



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN
JANUARY 1 – SEPTEMBER 30, 2018
NOVEMBER 9, 2018

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PEGASUS

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – SEPTEMBER 30, 2018

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2018 – September 30, 2018
Commercial Title : Pegasus Hava Taşımacılığı A.Ş.
Trade Registration : Istanbul Trade Registry / 261186
Headquarters : Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı, No: 11/A
Kurtköy 34912 Pendik / Istanbul
Contact Information : Telephone. +90 216 560 7000
Corporate Website. www.flypgs.com
Investor Relations Website.
<http://www.pegasusinvestorrelations.com>

B- CAPITAL, SHAREHOLDING AND ORGANIZATION STRUCTURE OF PEGASUS

Pegasus has an issued capital of TL 102,272,000, within the authorized capital ceiling of TL 500,000,000. Information on the capital and shareholding structure of Pegasus as of January 1, 2018 and September 30, 2018, respectively, is shown in the table below.

	<u>January 1, 2018</u>		<u>September 30, 2018</u>	
	<i>Number of</i>	<i>Shareholding</i>	<i>Number of</i>	<i>Shareholding</i>
<i>Shareholder</i>	<i>Shares</i>	<i>Ratio</i>	<i>Shares</i>	<i>Ratio</i>
Esas Holding A.Ş. ("Esas Holding")	64,353,570	62.92%	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%	35,294,000	34.51%
Emine KAMIŞLI	874,810	0.86%	874,810	0.86%
Ali İsmail SABANCI	874,810	0.86%	874,810	0.86%
Kazım KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Can KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Total	102,272,000	100%	102,272,000	100%

In addition to the above, our ultimate real person shareholders and their respective direct and indirect shareholding in Pegasus, as of January 1, 2018 and September 30, 2018 are as follows.

<i>Shareholder</i>	<u>January 1, 2018</u>	<u>September 30, 2018</u>
	<i>Shareholding Ratio</i>	<i>Shareholding Ratio</i>
Şevket SABANCI and Family	65.49%	65.49%
Publicly Traded	34.51%	34.51%
Total	100%	100%

As of September 30, 2018, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket SABANCI and his family and as of September 30, 2018 has investments in the aviation and transportation, retail and entertainment, healthcare, food and real estate sectors in and outside of Turkey. Esas Holding is fully owned by Şevket SABANCI and the members of his family.

Our Company's management organization chart as of September 30, 2018 is provided in Section (1/D) of this Report.

C- INFORMATION ON BUSINESS ACTIVITIES

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

Pegasus focuses on providing high-frequency services on short- and medium-haul, point-to-point and transit routes on its domestic and international network primarily from its main hub in Istanbul Sabiha Gökçen International Airport. Pegasus also offers scheduled flights from other domestic hubs, primarily in Adana, Ankara, Antalya and İzmir. As of the date of this Report, Pegasus offers scheduled passenger services on 37 domestic routes in Turkey and 71 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 108 destinations in 40 different countries.

Pegasus also offers various services ancillary to the core air passenger services and generates revenue through the provision of these services, including pre-order and in-flight sales of beverages and food, sales of duty-free items on board international flights, excess baggage, reservation change and cancellation fees, airport check-in and seat selection fees. In the first nine months of 2018, the revenue recorded from ancillary services constituted 23 % of total revenue for the period, while ancillary revenue increased by 71% in same period 2017.

In addition to the above, Pegasus derives revenue from other services, primarily consisting of cargo services and a relatively low volume of charter and split charter flights for tour operators and cargo services, which represented 7% of total revenue in the first nine months of 2018.

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

a)- Management Body: The management body of Pegasus is the Board of Directors. As of September 30, 2018, the Board of Directors consisted of seven members. The identity, duty and term of office of each Director are indicated in the following chart.

