm.
Stephen Mark GRIFFITHS	Independent Board Member	2016	Chair, Corp. Gov. Comm.
Michael Glyn POWELL	Non-Executive Board Member	2018	Member, Corp. Gov. Comm.
Agah UĞUR	Independent Board Member	2019	Chair, Risk Comm. Member, Audit 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 7, 2020.

Information on the duties assumed elsewhere by our Board members in 2020 is provided in Annex-2 to this Report. Independency statements by our independent Board members are provided in Annex-3 to this Report.

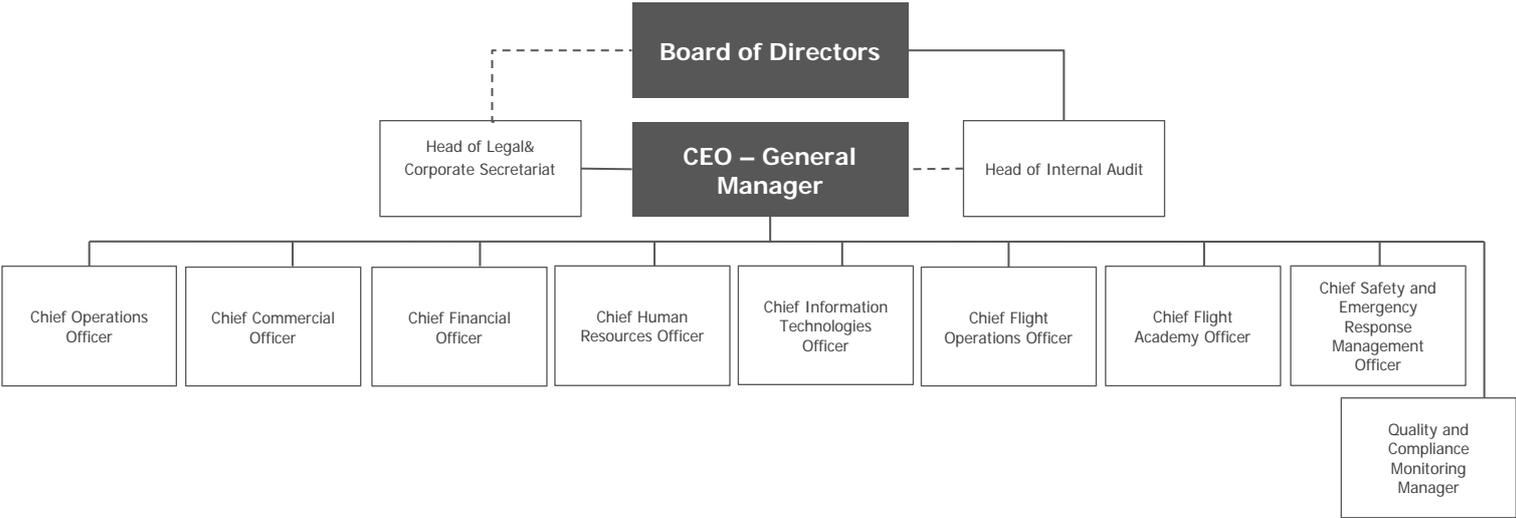
b)- Senior Management: Pegasus senior management comprises the General Manager (CEO) and executives directly reporting to the CEO. Information on Pegasus senior management and their duties as of December 31, 2020 is provided in the following chart.

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
Gençer KARATEPE	Chief Flight Operations Officer	2018	2020
Yavuz Selim ÖZMEN	Chief Flight Academy Officer	2016	2020
Barış FINDIK	Chief Information Technologies Officer	2017	2017
Dilara OĞUR	Chief Human Resources Officer	2015	2015
Murat TÜNAY	Chief Safety Management & Emergency Response Management Officer	2011	2020
Sinan Onur ÖZTUNA	Quality and Compliance Monitoring Manager	2016	2020
Tayfun BORA	Security Manager	2003	2020
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, 2020 was 6.130. 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 7, 2020, 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 2020 was provided in Note 5 to the Consolidated Financial Statements for the Accounting Period between January 1 – December 31, 2020, "Related Party Transactions".

In 2020, 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 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.
- In July 2020, our independent Board member Stephen Mark GRIFFITHS was appointed as managing director for London Stansted Airport as part of the Manchester Airports Group (United Kingdom), where he previously served as chief operating officer.
- 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 2020, 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 2020, the Board held four meetings on March 19, May 29, August 27 and December 17, 2020. The overall attendance rate for the meetings was 100% in 2020.

Based on the resolution of our Board of Directors dated April 7, 2020 numbered 684 Audit Committee, Corporate Governance, Risk and Safety Committees were re-composed as follows.

Audit Committee		
Chairperson	Hatice Zeynep Bodur OKYAY	<i>Independent Board Member</i>
Member	Agah UĞUR	<i>Independent Board Member</i>
Corporate Governance Committee		
Chairperson	Stephen Mark GRIFFITHS	<i>Independent Board Member</i>
Member	M. Cem KOZLU	<i>Non-Executive Board Member</i>
Member	Michael G. POWELL	<i>Non-Executive Board Member</i>
Member	Ömer L. ÖMERBAŞ	<i>Investor Relations Manager</i>
Committee on Early Detection of Risks		
Chairperson	Agah UĞUR	<i>Independent Board Member</i>
Member	Sertaç HAYBAT	<i>Non-Executive Board Member</i>
Member	İnan TANRIOVER ⁽¹⁾	<i>Non-Board Member Expert</i>
Safety Committee⁽²⁾		
Chairperson	Sertaç HAYBAT	<i>Non-Executive Board Member</i>
Member	Mehmet Cem KOZLU	<i>Non-Executive Board Member</i>
Member	Mehmet T. NANE	<i>CEO</i>

⁽¹⁾ Mustafa TERCAN succeeded İnan TANRIOVER effective as of June 23, 2020.

⁽²⁾ The Board of Directors resolved on the dissolution of the Safety Committee effective as of August 27, 2020.

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 members of the Audit Committee and the chairpersons of the Audit, Corporate Governance and Risk Committees are appointed from among independent Board members. 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.

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 2020 are as follows:

Audit Committee

The Audit Committee held four meetings on March 2, May 8, August 11 and November 6, 2020, 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, 2019 and on March 31, June 30 and September 30, 2020 and shared its favorable opinion with the Board. The Committee prepared the proposal for the appointment of the independent audit firm for 2020 audit requirements, oversaw the activities of the Company's Internal Audit Department, its work plan and budget. In 2020, ethics governance continued to develop in terms of employee awareness, notification channels, investigations, ethics committee work and Audit Committee oversight. The Committee informed the Board of its activities at each Board meeting held in 2020.

Corporate Governance Committee

The Corporate Governance Committee held four meetings on March 19, May 28, August 26 and December 16, 2020, 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 2020, succession planning for executive management and key positions, reviewed various Board policies and scrutinized the operations of the Investor Relations Department. In 2020, the Committee also oversaw Management's actions on sustainability, which are being reported for the first time in a separate annual sustainability report. As of the end of 2020, Pegasus retains one of the highest Corporate Governance Compliance Ratings across BIST with a compliance rating of 96.3%. Pegasus rejoined BIST Sustainability Index in November 2020. The Committee informed the Board of its activities at each Board meeting held in 2020.

Committee on Early Detection of Risks

The Committee on the Early Detection of Risks held four meetings on March 18, May 28, August 26 and December 16, 2020, 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. The Company's risk profile significantly altered with COVID-19 impact on travel demand and travel restrictions. The Committee responded to this significant change by increasing its focus on the review of liquidity and Management's COVID-19 measures ahead of each Board Meeting. The Committee informed the Board of its activities at each Board meeting held in 2020. 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

Ömer L. ÖMERBAŞ
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, Mr. ÖMERBAŞ is the head of the Company's investor relations unit and serves as a member of the Corporate Governance Committee. Ömer ÖMERBAŞ 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 2020, the regular updates were reported to the Board and the Committee on March 19, May 28-29, August 26-27, and December 16-17.

Throughout 2020, the Company responded to inquiries submitted by our shareholders without discrimination, through telephone, e-mails or meetings and attended nine 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. 6102, 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.

No requests for special audit of a specific matter were submitted to Pegasus in 2020. 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. 2920. 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 2019 was held on April 7, 2020 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 12, 2020 and numbered 10035, on page 352, 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 71,263,361 (72.90% of the Company capital) were represented at the meeting, thereby constituting the requisite meeting quorum. Mr. Agah UĞUR, member 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, Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, Ms. Sinem ARI ÖZ attended the meeting in person.

The decisions of our shareholders adopted at the Annual General Assembly meeting held on April 7, 2020 are indicated in the table below:

April 7, 2020 Annual General Assembly Resolutions	Vote
• Approval of the appointment made for the replacement of the resigning member of the Board of Directors in accordance with Article 363 of Turkish Commercial Code,	Majority
• Approval of the Annual Activity Report, the Auditor Report and the Financial Statements for the year 2019	Majority
• Release of the members of the Board of Directors for operations and accounts pertaining to the year 2019	Majority
• Allocation of the 2019 profit as extraordinary reserves	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 2020 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 2020	Majority

The agenda, list of attendees and meeting minutes at the meeting are published on our Investor Relations website.

