



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

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PEGASUS

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INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – MARCH 31, 2018

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2018 – March 31, 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 March 31, 2018, respectively, is shown in the table below.

	<u>January 1, 2018</u>		<u>March 31, 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 eon shareholders and their respective direct and indirect shareholding in Pegasus, as of January 1, 2018 and March 31, 2018 are as follows.

	<u>January 1, 2018</u>	<u>March 31, 2018</u>
	<i>Shareholding Ratio</i>	<i>Shareholding Ratio</i>
<i>Shareholder</i>		
Emine KAMIŞLI	%13.44	%13.44
Ali İsmail SABANCI	%13.44	%13.44
Şevket SABANCI	%10.34	%10.34
Zerin SABANCI	%10.34	%10.34
Kazım KÖSEOĞLU	%7.47	%7.47
Can KÖSEOĞLU	%7.47	%7.47
Fethi Ali KAMIŞLI	%0.75	%0.75
Kerem KAMIŞLI	%0.75	%0.75
Emrehan Şevket SABANCI	%0.75	%0.75
Kaan Ali SABANCI	%0.75	%0.75
Publicly Traded	%34.51	%34.51
Total	%100	%100

As of March 31, 2018, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket SABANCI and his family and as of March 31, 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 March 31, 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 March 31, 2018, Pegasus offered scheduled passenger services on 36 domestic routes in Turkey and 72 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 three months of 2018, the revenue recorded from ancillary services constituted 28% of total revenue for the period, while ancillary revenue increased by 50% 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 wetlease revenue, which represented 4% of total revenue in the first three 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 March 31, 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	March 31, 2017 - 2017 GA ⁽¹⁾
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairman of the Board	March 31, 2017 - 2017 GA ⁽¹⁾
Sertaç HAYBAT	Non-Executive Board Member	March 31, 2017 - 2017 GA ⁽¹⁾
Mehmet Cem KOZLU	Independent Board Member	March 31, 2017 - 2017 GA ⁽¹⁾
Saad Hassan HAMMAD	Independent Board Member	March 31, 2017 - 2017 GA ⁽¹⁾
Hatice Zeynep Bodur OKYAY	Independent Board Member	March 31, 2017 - 2017 GA ⁽¹⁾
Stephen Mark GRIFFITHS	Independent Board Member	March 31, 2017 - 2017 GA ⁽¹⁾
⁽¹⁾	Re-appointed for a term of one year at the Annual General Assembly Meeting dated April 4, 2018. At the same meeting, Michael Glyn POWELL was also appointed as a non-executive Board Member for the same period.	

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 March 31, 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
M. Barbaros KUBATOĞLU	Chief Financial Officer
Aydın YUMRUTAŞ	Chief Flight Academy Officer (Acting)
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

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 March 31, 2018 was 5,438. 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 March 31, 2018. As of March 31, 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 March 31, 2018 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		31.03.2018	31.03.2017	Growth (%)	31.03.2018	31.03.2017	Growth (%)	31.03.2018
B737-400	3.148	1	1	0%	168	168	0%	19,91
B737-800	4.360	46	60	-30%	8.694	11.340	-30%	7,51
Airbus A320CEO	3.300	12	12	0%	2.172	2.172	0%	4,00
Airbus A320NEO	3.700	17	9	47%	3.162	1.674	47%	0,89
TOPLAM		76	82	-8%	14.196	15.354	-8%	5,70

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 March 31, 2017, 17 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

In addition to A320neo/A321neo order, in 2016 Pegasus had placed an order with Boeing for the purchase of five new B737-800NG aircraft. The remaining three aircraft under this order will be delivered in July 2018. Based on estimated list prices at the date of delivery (excluding price and payment term concessions but take into consideration the Company's expectation of applicable escalation adjustments and aircraft configurations), the Company's expected capital expenditures relating to these three aircraft amounts to approximately USD 303 million.