<u>Name / Surname</u>	<u>Duty</u>	<u>Term of Office</u>
Ali İsmail SABANCI	Chairman of the Board	April 4, 2018 – 2018 GA ⁽¹⁾
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairman of the Board	April 4, 2018 – 2018 GA ⁽¹⁾
Sertaç HAYBAT	Non-Executive Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Mehmet Cem KOZLU	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Saad Hassan HAMMAD	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Hatice Zeynep Bodur OKYAY	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Stephen Mark GRIFFITHS	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Michael Glyn POWELL	Non-Executive Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
⁽¹⁾ Appointed for a term of one year at the Annual General Assembly Meeting dated April 4, 2018.		

b)- Senior Management: Pegasus senior management comprises the General Manager and executives directly reporting to the General Manager. Information on Pegasus senior management and their duties as of September 30, 2018 is provided in the following chart.

<u>Name / Surname</u>	<u>Duty</u>
Mehmet NANE	President & General Manager (CEO)
Güliz ÖZTÜRK	Chief Commercial Officer
Nasuh Nazif ÇETİN	Chief Operations Officer
Reha ÖZDEMİR	Chief Flight Operations Officer ¹

M. Barbaros KUBATOĞLU	Chief Financial Officer
Aydın YUMRUTAŞ	Chief Flight Academy Officer
Barış FINDIK	Chief Information Technologies Officer
Boğaç UĞURLUTEĞİN	Senior Vice-President, Ground Handling
Dilara OĞUR	Chief Human Resources Officer
Ergün DEMİRCİ	Senior Vice-President, Technic
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer
Tayfun BORA	Security Manager
¹ Reha ÖZDEMİR resigned from his duty as Chief Flight Operations Officer effective as of September 2, 2018 and is succeeded by Nedim ÖZESEN effective as of November 1, 2018. The appointment is subject to the approval of the Turkish Directorate General of Civil Aviation.	

c)- Number of Employees: The total number of full-time employees of Pegasus and its consolidated subsidiaries defined in Section (1/E) of this Report, as of September 30, 2018 was 5.637. This number covers the members of our senior management listed above.

There is no employee 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.

E- 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 September 30, 2018. As of September 30, 2018, Pegasus did not have any indirect subsidiaries or joint ventures.

Commercial Title	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share Percentage	Affiliation with Pegasus
Air Manas Air Company LLC (" Air Manas ")	Kyrgyzstan / Scheduled and unscheduled air transportation	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary
IHY İzmir Havayolları A.Ş. (" IzAir ")	Turkey / Scheduled and unscheduled air transportation	TL 59,500,000	TL 58,681,833	98.63%	Subsidiary
Pegasus Havacılık Teknolojileri ve Ticaret A.Ş. (" PAT ")	Turkey / Simulated flight training	TL 100,000	TL 100,000	100.00%	Subsidiary
Pegasus Uçuş Eğitim Merkezi A.Ş. (" PUEM ")	Turkey / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture/ Associate
Hitit Bilgisayar Hizmetleri A.Ş. (" Hitit Bilgisayar ")	Information Technologies Solutions	TL 200,000	TL 100,000	50.00%	Joint Venture/ Associate

2- FINANCIAL STATUS

A- 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 September 30, 2018 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		30.09.2018	30.09.2017	Growth (%)	30.09.2018	30.09.2017	Growth (%)	30.09.2018
B737-400	3,148	1	1	0%	168	168	0%	20,05
B737-800	4,360	48	53	-9%	9,072	10,017	-9%	7,65
Airbus A320CEO	3,300	12	12	0%	2,172	2,172	0%	4,59
Airbus A320NEO	3,700	22	11	100%	4,092	2,046	100%	1,16
TOPLAM		83	77	8%	15,504	14,403	8%	5,72

In July 2012, Pegasus placed an order with Airbus for 57 firm order A320neo and 18 firm order A321 neo aircraft, totaling 75, and an additional 25 optional aircraft, thereby constituting a purchase order for 100 new aircraft. As of December 31, 2017, 15 A320neo aircraft had joined Pegasus fleet. Pegasus is the first customer of CFM-Leap series engine used on A320neo 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.