There were no transactions to report in 2020 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.

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, "**2020 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-4 to the [Information Document](#) prepared for the Annual General Assembly meeting held on April 7, 2020 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 7, 2020 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 2020 as well as gross payments for their duties as chairperson or member at the relevant Board committees amounted to TL 1,331,670.47. The members of the Board of Directors, considering the negative impact of the COVID-19 outbreak on global aviation and the Company's operations, voluntarily waived 50% of their remuneration for 2019 Committee duties in that respect, and at their request, their honorarium entitlement for the year 2020 was reduced by 50%.

In 2020, 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 38,121,466.55.

In 2020 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 aviation 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 2020, a wide range of operational projects were implemented in our operations, training, reporting and aircraft tracking. 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.

In 2020, Pegasus continued to improve digitalized functions for both passengers and employees, strengthening its position as “Turkey’s Digital Airline”. These improvements not only improved user experience across the board, but also empowered both passengers and employees at a time when physical access and interaction became heavily restricted due to COVID-19 measures. Major novelties in 2020 on the digital front included the following:

- We started working for the “new normal” in April and by June 2020, when flights restarted after a two-month lockdown we achieved full integration with the Turkish Ministry of Health’s “HES Code” system, providing a direct link with the Turkish Ministry of Health to assess COVID-19 risks in respect of Company employees and domestic passengers. This collaboration was widely recognized in international aviation as a successful example of how airlines and national health authorities can work and produce effective solutions enabling healthy travel.
- Close tracking and timely notification of rapidly changing COVID-19 entry rules on our destinations, with an integrated push function allowing Pegasus Mobile Application users to access up-to-data in an effortless manner.
- Works are underway with the Turkish Ministry of Health, IATA and other national health authorities for the introduction of a Health Passport collaboration allowing for a coordinated processing of PCR test and vaccine data to facilitate international travel.
- “Travel Assistant” functions developments on Pegasus Mobile Application, allowing users increased access and control of their flight itineraries.
- In 2020, the circumstances created by the pandemic rendered self-service tools, operational efficiency and mobile capabilities significantly important. Before the pandemic disrupted travel significantly, we installed 65 Express Baggage units at our home base, Istanbul Sabiha Gökçen Airport, expanding our self-service capability there to more than 60%. In 2020, Express Baggage service was extended to cover Izmir Adnan Menderes, Bodrum-Milas and Ankara Esenboğa Airports. Express Baggage units are enhanced with features such as excess baggage fee payment, searching flights using passport, mobile phone number or Turkish ID number.

- Turkish ID Card Travel Capability, which was first introduced globally by Pegasus at our home base, Istanbul Sabiha Gökçen Airport, was extended to various airports in Turkey, reaching a broader range of passengers. Passengers are allowed to scan their new generation national ID cards to clear security zone and the boarding gate checks without the need to produce any other document. Contactless and self-service capabilities will continue to expand at all airport functions involving the passengers.
- Introduction of American Express credit cards as a payment method on Pegasus Direct Sales Channels.
- Introduction of BolBolShop through which our BolBol loyalty program members can redeem their BolPoints through spending on more than 50 brands.
- Extended use of interactive IVR for Pegasus Call Center Operations, increasing efficiency in Call Center support.
- Introduction of WhatsApp Support Line providing 24/7 uninterrupted service to our passengers.
- Implementation of New Distribution Capabilities in agency operations. A significant traffic was migrated to a new infrastructure allowing faster integration with travel agents conducting online sales.
- Optimized flight training scheduling was achieved through the digitalization of flight crew training plans. PLATO (Planning & Training Optimizer) tool used by Pegasus Flight Academy carries out an artificial intelligence supported training planning. This way, pilots continue to receive trainings in full compliance with the applicable regulations through the use of optimum use of resources.
- In 2020, smart field tools further enabled operational efficiency and eased the work of our employees involved in flight operations. Operational efficiency of cockpit and cabin crew increased through enhancements in the SmartOps mobile system, which helps flight crew to operate their duties on a single digital platform. Using SmartOps, flight crew can plan their daily travel and accommodation needs easily, access their schedule all times and complete records filing online. Likewise, Smart Technic mobile system enabled paperless operations and on-location maintenance recording in connection with maintenance tasks. Smart Technic provides some first-of-its-kind features for e-TechLog (Electronic Technician Log Diary) type products and first obtained the approval of the Turkish General Directorate of Civil Aviation.
- Pegasus developed new and improved digital capabilities, providing more efficient daily routine activities for our employees. The “Paperless Office” initiative is processing incoming invoices using Optical Character Recognition Technologies and other supportive technologies to eliminate manual work, printing and copying. This also speeds up invoice processing. Pegasus deployed Robotic Process Automation in many department functions and provided digital workforce support to meet increasing demand for work due to higher volume of transactions.
- Our own SmartOps mobile system helps flight crew to operate their duties on a single digital platform. Likewise, SmartGo is continuously developed as a centralized system for ground operation teams, increasing operational efficiency.

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

A- SECTOR OUTLOOK

International Aviation Market

The COVID-19 outbreak, that first emerged in China by the end of 2019 and spread rapidly across the world, was declared a pandemic by The World Health Organization (WHO) on March 11, 2020. The pandemic significantly impacted the aviation industry due to slump in consumer confidence and willingness to travel as well as restrictions imposed by governments, particularly on international travel.

According to the Air Passenger Market Analysis published in February 2021 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) fell by 66% YoY in 2020. This marked by far the sharpest decline in the history of aviation industry. In terms of a regional breakdown, Europe and Middle East experienced 70% and 72% YoY contraction in total RPKs in 2020.

Sector participants expect a rebound in demand in 2021 at varying magnitudes, particularly depending on the estimates regarding the pace of the vaccination programs. IATA, in its baseline scenario, assumes a limited recovery in demand in the first half of 2021 followed by a strong improvement in demand in the second half of the year once the vulnerable populations and healthcare workers are vaccinated. IATA also pointed to the recent experience in domestic markets which suggested that there is pent-up demand for international travel. Any recovery will be heavily dependent on how international travel restrictions are eased, managed and/or facilitated by governments.

Turkish Aviation Market

The negative impact of the COVID-19 pandemic on the Turkish aviation market was also quite visible in 2020. However, thanks to a relatively resilient domestic demand, decline in total number of passengers was minor compared to the decline in Europe. According to the data published by the General Directorate of State Airports Authority (DHMI), number of domestic passengers fell by 50%, while number of international passengers fell by 70% in 2020, leading to 61% overall decline in total number of passengers. According to ICAO (International Civil Aviation Organization), there was a 66% decline in the total passengers in Europe. The stark contrast between domestic and international traffic (including intra-Europe traffic) is also affected by international travel restrictions imposed by governments.

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 2019, Pegasus' cumulative average annual passenger growth reached 18%, significantly outpacing the 9% annual average growth recorded by the Turkish market.

However, parallel to the decline in demand and negative impact of the travel restrictions with the COVID-19 pandemic, total passenger number of Pegasus contracted by 52% in 2020 vs. the 61% contraction in the market thus leading to further market share gain.

The table below indicates Pegasus market share trend in terms of domestic and international scheduled passenger numbers between 2015 and 2020:

Pegasus Market Share Data (2015 – 2020)

	2015	2016	2017	2018	2019	2020
Domestic	28.3%	29.8%	30.8%	31.4%	31.4%	38.7%
International	9.8%	11.8%	12.4%	12.2%	12.9%	16%

Source: Pegasus, DHMI

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 2020 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, 2020 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		31.12.2020	31.12.2019	Growth (%)	31.12.2020	31.12.2019	Growth (%)	31.12.2020
B737-800	4,163	34	39	-13%	6,426	7,371	-13%	8,20
A320CEO	4,074	12	12	-	2,172	2,172	-	6,84
A320NEO	4,740	40	31	29%	7,440	5,766	29%	2,33
A321NEO	4,237	7	2	250%	1,673	478	250%	0,63
TOTAL		93	84	11%	17,711	15,787	12%	4,93

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. 14 aircraft joined Pegasus fleet in 2020.

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

Aircraft Type	2020	2021	2022	2023	2024	2025
A320neo	9	6	0	0	0	0
A321neo	5	2	19	17	10	3

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, 2020, the Internal Audit Department of Pegasus comprised the Head of Internal Audit, two Internal Audit Senior Specialist.

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

The table below lists information relating to the direct subsidiaries and joint ventures of Pegasus as of December 31, 2020. As of December 31, 2020, Pegasus did not have any indirect subsidiaries or joint ventures. Pegasus was not subject to any cross-shareholding in 2020.

Affiliate	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share %	Affiliation with Pegasus
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 2020.

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 2020.

In 2020, 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 1.9 million. Approximately 80% of the stated amount relates to fines imposed by border authorities based on inadmissible passenger (INAD) regulations.

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

The following legislative and regulatory changes in 2020 were important for the Company's operations and triggered considerable work in terms of compliance planning and execution:

- Law No. 7244 on Reducing the Negative Economic and Social Impact of the New Coronavirus (COVID-19) Outbreak and several Presidential Decrees and Regulations implemented in this respect, bringing significant changes to employment relationships in terms of furlough, unpaid leave and termination restrictions, effective as of April 2020 and into 2021.
- Extensive flight and travel restrictions and bans implemented by Turkish and foreign authorities temporarily suspending all commercial flight operations between late March 2020 and late May 2020 and significantly restricting international flight operations thereafter and into 2021 on a bilateral basis.
- Several regulations and decisions by the Turkish General Directorate of Civil Aviation and foreign civil aviation authorities, including revisions to the Turkish Passenger Rights Regulation (SHY-PASSENGER), exempting carriers from their indemnity, refund and similar obligations until after two months following the lifting of flight restrictions.
- ICAO CART Guidelines, EASA & ECDC COVID-19 Aviation Health Safety Protocol and Turkish General Directorate of Civil Aviation regulations and decisions, including the Circular No. UOD/2020-3G on COVID-19 Measures for Flight Operations and Circular on Domestic Travel Health Code (HES) Use, outlining mandatory and advisory health precautions for all flight operations and services provided to the passengers starting from June 2020 and effective into 2021.
- Several amendments to the Turkish E-Commerce Regulations introducing the Communication Management System, a centralized permission center for commercial communications by traders, which became effective as of January 2021.
- Amendments to the Corporate Governance Communiqué No. II-17.1 by the Turkish Capital Markets Board, introducing the sustainability compliance framework rules for publicly traded companies applicable on a “*comply or explain*” basis, effective as of October 2020.

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, 2020, 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, 2020, 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, 2020. 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 2020.

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 2020 that are not fulfilled. The operational results of our Company in the year 2020 were periodically shared with the investor community. However; given the unprecedented impact of COVID-19 on the aviation business and therefore the Company's operations, and the significant uncertainty involving industry recovery, the Company did not publish operational or financial targets or guidance for 2020.

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 2020.

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 2020. Both policies are available in our Investor Relations Website.

At the Annual General Assembly Meeting held on April 7, 2020, the General Assembly, in accordance with Article 19 of the Capital Markets Law No. 6362 and Article 11 of the Company Articles of Association, determined the ceiling for donations to be made by the Company in 2020 as TL 15,000,000.

The donations made by the Company as of December 31, 2020 was limited to TL 4,360, comprising a few indirect ancillary contributions in the area of education and solidarity.

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, 2021, notes that *"in all transactions between the Company and Esas Holding or its subsidiaries between January 1, 2020 and December 31, 2020, 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, 2020. 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, 2020, the indices including Pegasus shares and information on Pegasus shares are as follows:

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

Provided below is a comparison between the performance of Pegasus shares against the performance of BIST-100 index from the first day of trading to December 31, 2020. Pegasus shares closed the year 2020 at a price of TL 74.60/share with an annual drop of 14% compared to the year-end 2019 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, 2020, 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, 2020 compared against the same period in 2019 and the year-over-year changes for the relevant line items are set out in the following charts:

Overall Traffic Results	Jan. – Dec.	Jan. – Dec.	Y-O-Y Change
	2020	2019	%
Number of passengers (<i>million</i>)	14,71	30,76	-52,2
Cycle	99.289	187.307	-47,0
Number of seats (<i>million</i>)	18,45	34,72	-46,9
Load factor (%)	79,7	88,6	-8,8
ASK ⁽¹⁾ (<i>million</i>)	22.278	43.947	-49,3
Passengers per cycle	148	164	-9,8
Avg. daily aircraft utilization (<i>hours</i>) ⁽²⁾	6,2	12,8	-51,8
Domestic			
Number of passengers (<i>million</i>)	9,60	16,09	-40,4
Cycle	62.755	93.067	-32,6
Number of seats (<i>million</i>)	11,66	17,43	-33,1
Load factor (%)	82,3	92,3	-10,9
ASK ⁽¹⁾ (<i>million</i>)	9.164	12.753	-28,1
Passengers per cycle	153	173	-11,6
International			
Number of passengers (<i>million</i>)	4,99	14,09	-64,6
Cycle	35.782	90.954	-60,7
Number of seats (<i>million</i>)	6,67	16,72	-60,1
Load factor (%)	74,9	84,3	-9,4
ASK ⁽¹⁾ (<i>million</i>)	12.938	30.176	-57,1
Passengers per cycle	139	155	-10,0
Charter			
Number of passengers (<i>million</i>)	0,13	0,57	-77,9
Cycle	752	3.286	-77,1
Number of seats (<i>million</i>)	0,13	0,57	-78,0
ASK ⁽¹⁾ (<i>million</i>)	177	1.019	-82,6

⁽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)	31.12.2020	31.12.2019	Change (%)
Current assets	5.358.555	6.088.952	-12%
Non-current assets	23.712.118	14.970.369	58%
Total assets	29.070.673	21.059.321	38%
Current liabilities	6.505.675	4.765.227	37%
Non-current liabilities	17.178.580	10.951.925	57%
Shareholders' equity	5.386.418	5.342.169	1%
Summary P&L ('000 TL)	31.12.2020	31.12.2019	Change (%)
Sales	4.803.560	11.025.225	-56%
Gross (loss) / profit	(1.258.703)	2.699.044	-147%
(Loss) /profit from operations	(1.360.924)	2.061.983	-166%
Operating (loss) / profit before financial income/(expense)	(1.551.901)	2.049.835	-176%
(Loss) / profit before tax	(2.024.845)	1.394.265	-245%
(Loss) / profit for the period	(1.965.097)	1.334.568	-247%
(Loss) / profit per share	(19,21)	13,03	-247%
Changes in Financial Position ('000 TL)	31.12.2020	31.12.2019	Change (%)
Cash and cash equivalents	3.605.571	4.187.317	-14%
Financial Investments	234.036	150.906	100%
Financial liabilities	19.012.093	10.755.675	77%
Net debt position ⁽¹⁾	15.172.486	6.417.452	136%

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

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, 2020, the outstanding balance of the total loans borrowed for the financing of 58 aircraft acquired by way of financial lease is TL 14.036.641.602.

Furthermore, as of December 31, 2020, Pegasus and its subsidiaries had drawn TL 2.547.225.434 on cash loans and TL 1.308.894.933 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.

On December 31, 2020, the Company's application with the Turkish Capital Markets Board for the issuance of debt instruments with a nominal value of up to TL 2.5 billion, for the sale of such instruments to domestic qualified investors. The initial issuance within this limit was completed on February 11, 2021 for a total issuance amount of TL 260 million. See Section 7/B for details.

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

It is determined that as of December 31, 2020 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, 2020, the Company's shareholders' equity totaled TL 5.386.417.638.

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 Company incurred net loss for the year 2020 in the amount of TL 1.965.097.057. Therefore, no distributable profit emerged for the year 2020.

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.

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 2020, management risk review, management and reporting processes were improved further to ensure that a comprehensive overview of all risks continued to be regularly carried out by senior-management before each Committee meeting in 2020.

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 2020, Agah UĞUR, 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. Mustafa TERCAN succeeded İnan TANRIÖVER effective as of June 23, 2020.

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 2020, the Committee held four meetings on March 18, May 28, August 26 and December 16.

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 2020, 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:

- In 2020 we witnessed the devastating impact of COVID-19 on international aviation and air carriers, with a wide array of effects on passengers, employees and the investor community alike. Pegasus quickly responded to the negative implications of COVID-19 on the industry, on travel, on employee and passenger health and well-being. A wide range of operational, financial, commercial and organizational actions were implemented by Pegasus Management during this period, including the following:
 - Company-wide health, safety and employee well-being measures such as office sanitization, training, protective equipment, home office, flexible work schemes, enhanced remote work capability, personal and professional support.
 - COVID-19 health protocols compliant flight and terminal operations in accordance with World Health Organization, Turkish Ministry of Health, Turkish General Directorate of Civil Aviation, International Civil Aviation Organization (ICAO) and European Aviation Safety Agency (EASA) guidelines and regulations. Pegasus became a signatory to EASA’s COVID-19 Aviation Health Safety Protocol published in collaboration with the European Disease Prevention and Control Center (ECDC).
 - Management actions for financially sustainable performance focused on sterile operations based on hygiene rules, agile planning, strong focus on CASK and cash management.
- 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.
- In 2020, Pegasus continued to support its first comprehensive corporate social responsibility (CSR) project in recent years: “*We’re Flying to the Future*” project. Pegasus collaborated with Sivil Toplum İçin Destek Vakfı, Foundation for Supporting Civil Society operating at national level to address complex social issues.¹
- Pegasus introduced a number of new and improved products and services to its customers in 2020. These included a wider online capabilities on the Pegasus Mobile Application “*Travel Assistant*” tool, significant increase in the number and geographical coverage of “*Pegasus Express Baggage*”, the self-baggage drop service deployed at the

¹ <https://www.yarinlaraucuyorum.com/>

Istanbul Sabiha Gökçen and Izmir Adnan Menderes Airports and “Pegasus 24/7 WhatsApp Support Line”, providing fast and easy solutions for our passenger’s questions regarding their flights.