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

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

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

Operational and financial results of Pegasus for the period between January 1 – September 30, 2018 compared against the same period in 2017 and the year-over-year changes for the relevant line items are set out in the following charts:

		Jan.-Sep. 2018	Jan.-Sep. 2017	Change (%)
Total	Number of Passengers (mn)	23,06	20,78	11,0
	Cycle	144.444	133.221	8,4
	Number of Seats (mn)	26,72	24,65	8,4
	Load Factor <i>pp</i>	86,3	84,3	2,0
	ASK ⁽¹⁾ (mn km)	26.918	24.790	8,6
	Passengers per Cycle	160	156	2,3
	Utilization (Block Hours) ⁽²⁾	12,9	12,1	6,3
Domestic	Number of Passengers (mn)	13,68	12,46	9,8
	Cycle	82.159	76.530	7,4
	Number of Seats (mn)	15,34	14,32	7,2
	Load Factor <i>pp</i>	89,2	87,1	2,5
	ASK (mn km)	9.257	8.657	6,9
	Passengers per Cycle	167	163	2,3
International	Number of Passengers (mn)	8,83	7,88	12,1
	Cycle	58.842	53.887	9,2
	Number of Seats (mn)	10,78	9,85	9,4
	Load Factor <i>pp</i>	81,9	80,0	2,0
	ASK (mn km)	16.579	15.358	8,0
	Passengers per Cycle	150	146	2,6
Charter	Number of Passengers (mn)	0,54	0,44	23,5
	Cycle	3.443	2.804	22,8
	Number of Seats (mn)	0,60	0,48	25,0
	ASK (mn km)	1.082	776	39,5

⁽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.

Pegasus Financial Results for the Period January 1 - September 30, 2018

Summary Balance Sheet (thousand TL)	30.09.2018	31.12.2017	Change (%)
Current assets	5.490.305	3.096.832	77%
Fixed assets	10.014.816	4.991.239	101%
Total assets	15.505.121	8.088.071	92%
Short-term liabilities	3.120.106	1.863.751	67%
Long-term liabilities	7.856.186	3.739.682	110%
Shareholders' equity	4.528.829	2.484.638	82%
Summary P&L (thousand TL)	30.09.2018	30.09.2017	Change (%)
Sales income	6.243.781	4.162.118	50%
Gross profit	1.273.181	763.180	67%
Income/(loss) from operations	781.697	556.171	41%
Operating income/(loss) before financial expense	818.929	702.018	17%
Income before tax	735.772	638.328	15%
Net income for the period	643.395	492.162	31%
Income per share	0,0063	0,0048	31%
Changes in Financial Position (thousand TL)	30.09.2018	31.12.2017	Change (%)
Cash and cash equivalents	3.436.660	1.988.110	73%
Financial liabilities	7.316.815	3.608.480	103%
Net debt position ⁽¹⁾	3.880.156	1.620.370	139%

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

C- FINANCING SOURCES AND CAPITAL MARKETS INSTRUMENTS ISSUED BY PEGASUS

Pegasus finances approximately 85% of the purchase price for the aircraft acquired by way of financial lease through loans obtained from various banks. As of September 30, 2018, the outstanding balance of the total loans borrowed for the financing of 38 aircraft acquired by way of financial lease is TL 6.745.530.624.

Furthermore, as of September 30, 2018, Pegasus and its subsidiaries had drawn TL 575.059.202 on cash loans and TL 1.595.431.726 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.

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

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

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

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

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

3- OTHER MATTERS

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

Our Board of Directors resolved on the acquisition by merger of İHY İzmir Havayolları Anonim Şirketi, with a capital of TL 59,500,000, in which the Company holds a 98.63% stake corresponding to shares with a total nominal value of TL 58,681,832.63, by the Company, with all its assets and liabilities and in accordance with the simplified merger method prescribed in

the relevant provisions of the Capital Markets Law No. 6362, the Merger and Demerger Communiqué No. II-23.2 of the Capital Markets Board, the Turkish Commercial Code No. 6102 and the Corporate Tax Law No. 5520; and on the filing of the necessary applications with the General Directorate of Civil Aviation and the Capital Markets Board for the contemplated merger. Company management is authorized to undertake all transactions necessary in connection with the said applications. The proposed merger was approved by the General Directorate of Civil Aviation on September 19, 2018 and the notice for the merger was approved by the Capital Markets Board on November 8, 2018. The merger will become effective upon registration with the relevant Trade Registries following final approval by the Board of Directors of each entity party to the merger.

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

None.