- 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 2020, Pegasus was awarded “the Company with the highest number of youth employment” at the Secretcv HR Summit for Stars of HR Award Ceremony,
- Pegasus received three silver awards from Social Media Awards for its social media practices; in corporate blog category for the project “Pegasus Blog” in corporation with Contentus Agency, for effective use of data in social media category for the project “Search to Social” in corporation with Hype Agency and in SocialBrands Data Analytics Award in the category of airline companies.
- On behalf of Pegasus, our CEO Mehmet T. NANE received the “2020 Aviator of the Year Award” presented by the Antalya Bilim University at an event organized by the Turkish General Directorate of Civil Aviation on December 7, 2020, commemorating international civil aviation day. Pegasus was awarded on its efforts for communication with its employees during the COVID-19 outbreak.
- In 2020, Pegasus received “E-Commerce Trust Stamp” from the Turkish Union of Chambers and Exchanges, an accolade underpinning security and service standards in e-commerce and reliability of e-commerce websites.
- Pegasus CEO Mehmet T. NANE was awarded the “CEO of the Year” by Perapost for Pegasus’ leadership in digital transformation, customer-centric services, efficiency-focused management model, continued participation in NGOs and active work in the area of gender equality.
- In 2020, Pegasus increased its Carbon Disclosure Reporting Project (CDP) reporting score from B to A- after a continuous CDP reporting of five years. CDP is a voluntary platform focused on combat against climate change.
- In 2020, Pegasus was readmitted to the BIST Sustainability Index, following a review of its disclosure of actions in the areas of environment protection, climate change, corporate governance, HR actions and alike.
- In 2020, Pegasus increased its Turkish Capital Markets Board Corporate Governance Principles Compliance Rating to 96.30%, attaining one of the highest compliance scores in Turkey.
- In 2020, Pegasus was recognized by the Union of Service Exporters as the second largest Turkish transportation services exporter in 2019. This followed the Company’s recognition as the third largest Turkish services exporter at the “Turkey’s 500 Largest Exporters” survey carried out by the Turkish Exporter’s Assembly in late 2019.

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

On December 31, 2020, the Company's application with the Turkish Capital Markets Board for the issuance of debt instruments with a nominal value of up to TL 2.5 billion, for the sale of such instruments to domestic qualified investors. The initial issuance within this limit was completed on February 11, 2021 for a total issuance amount of TL 260 million. Bonds with ISIN code TRSPEGS22218 have 365-day maturity, 3-month coupon payments with floating interest of 300 bps over the benchmark (TLREF Index, BIST overnight interest rate) and principal payment at maturity date of 11.02.2022.

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 2020
- **Annex-2:** Information on Duties Assumed Elsewhere by Pegasus Board Members in 2020
- **Annex-3:** Independency Statements of Pegasus Independent Board Members
- **Annex-4:** 2020 Financial Report Responsibility Statement
- **Annex-5:** Pegasus Corporate Sustainability Report

ANNEX-1

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT FOR THE YEAR 2020

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 2020, 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 an outlook for the year 2021 are presented for each of these principles in the Compliance Report Format (*URF*).

- 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.
- 4.3.8 (No Compliance) – Risk of Company loss caused by the fault of the members of the Board of Directors is insured for a value exceeding 25% of the company capital and insurance coverage is announced on the Public Disclosure Platform.
- 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.

Pursuant to the amendments published in the Official Gazette dated October 2, 2020 and numbered 31262, *“requirements to announce if the company implements sustainability principles, to provide reasoned explanations if they are not, description of impact on environmental and social risk management due to partial or no compliance in the annual report”* was incorporated into the Communiqué. Our activities within the scope of the “Sustainability Principles Compliance Framework” adopted by the Turkish Capital Markets Board are reported in a consolidated manner for the first time as part of our 2020 Annual Report (Annex-5).

ANNEX-2

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ MEMBERS OF THE BOARD OF DIRECTORS DUTIES ASSUMED ELSEWHERE IN 2020

The résumés and information on duties assumed elsewhere in 2020 for each Board member is provided in this Annex.

Ali İsmail SABANCI	Chairperson of the Board
<p>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 served as a member of the board of directors of Esas Holding between 2004 and 2019, since 2019 he serves as the Chairperson of the Board of Esas Holding. He serves as a board member of 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).</p>	

Duties Assumed Elsewhere in 2020

1.	Esas Holding A.Ş. (Group Company)	Chairperson
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.	Kauçuk Yiyecek İçecek Hizmetleri Tic. A.Ş.	Vice-chairperson
5.	Mars Sportif Tesisler İşletmeciliği A.Ş. (Group Company)	Vice-chairperson
6.	Mars Spor Kulübü ve Tesisler İş. A.Ş. (Group Company)	Vice-chairperson
7.	Beyoğlu Gazozu İçecek A.Ş.	Board Member
8.	VCSA Teknolojik Yatırımlar ve Danışmanlık Hiz. A.Ş.	Chairperson
9.	Sosyal Ağlar Elektronik Ticaret A.Ş.	Board Member
10.	Esas Venture Capital Teknoloji Yatırımları A.Ş.	Chairperson
11.	Kiraz 1 Gayrimenkul ve Yat. Dan. A.Ş. (Group Company)	Chairperson
12.	Lotus İç ve Dış Tic. Yatçılık A.Ş.	Board Member

Hüseyin Çağatay ÖZDOĞRU	Vice-Chairperson of the Board
<p>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</p>	

Companies, besides his duty as the Esas Holding CEO. Çağatay ÖZDOĞRU holds a bachelor's degree in Electronic and Telecommunication from İstanbul Technical University and a master's degree in Telecommunication granted by George Washington University.

Duties Assumed Elsewhere in 2020

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)	Vice-chairperson
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)	Chairperson
9.	Multimarka Ayakk. San. Ve Tic. A.Ş. (Group Company)	Chairperson
10.	Koroza Ambalaj San. Tic. A.Ş. (Group Company)	Board Member
11.	Bekal Yönetim Danışmanlığı A.Ş.	Chairperson
12.	Lotus İç ve Dış Tic. Yatçılık A.Ş.	Board Member
13.	Esasburda Turizm ve İnşaat San. Tic. A.Ş.	Board Member

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 2020

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

Non-Executive Board Member

Mehmet Cem KOZLU served as an independent member of our Board of Directors between 2013 and 2020 and continues to serve as a non-executive member of our Board of Directors since April 2020. 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 2020

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

Agah UĞUR

Independent Board Member

Agah UĞUR joined Pegasus as a non-executive director in August 2019 and continues to serve as an independent member of Board of Directors since April 2020. Agah UĞUR worked in accountancy, consulting and banking firms in England and Turkey before joining Borusan Group in 1989 as its CFO. He assumed the role of Borusan Holding CEO in 1995; served as the Borusan Group CEO between 2001 and 2018 and he continues to serve as advisor to the chairman and board member at Borusan Holding. Agah UĞUR held and continues to hold several board and advisory board positions in NGOs. Currently he is a member of TUSIAD's High Advisory Council, a board member at the Turkish American Business Council, member of the Board of Trustees of Sabancı University, member of the advisory council of Bahçeşehir University and member of the advisory board of Columbia University Istanbul Global Center. Agah UĞUR holds a bachelor's degree in industrial engineering obtained from the University of Birmingham in the U.K. and qualified as chartered accountant in England in 1985.

Duties Assumed Elsewhere in 2020

1.	Borusan Holding A.Ş.	Board Member
2.	Doğan Holding A.Ş.	Independent Board Member
3.	Sabancı Üniversitesi	Board Member
4.	Türk Sanayiciler ve İş İnsanları Derneği	Board Member
5.	Türkiye A.B.D. İş Konseyi	Board Member
6.	Saha Derneği	Vice-chairperson
7.	Columbia Üniversitesi İstanbul Global Center	Board Member
8.	Alcatel Lucent Teletaş Telekomünikasyon A.Ş.	Board Member
9.	Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Board Member
10.	Makina Takım Endüstrisi A.Ş.	Board Member
11.	Efes Pazarlama ve Dağıtım Ticaret A.Ş.	Board Member

H. Zeynep Bodur OKYAY

Independent Board Member

Zeynep Bodur OKYAY joined Pegasus as a non-executive director on July 14, 2016 and continues to serve 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 2020

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.	Kale Sanayi Arazileri Geliştirme ve Yönetim A.Ş.	Executive Chairperson
9.	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. Between October 2018 – June 2020, Steve GRIFFITHS acted as the Chief Operating Officer and since June 2020, he serves as managing director 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 2020

1.	London Stansted Airport, U.K.	Managing Director
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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 2020

1. Flybondi Limited, U.K. Executive Chairperson

ANNEX-3

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ INDEPENDENT BOARD MEMBERS' INDEPENDENCE STATEMENTS FOR 2020

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,

*H. Zeynep Bodur OKYAY
Independent Board Member*

*Stephen M. GRIFFITHS
Independent Board Member*

*Agah UĞUR
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, 2020 and December 31, 2020, 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, 2021 and numbered 705 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,

H. Zeynep Bodur OKYAY
Chairperson of the Audit
Committee and Board Member

Agah UĞUR
Audit Committee and
Board Member

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

ANNEX-5

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ CORPORATE SUSTAINABILITY REPORT FOR THE YEAR 2020 CONTINUES ON THE NEXT PAGE

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
CORPORATE SUSTAINABILITY REPORT
2020

ABOUT THIS REPORT

Pegasus reports its corporate sustainability efforts in 2020 in accordance with the Sustainability Principles Compliance Framework published by the Turkish Capital Markets Board.

Our 2020 Corporate Sustainability Report summarizes our compliance efforts and sets out the conceptual framework of these efforts under four main headings: General Principles, Environmental Principles, Social Principles and Corporate Governance Principles. Along these lines, the Report lists each and every compliance item under the Sustainability Principles Compliance Framework and provides information on and references for our compliance efforts under each item.

OUR CEO'S MESSAGE

Dear Stakeholders,

As Pegasus Airlines, we believe that everyone has the right to fly. Rightly so, since 2005, we enable our passengers to travel on reasonable fares and young aircraft thanks to the *“low cost airline”* business model, first introduced by us in Turkey. As part of our digital transformation launched in 2018, as *“Turkey’s digital airline”*, we continue to add digital technologies and unparalleled novelties facilitating travel experience and enhance our focus on passenger experience. In doing this, we manage all our operations and activities with a *“sustainable environment”* perspective.

Minimizing negative impact on the environment and prevention of pollution as part of the environment lifecycle constitute important principles in our environmental policy. Aircraft model impact on fuel consumption, efforts to reduce aircraft weight, route optimization, single-engine taxiing, taxiway improvements and similar actions help us minimize our operations’ negative impact on the environment.

We undertake monitoring, reporting and improvement efforts for climate protection and fight against global warming as part of national and international regulations. We disclose our reporting and improvements publicly as part of our participation in the Carbon Disclosure Project. After a period of five-year improvement, in 2020, we improved our corporate score to *“A-”*. We were among the eight companies attaining this score in a list covering 129 Turkish companies. We take pride in being the highest scored transportation entity in Turkey and achieving the second highest airline score globally. These are only a few examples of what we do for a sustainable future...

Since 2013 we increased our reach to new shareholders and investors as a public company. Every year we take more responsibility in the area of environmental, social and corporate governance issues and we aim to be a good corporate citizen for all our stakeholders. We are extremely happy to share our works with you in a consolidated manner through our first Sustainability Report published in 2021. We aim to keep this momentum and share our sustainability efforts in accordance with national and international standards in the coming years.

We will continue to work for a sustainable future through benefiting from new aircraft technologies and by continuously transforming our fleet, through weight reduction and similar operational improvements and actions alike. On behalf of Pegasus Airlines, I would like to thank all our stakeholders accompanying us on this journey and supporting our goals.

Sincerely,

Mehmet T. NANE

CEO

Pegasus Airlines

CONCEPTUAL FRAMEWORK

We relate our actions, explained in detail in the later sections of the Report, to the United Nations Sustainable Development Goals (“UNSDG”) as shown in the following table:

SDG	RELEVANT ACTIONS
 <p>4 QUALITY EDUCATION</p>	<ul style="list-style-type: none"> - Training and Development Programs initiated by Pegasus Academy, aimed at personal, managerial and Professional development of our employees - Pilot and Cabin Crew Development and Technician Long-Term Internship Programs developed in partnership with Pegasus Flight Academy and Universities, Flight Schools and Professional Colleges - University collaborations (MBA) coordinated by Pegasus Academy - Donations and charitable contributions in the field of education
 <p>5 GENDER EQUALITY</p>	<ul style="list-style-type: none"> - First airline to join the UN Women’s Empowerment Principles - Participation in IATA’s 25by2025 Initiative - Membership with the Turkish General Directorate of Civil Aviation Gender Balance Development Commission - Our partnership with NGOs in the area of gender equality - Recruitment and human resources processes and policies aiming equal opportunity, diversity at work and equal rights and opportunities for all employees
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	<ul style="list-style-type: none"> - Reduction of fossil fuel consumption through technology and infrastructure investments - Choosing less harmful options for the environment in investments - Fleet strategy and planning

<p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	<ul style="list-style-type: none"> - Technology and infrastructure investments reducing fossil fuel consumption - Choosing environmentally preferable options in investments - Fleet strategy and planning - Employee Loyalty and Effectiveness Surveys and similar inclusive workplace actions covering our way of work, communication, processes and how we work together - Human resources actions inciting high performance aligned with Pegasus' long-term goals and strategies to achieve a sustainable and profitable growth
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<ul style="list-style-type: none"> - As "Turkey's Digital Airline" we aim to fully utilize the benefits of technology in all our processes - We exploit technological developments to make lives and work of our passengers and employees easier
<p>10 REDUCED INEQUALITIES</p> 	<ul style="list-style-type: none"> - We believe that everyone has the right to fly and we carry out our low-cost carrier business model to enable it - With our approach transforming aviation in Turkey we deliver air travel as an accessible, low-cost and lean service to our passengers
<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<ul style="list-style-type: none"> - Contrary to other major low-cost carriers in the World, we connect a wide flight network for passengers - We connect 35 destinations in Turkey to 76 destinations in 42 countries
<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<ul style="list-style-type: none"> - We evaluate our environmental impact and aspects in all our processes - We undertake necessary preventive and improvement actions - We continue our efforts to monitor, reduce and prevent waste and emissions - We continue our efforts to implement this perspective throughout our supply chain

<p>13 CLIMATE ACTION</p> 	<ul style="list-style-type: none"> - We invest with a view to reduce emissions to support fight against climate change - We participate and support domestic and international efforts directly or through sector representatives - We consider technological developments, alternative fuel and sustainable energy resources as major opportunities
<p>17 PARTNERSHIPS FOR THE GOALS</p> 	<ul style="list-style-type: none"> - We keep constant contact with all our stakeholders for brainstorming and feedback - We consider the output of these studies as tools creating value in social matters and enabling solutions

1. GENERAL PRINCIPLES

A. Strategy, Policy and Targets

1.1. Board of Directors determines priority ESG items, risks and opportunities and formulates appropriate ESG policies. To ensure an efficient implementation of these policies, corporate regulations, procedures, etc. can be prepared. Board of Directors adopts and publicly announces these policies by a resolution.

Pegasus Corporate Sustainability Policy was adopted by our Board of Directors and publicly announced on our corporate website and on the Public Disclosure Platform. Our corporate sustainability efforts are carried out based on this policy.

PEGASUS CORPORATE SUSTAINABILITY POLICY

As Pegasus Airlines, we are committed:

- to identify our environmental, social and governance sustainability goals in relation to our operations,
- to identify organizational responsibilities necessary to implement processes with a view to achieve these goals,
- to continuously improve our sustainability compliance framework by raising stakeholder awareness on corporate sustainability.

In carrying out our commitment, we will be cognizant of the applicable national and international standards, regulations and our corporate undertakings.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <https://www.flypgs.com/en/about-pegasus/policies>

1.2. Corporate Strategy is determined in accordance with ESG policies, risks and opportunities. Short and long-term targets are determined and publicly announced in accordance with Corporate strategy and ESG policies.

We are designing our compliance strategy for each of the environmental, social and corporate governance aspects in line with our Corporate Sustainability Policy and the following standards:

ENVIRONMENTAL : ISO 14001:2015 Environment Management System; Carbon Disclosure Project (“CDP”); International Civil Aviation Organization – ICAO Carbon Offsetting and Reduction Scheme for International Aviation (“CORSIA”); European Union Emissions Trading System (“EU ETS”).

SOCIAL : ISO 9001:2015 Quality Management System; ISO 27001:2017 Information Security Management System; ISO 45001:2018 Workplace Health and Safety Management System; TDGCA Air Operator’s Certificate; EASA TCO (Third Country Operator License); IATA IOSA (Operational Safety Audit); SHY-145/JAR-145/SHY-147/SHY-M Approved Maintenance Organization, Approved Maintenance Training and Examination Organization, Maintenance Authorizations; TDGCA TRTO (Type Rating Training Organization) Authorizations and other TDGCA Training Authorizations.

CORPORATE GOVERNANCE : BIST Corporate Governance Index, BIST Sustainability Index.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <https://www.flypgs.com/en/about-pegasus/policies>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>
- <https://www.borsaistanbul.com/en/sayfa/2227/bist-sustainability-index>

B. Implementation / Monitoring

1.3. Committees/unites responsible for implementing ESG policies are determined and publicly announced. Responsible committee/unit reports activities carried out in line with the policies at least once a year and in any event within the deadline provided for the disclosure of annual reports to the Board of Directors.

Pegasus ESG policies are implemented by the Sustainability Working Group, formed in accordance with the Corporate Sustainability Policy. Pegasus Sustainability Working Group is formed of representatives from Human Resources, Technic, Investor Relations and Legal & Corporate Secretariat. Working Group acts in collaboration with Corporate Communications and Compliance Monitoring departments. Working Group reports on its works to the Corporate Governance Committee and the Board of Directors prior to the publication of the Company’s annual activity report.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

1.4. Implementation and action plans are developed and publicly announced in accordance with short and long-term targets.

Our environmental targets and relevant implementation and action plans are determined and publicly announced as part of our CDP and CORSIA reporting. Our social and corporate governance implementation and action plans are publicized through our corporate governance compliance statement annexed to our annual activity reports and the additional information provided in the linked Corporate Governance Compliance Form (URF) and Corporate Governance Information Form (KYBF). We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

1.5. ESG Key Performance Indicators (KPIs) are determined and announced on an annually comparative basis. If confirmed data is available, KPIs are presented with domestic and international sector benchmarks.

Our environmental KPIs are published as part of our CDP reporting, while our social and corporate governance are publicized through our corporate governance compliance statement annexed to our annual activity reports and the additional information provided in the linked Corporate Governance Compliance Form (URF) and Corporate Governance Information Form (KYBF). We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

1.6. Innovation actions to improve sustainability performance relating to work processes or products or services are disclosed.

Innovation actions to improve sustainability performance relating to work processes or products or services are disclosed in Section 3 (Research & Development Activities) of our annual activity reports. Our innovation actions reducing the impact of our operations on the environment are also disclosed through CDP reporting while our flight related emissions are shared with authorized bodies as part of our CORSIA and EU ETS reporting. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

C. Reporting

1.7. Sustainability performance, targets and actions are reported and publicly announced at least once a year. Sustainability activities are disclosed as part of the annual activity report.

This Corporate Sustainability Report is the first comprehensive report published by Pegasus regarding our sustainability efforts. Reporting on our sustainability performance, targets and actions will continue in 2021 with annual and periodic updates. All documents relating to our performance, targets and actions in connection with ESG framework are published on our Investor Relations Website, Sustainability and Corporate Governance Compliance Rating sections.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>

1.8. It is essential for all stakeholders that the company's position, performance and development and all material information relating to its development are presented in a direct and concise manner. Detailed information and data can be further disclosed on the corporate website and additional reports can be published to address the needs of different groups of stakeholders.

This Corporate Sustainability Report is the first comprehensive report published by Pegasus regarding our sustainability efforts. Reporting on our sustainability performance, targets and actions will continue in 2021 with annual and periodic updates. All documents relating to our performance, targets and actions in connection with ESG framework are published on our Investor Relations Website, Sustainability and Corporate Governance Compliance Rating sections.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>

1.9. *Utmost care is given to transparency and credibility. As part of a balanced approach to disclosure and reporting, issues of priority are explained in a comprehensive and objective manner.*

This Corporate Sustainability Report is the first comprehensive report published by Pegasus regarding our sustainability efforts. Reporting on our sustainability performance, targets and actions will continue in 2021 with annual and periodic updates. All documents relating to our performance, targets and actions in connection with ESG framework are published on our Investor Relations Website, Sustainability and Corporate Governance Compliance Rating sections.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>

1.10. *Information on how activities relate to the United Nations (UN) Sustainable Development Goals is provided.*

Information on how our activities relate to the United Nations 2030 Sustainable Development Goals is provided at the beginning of our Corporate Sustainability Report.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

1.11. *Provides information on lawsuits filed/finalized on environmental, social and corporate governance aspects.*

General information on files and/or finalized lawsuits on ESG aspects are provided in Section 4F (*Information on Public Audits*) of our annual activity and Corporate Governance Information Form (KYBF). We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

D. Verification

1.12. *Sustainability performance evaluations are disclosed if these are verified by independent third parties (independent sustainability assurance providers) and efforts are made to increase the scope of such verification.*

We give importance to the verification, performance measuring and rating for our ESG efforts by independent third parties. Our proficiencies for our activities (TDGCA, EASA, IATA, ISO, etc.), verification and rating of our activities (CDP report containing general information on verified CORSIA and EU ETS reports, Corporate Governance Compliance Rating, etc.) are disclosed on our Corporate Website and on our Investor Relations Website.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>

2. ENVIRONMENTAL PRINCIPLES

2.1. *Policies and action plans, environmental management systems (known as ISO 14001) and programs are disclosed.*

Pegasus holds ISO 14001:2015 Environmental Management System certificate. Pegasus, discloses its environmental impact and management actions as part of its Environment Policy, CDP, CORSIA and/or EU ETS reporting to the public and to reporting authorities.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.2. *Environmental laws and regulations are complied with and compliance is disclosed.*

Environment-related legal compliance controls and action items are managed as part of ISO 14001:2015 Environmental Management System. Carbon offsetting and reduction efforts for our aviation activities are carried out in accordance with International Civil Aviation Organization “ICAO” and Turkish General Directorate of Civil Aviation “TDGCA” regulations.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.3. *The scope, reporting period, reporting date, data collection process and reporting limitations are disclosed in relation to the Sustainability Principles.*

ISO 14001:2015 Environment Management System geographically covers our headquarters located in Istanbul/Kurtköy and our facilities at Istanbul Sabiha Gökçen, Izmir Adnan Menderes and Antalya Airports. Elsewhere, the scope and conditions relating to our CDP greenhouse gas inventory monitoring and reporting are published in the Pegasus 2019 Emissions Reporting Overview. Through CORSIA and EU ETS reporting, we filed carbon emission reports to reporting authorities. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.4. Senior responsible, high-level committees and their responsibilities relating to environment and climate change are disclosed.

Pegasus ESG policies are implemented by the Sustainability Working Group, formed in accordance with the Corporate Sustainability Policy. Pegasus Sustainability Working Group is formed of representatives from Human Resources, Technic, Investor Relations and Legal & Corporate Secretariat. Working Group acts in collaboration with Corporate Communications and Compliance Monitoring departments. Working Group reports on its works to the Corporate Governance Committee and the Board of Directors prior to the publication of the Company's annual activity report. Pegasus CEO is entrusted with the highest-level executive responsibility regarding environment and climate change issues.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.5. Incentives offered for the management of environmental matters, including realization of targets are disclosed.

We follow the targets determined for the management of environmental matters in accordance with our corporate scorecard model. As of 2020, realization of environmental targets is linked to individual performance targets for certain employees, assumed within the framework of our individual performance management system. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.6. The manner by which environmental issues are integrated into business targets and strategies is disclosed.

We follow the targets determined for the management of environmental matters in accordance with our corporate scorecard model. All targets in our corporate scorecard have defined key performance indicators ("KPIs") and employees responsible for the relevant target. Senior management carries out a periodic monitoring of how targets are achieved. Strategic overview of corporate sustainability and environmental principles is carried out by the Corporate Governance Committee reporting to the Board of Directors on an annual basis. Matters requiring a review as part of our risk inventory are monitored and reported to the Board of Directors through the Risk Committee's risk management reports issued every other month. All these mechanisms allow for a Board-level reporting and monitoring environment. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.7. Sustainability performance relating to business processes or products and services and performance-enhancing actions are disclosed.

Environmental Sustainability performance relating to business processes, products and services is monitored as explained in Sections 2.5 and 2.6 above. Greenhouse gas emission limitation and reduction efforts are disclosed as part of CDP reporting while flight related emission data is reported through CORSIA and EU ETS. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.8. Management of environmental matters not only in connection with operations, but also throughout the value chain and integration of suppliers and customers into strategies are disclosed.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.9. Participation in policy-making activities on environmental matters (sectoral, regional, national and international); memberships in or partnerships with environment related associations and organizations, responsibilities assumed and initiatives supported are disclosed.

Pegasus is actively involved in policy-making, regulatory feedback, cooperating with relevant organizations and NGOs for environmental matters as part of national and international sectoral entities where we serve in management or advisory councils such as International Air Transport Association (“IATA”) and Turkish Private Sector Aviation Enterprises Association (“TÖSHİD”) and in direct contact with TDGCA in respect of national regulatory work such as the establishment of a national aviation emission monitoring, reporting, verification system infrastructure.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <https://www.flypgs.com/basin-bultenleri/iatanin-duzenledigi-uluslararası-havacılık-icin-karbon-ofset-ve-azaltma-plani-corsia-seminer-i-istanbulda-gerceklesti>

2.10. Information on environmental impact is reported periodically and with comparative data in light of environmental indicators (Greenhouse gas emissions (Scope-1 (Direct), Scope-2 (Energy indirect), Scope-3 (Other indirect) 1), air quality, energy management, water and wastewater management, waste management, biodiversity impact).

Environmental indicators for all headings apart from Scope-3 and biodiversity impact are monitored as part of the framework described in Sections 2.5 and 2.6 above. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.11. Standards, protocols, methodologies and base year details used to collect and calculate data are disclosed.

Applicable standard, protocol, methodology and base year details are provided in our reporting under CDP and CORSIA. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.12. Environmental indicators for the reporting year are explained with previous years' comparison (increase or decrease).

Details on indicators compared against previous years are covered in our reporting under CDP. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.13. Short and long-term targets are determined to reduce environmental impact and these targets are disclosed. It is recommended that these targets are scientifically determined as proposed by the United Nations Climate Change Parties Conference. Reporting year improvements on previously determined targets are disclosed.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.14. Climate crises combat strategy and actions are disclosed.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.15. Programs or procedures to prevent or minimize the negative impact of offered products and/or services are disclosed. Third-party actions aimed at reducing greenhouse gas emissions are disclosed.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.16. Number of actions aimed at reducing environmental impact, projects and initiatives underway and the environmental benefit and cost savings achieved by these are disclosed.

This information is covered in our reporting under CDP. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.17. Total energy consumption data (except for raw materials) are reported and energy consumption is disclosed as Scope-1 and Scope-2 consumption.

This information is covered in our reporting under CDP. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.18. Information on electricity, heat, steam and cooling produced and consumed in the reporting year is provided.

Pegasus does not have any resource production. Resource consumption is disclosed through our reporting under CDP. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.19. Actions are taken and disclosed regarding the increase of the use of renewable energy and transition to zero or low carbon electricity.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.20. Renewable energy production and consumption data are disclosed.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.21. Energy efficiency projects are carried out and energy consumption reduction and emission reduction achieved as a result of these projects are announced.

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.22. Water volume, resources and procedures for water sourced from above or under-ground, used, recycled and discharged are reported (total water consumption for each resource, resources affected by water use, percentage and total volume of recycled and reused water, etc.).

We are considering a further integrated reporting on this matter in 2021 and beyond.

2.23. Whether operations or activities are subject to any carbon pricing scheme (Emission Trade System, Cap & Trade or Carbon Tax).

As of 2020, Pegasus is part of the carbon offsetting and reduction scheme for international aviation in accordance with ICAO and TDGCA regulations. EU-ETS is applicable for only a limited number of flights carried out within the European Union in the same period. Pegasus also complies with carbon tax like measures implemented in various jurisdictions.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.24. Saved or purchased carbon credits for the reporting period are disclosed.

As of 2020, Pegasus is part of the carbon offsetting and reduction scheme for international aviation in accordance with ICAO and TDGCA regulations. EU-ETS is applicable for only a limited number of flights carried out within the European Union in the same period.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

2.25. Details of carbon pricing are disclosed, if implemented.

We did not have any activity captured by carbon pricing in 2020.

2.26. Mandatory or voluntary platforms through which environmental information is published are disclosed.

In 2020, Pegasus voluntarily disclosed environmental information through CDP platform.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

3. SOCIAL PRINCIPLES

A. Human Rights and Employee Rights

3.1. A Corporate Human Rights and Employee Rights Policy is formed where full compliance with the International Declaration of Human Rights, ILO Agreements and the national legal framework on human rights and employment is stated. The policy and the roles and responsibilities for the implementation of the policy are published.

Full compliance commitment with the legal framework on human rights and employment and related roles and responsibilities are covered in various sections of the Pegasus Ethical Behavior Guide, Pegasus Human Resources Policy, Pegasus Compensation and Indemnification Policy and Pegasus Human Resources Regulation. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <https://www.flypgs.com/en/careers>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

3.2. Equal opportunity is provided in recruitment processes. Corporate policies cover fair workforce, improvement of working conditions, female employment and inclusiveness issues (gender, religious belief, race, ethnic origin, age, disability, refugees, etc.), by also considering impact on supply and value chain.

Equal opportunity, fair workforce, improvement of working conditions, female employment and inclusiveness policies are covered in various sections of the Pegasus Human Resources Policy, Pegasus Recruitment Procedure and Pegasus Ethical Behavior Guide.

Underlining our specific emphasis on women's role in the workplace, gender balance and the principle of equality, we were the first airline globally to sign-up with the United Nation's Women's Empowerment Principles, we carry out studies as a full member of the TDGCA's Gender Balance Development Commission, we support platforms such as Yanındayız (In Support) Association, wTech Women in Technology Association, PWN Istanbul, Women in Sales platform and we continue our proud tradition of naming our new aircraft after new born baby girls of our employees. We support actions to increase awareness among women regarding opportunities in aviation, and to improve women's quantitative and qualitative impact and effectiveness in aviation. In 2019, we became one of the first airlines in the World to join IATA's "25by2025" initiative which is a voluntary campaign for IATA member airlines to improve female representation in the industry by 25%, or up to a minimum of 25% by 2025. As a solid reflection of this commitment, our Board of Directors revised its "Policy on Representation in the Board of Directors" and adopted a 25% minimum female representation in the Board of Directors by 2025.

In addition to the above, through the Pegasus Social Activity Clubs, we support active participation of all our employees in sports functions and enable them to represent us in various corporate platforms. Employees are voluntarily gathered around a common goal and enjoy becoming a team and competing together. In order to support gender equality awareness we represent Pegasus in corporate sports competitions by all-female teams such as the Pegasus Female Sailing Team.

We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <https://www.flypgs.com/en/careers>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>
- <https://weps-gapanalysis.org/>
- <http://web.shgm.gov.tr/tr/shgm-calisma-gruplari/5771-sivil-havacilik-genel-mudurlugu-toplumsal-cinsiyet-dengesi-gelistirme-komisyonu>
- <https://www.iata.org/en/policy/future-of-airlines-2035/25-by-2025/>

3.3. Precautions adopted across the value chain to ensure the rights of/equal opportunity for certain groups exposed to economic, environmental, social factors (persons with low income, women, etc.) or minorities.

Our commitments in this area are explained in Section 3.2 above.

3.4. Improvements on preventive and corrective actions on discrimination, inequality, human rights violations and forced labor are reported. Regulations on the prevention of child labor are disclosed.

Our actions in this area are covered in various sections of the Pegasus Human Resources Policy and Pegasus Ethical Behavior Guide and general information on our activities is reported in our annual activity reports. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

3.5. Investment in employees (training, development policies), indemnity, side benefits, unionization right, private/business life balance solutions and talent management policies are disclosed. Dispute resolution mechanisms to solve employee complaints and disagreement are formed. Actions for achieving employee satisfaction are regularly reported.

Pegasus Academy, operating within the scope of our Human Resources Department has been formed as a key training and development platform for the personal, managerial and professional development of all our employees. Pegasus Academy is pursuing its activities to this goal since 2015. Our employee's indemnification and similar statutory rights are secured by Company policies including the Pegasus Compensation and Indemnification Policy and the Pegasus Human Resources Policy. Talent management, side benefits, protection of employees' personal rights, ethical behavior rules, transparent communication and complaint mechanisms are regulated under various other Human Resources procedures and in the Pegasus Ethical Behavior Guide. General information on our activities is reported in our annual activity reports. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

3.6. Workplace health and safety policies are formed and published. Precautions to prevent accidents and to protect workplace health and accident statistics are published.

Pegasus holds ISO 45001:2018 Workplace Health and Safety Management System certificate. Our Workplace Health and Safety Policy is publicly available. Company-wide workplace accidents and preventive actions, measures, accident statistics are reported to senior management on a monthly basis. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <https://www.flypgs.com/en/about-pegasus/authorisation-and-certificates>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

3.7. Personal data protection and information security policies are formed and disclosed.

Pegasus commits to the protection of personal data and ensuring data security at the highest level through the Pegasus Information Security Policy. Efforts in these areas are coordinated by the Legal and Information Technologies Departments and subject to extensive Company-wide regulations. Pegasus formed working groups such as Personal Data Protection Committee and Corporate Cyber Incidents Response Team to address issues such as protection of personal data, information security and business continuity. Pegasus participates in the aviation-specific cybersecurity studies as part of a TDGCA-led task force. Since 31.12.2018, Pegasus discloses its registry records relating to personal data protection aspects on the Data Controllers Registry (VERBIS) of the Turkish Data Protection Authority as per the provisions of the Law No. 6698 on the Protection of Personal Data.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <http://web.shgm.gov.tr/tr/s/5209-kurumsal-siber-olaylara-mudahale-ekipleri-ile-ilgili-genel-mudurlugumuz-genelgesi-revize-edilmistir>
- <https://verbis.kvkk.gov.tr/>

3.8. Ethical policy is formed (workplace and work ethics, compliance obligations, advertisement and marketing ethics, information rights, etc.) and disclosed.

We have adopted the Pegasus Ethical Behavior Guide to manage ethics compliance. Relying on this document, an efficient ethical governance if functioning under the direct supervision of the Audit Committee reporting to the Board of Directors. General information on our activities is reported in our annual activity reports.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

3.9. Community investment, social responsibility, financial inclusiveness and financial access efforts are disclosed.

Pegasus engages in community investment and social responsibility and regularly reports its efforts in this area. These efforts are carried out in accordance with the Pegasus Donations and Charitable Contributions Policy adopted by the Shareholders' General Assembly and the Pegasus Corporate Social Responsibility Policy adopted by the Board of Directors. In addition to the efforts described in Section 3.2 above, through initiatives such as the "We're Flying to the Future" project where we collaborate with a foundation operating at national level to address complex social issues (*Sivil Toplum İçin Destek Vakfı*) we assume social responsibility especially in the areas of education, health, solidarity and civil aviation.

References:

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

3.10. Employees are informed of ESG policies and actions through informative meetings and training programs.

Through training and development programs planned at Pegasus Academy and awareness campaigns, our employees are informed of ESG policies and actions. In 2020, 55,566 trainings were provided in total to our employees, through 21 online and class training programs, on flight safety, environment, information security, ethics compliance and COVID-19 measures. Awareness actions were carried out on the same subjects through online announcements and teasers. Workplace health and safety related specific training and awareness activities were given special focus in 2020 at a time when the COVID-19 outbreak had significant impact on workplace conditions and flight operations.

B. Stakeholders, International Standards and Initiatives

3.11. Sustainability activities are carried out considering the needs and priorities of all stakeholders (employees, customers, suppliers, service providers, public institutions, shareholders, NGOs, etc.).

Pursuant to the Pegasus Ethical Behavior Guide, Pegasus commits to honest, respectful, fair and trustful behavior based on reason, conscience and common sense when interacting with employees, passengers, customers, suppliers and other persons and entities we work and interact with. We believe that everyone has the right to fly and we carry out our activities with all our people, suppliers and business partners for this mission. In line with this mission, we receive feedback from our employees regarding Company processes concerning them and from our passengers and customers through satisfaction surveys and other customer interaction tools.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/policies>
- <https://www.flypgs.com/en/write-to-us>
- <https://www.flypgs.com/en/contact/headquarters>

3.12. Customer complaints management and solutions are governed by and disclosed through a customer satisfaction policy.

Pegasus regularly measures customer satisfaction and has adopted customer satisfaction among management performance indicators. Pegasus implements a "low-cost" business model through an innovative, rational, principled and responsible approach. In this context Pegasus offers its customers a measurable satisfaction. In the last two years, Pegasus received national and international awards on customer experience, brand image and services and improved overall customer satisfaction compared to the previous year. We describe our efforts in this area and the awards received in Sections 3 (*Research & Development Activities*) and Section 7A (*Stakeholder Initiatives*) of our annual activity reports. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>

3.13. Stakeholder communication is constantly carried out in a transparent manner. Stakeholders communicated with, purposes for and scope and frequency of communication and any improvements on sustainability activities are disclosed.

Our actions in this area are explained in Section 4.3 below.

3.14. International reporting standards adopted (Carbon Disclosure Project – CDP, Global Reporting Initiative – GRI, International Integrated Reporting Council – IIRC, Sustainability Accounting Standards Board – SASB, Climate Related Financial Disclosure Task Force – TCFD, etc.) are disclosed.

Pegasus carried out Carbon Disclosure Project (CDP) reporting in 2017, 2018 and 2019.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>

3.15. Subscribed organizations or principles (Equator Principles, United Nations Environment Program Finance Initiative – UNEP-FI, United Nations Global Compact – UNGC, United Nations Responsible Investment Principles – UNPRI, etc.), adopted international principles (International Capital Markets Association ICMA Green/Sustainable Bonds Principles, etc.) are disclosed.

Pegasus is the first Turkish airline to sign the United Nations Global Compact. Thus, we committed to comply with the ten principles relating to human rights, working standards, environmental sensitivity and fight against corruption. Platforms where we actively participate in the area of gender equality are detailed in Section 3.2 above.

References:

- <https://www.globalcompactturkiye.org/10-ilke/>

- <https://www.flypgs.com/basin-bultenleri/pegasus-hava-yollari-bm-kuresel-ilkeler-sozlesmesine-imza-atti#:~:text=Pegasus%20Hava%20Yollar%C4%B1%2C%20Birle%C5%9Fmi%C5%9F%20Milletler,%C4%B0Ike'ye%20uyaca%C4%9F%C4%B1n%C4%B1%20taahh%C3%BCt%20etti.>

3.16. Solid efforts are made to take part in the Borsa Istanbul Sustainability Index and international sustainability indices (Dow Jones Sustainability Index, FTSE4Good, MSCI ESG Indices, etc.).

Pegasus is represented in the BIST Corporate Governance Index permanently since 2013 and in the BIST Sustainability Index between 2016-2019. In 2019, our Corporate Governance Committee, considering the Company's future obligations in connection with CORSIA, initiated works for a comprehensive sustainability compliance framework going forward. As part of these works, Pegasus was readmitted to the BIST Sustainability Index in 2020.

References:

- <https://www.borsaistanbul.com/en/sayfa/2202/corporate-governance-index>
- <https://www.borsaistanbul.com/en/sayfa/2227/bist-sustainability-index>

4. CORPORATE GOVERNANCE PRINCIPLES

4.1. Maximum effort is made to comply with the non-mandatory Corporate Governance Principles of the Turkish Capital Markets Board Corporate Governance Communiqué No. II-17.1.

Following the initial public offering of our shares in April 2013, Pegasus achieved full compliance with the mandatory Corporate Governance Principles published by the Turkish 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 2020, our Corporate Governance Compliance Rating reached 96.30%. Detailed information on corporate governance compliance is provided in Corporate Governance Compliance Form (URF) and Corporate Governance Information Form (KYBF). We provide information on current actions for all principles, including those with which we fully comply.

References:

- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>

4.2. Sustainability, environmental impact of activities and principles relating thereto are taken into consideration when determining corporate governance strategy.

We consider sustainability, environmental impact of our activities and principles relating thereto when determining our corporate governance strategy. As such, CDP and similar environmental studies as well as many initiatives under the social and corporate governance aspects were carried out starting from the initial public offering of our shares in 2013 and developed over the course of the years. Pegasus is represented in the BIST Corporate Governance Index permanently since 2013 and in the BIST Sustainability Index between 2016-2019. In 2019, our Corporate Governance Committee, considering the Company's future obligations in connection with CORSIA, initiated works for a comprehensive sustainability compliance framework going forward. As part of these works, Pegasus was readmitted to the BIST Sustainability Index in 2020 while Pegasus Sustainability Working Group assumed the role of coordinating efforts on policy making, strategy development, organization, targets, measurement and reporting.

References:

- <https://www.borsaistanbul.com/en/sayfa/2202/corporate-governance-index>
- <https://www.borsaistanbul.com/en/sayfa/2227/bist-sustainability-index>

4.3. Necessary measures are taken to comply with the Corporate Governance Principles regarding stakeholders and to strengthen communication with stakeholders. Stakeholders' views are sought regarding sustainability measures and strategy development.

Our compliance with the Corporate Governance Principles regarding stakeholders and measures to strengthen communication with stakeholders are publicized through our corporate governance compliance statement annexed to our annual activity reports and the additional information provided in the linked Corporate Governance Compliance Form (URF) and Corporate Governance Information Form (KYBF). In 2020, our Corporate Governance Compliance on stakeholders was rated as 96.98%. Communication of our sustainability actions are carried out with our stakeholders in a transparent manner. We are considering a further integrated reporting on this matter in 2021 and beyond.

Furthermore, pursuant to the Pegasus Ethical Behavior Guide, Pegasus commits to honest, respectful, fair and trustful behavior based on reason, conscience and common sense when interacting with employees, passengers, customers, suppliers and other persons and entities we work and interact with. We believe that everyone has the right to fly and we carry out our activities with all our people, suppliers and business partners for this mission. In line with this mission, we receive feedback from our employees regarding Company processes concerning them and from our passengers and customers through satisfaction surveys and other customer interaction tools.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>
- http://www.pegasusinvestorrelations.com/medium/image/rules-of-business-ethics_136/view.aspx

4.4. *Efforts are made to increase awareness on social responsibility projects and sustainability through training and awareness activities.*

Communication of our sustainability actions are carried out with our stakeholders in a transparent manner. Part of this communication is carried out in the form of awareness activities aimed at our employees, and Company-wide and professional training and development programs. We are considering a further integrated reporting on this matter in 2021 and beyond.

References:

- <http://www.pegasusinvestorrelations.com/en/corporate-governance/sustainability>
- <http://www.pegasusinvestorrelations.com/en/operational-information/annual-reports>
- <http://www.pegasusinvestorrelations.com/en/corporate-governance/corporate-governance-rating>
- http://www.pegasusinvestorrelations.com/medium/image/rules-of-business-ethics_136/view.aspx

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