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

Operational and financial results of Pegasus for the period between January 1 – March 31, 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.-Mar. 2018	Jan.-Mar. 2017	Change (%)
Total	Number of Passengers (mn)	6,79	5,76	18,0
	Cycle	43.360	38.436	12,8
	Number of Seats (mn)	8,03	7,12	12,9
	Load Factor	<i>pp</i> 84,5	80,9	3,6
	ASK ⁽¹⁾ (mn km)	7.675	6.993	9,8
	Passengers per Cycle	157	150	4,6
	Utilization (Block Hours) ⁽²⁾	12,2	10,9	11,8
Domestic	Number of Passengers (mn)	4,28	3,63	18,0
	Cycle	26.349	22.712	16,0
	Number of Seats (mn)	4,92	4,25	16,0
	Load Factor	<i>pp</i> 87,0	85,5	1,8
	ASK (mn km)	3.024	2.610	15,9
	Passengers per Cycle	163	160	1,7
International	Number of Passengers (mn)	2,46	2,11	16,5
	Cycle	16.591	15.532	6,8
	Number of Seats (mn)	3,05	2,85	7,3
	Load Factor	<i>pp</i> 80,4	74,1	6,4
	ASK (mn km)	4.577	4.345	5,3
	Passengers per Cycle	148	136	9,1
Charter	Number of Passengers (mn)	0,05	0,02	154,7
	Cycle	420	192	118,8
	Number of Seats (mn)	0,06	0,02	138,4
	ASK (mn km)	73	38	93,5

⁽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 - March 31, 2018

Summary Balance Sheet (thousand TL)	31.03.2018	31.12.2017	Change (%)
Current assets	3.457.747	3.096.832	12%
Fixed assets	5.656.494	4.991.239	13%
Total assets	9.114.241	8.088.071	13%
Short-term liabilities	2.364.345	1.863.751	27%
Long-term liabilities	4.229.494	3.739.682	13%
Shareholders' equity	2.520.403	2.484.638	1%
Summary P&L (thousand TL)	31.03.2018	31.03.2017	Change (%)
Sales income	1.194.745	885.822	35%
Gross profit	(42.261)	(144.634)	-71%
Income/(loss) from operations	(113.151)	(202.059)	-44%
Operating income/(loss) before financial expense	(108.671)	(200.318)	-46%
Income before tax	(136.109)	(227.160)	-40%
Net income for the period	(113.619)	(206.416)	-45%
Income per share	(0,0011)	(0,0020)	-45%
Changes in Financial Position (thousand TL)	31.03.2018	31.12.2017	Change (%)
Cash and cash equivalents	2.050.967	1.988.110	3%
Financial liabilities	4.209.908	3.608.480	17%
Net debt position ⁽¹⁾	2.158.941	1.620.370	33%

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

C- FINANCING SOURCES AND CAPITAL MARKETS INSTRUMENTS ISSUED BY PEGASUS

Pegasus finances approximately 85% of the purchase price for the aircraft acquired by way of financial lease through loans obtained from various banks. As of March 31, 2018, the outstanding balance of the total loans borrowed for the financing of 30 aircraft acquired by way of financial lease is TL 3.452.579.557.

Furthermore, as of March 31, 2018, Pegasus and its subsidiaries had drawn TL 700.929.749 on cash loans and TL 1.283.761.953 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

The Annual General Assembly Meeting of our Company was held on April 4, 2018. Results of the meeting were published on the same day through the Public Disclosure Platform and Pegasus Investor Relations Website (www.pegasusinvestorrelations.com). Following decisions were adopted at the General Assembly Meeting:

- 1) Annual Activity Report, Independent Auditor's Report and the Financial Statements relating to the year 2017 were approved by majority of the attending shareholders;
- 2) The release of each member of the Board of Directors with respect to the Company's transactions in 2017 was approved by majority of the attending shareholders;
- 3) By the vote of majority of the attending shareholders, the Company's profit for 2017 will not be distributed and will be deducted from the Company's previous years' losses;
- 4) Amendment of Article 6 of the Company Articles of Association as proposed by the Board of Directors was approved by majority of the attending shareholders;
- 5) Ali İsmail SABANCI, Hüseyin Çağatay ÖZDOĞRU, Sertaç HAYBAT, Michael Glyn POWELL, Mehmet Cem KOZLU, Saad Hassan HAMMAD, Hatice Zeynep Bodur OKYAY and Stephen Mark GRIFFITHS were appointed as members of the Board of Directors for one year until the Annual General Assembly Meeting for the year 2018 by the vote of majority of the attending shareholders.
- 6) Honorarium and Committee payments proposed by the Corporate Governance Committee and the Board of Directors for Non-Executive Board Members was approved by majority of the attending shareholders;
- 7) Authorization of the members of the Board of Directors to enter into transactions within the scope of Articles 395 and 396 of the Turkish Commercial Code was approved by majority of the attending shareholder;

- 8) Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (member of Ernst & Young Global Limited) was appointed as the Company's independent auditor for 2018 by the vote of majority of the attending shareholders;
- 9) The maximum ceiling for donations and charitable contributions to be made in 2018 by the Company was determined as TL 5.000.000 TL by a unanimous vote of the attending shareholders;
- 10) As part of the information items on the meeting agenda the necessary information was provided to the shareholders and questions to be responded in writing will be separately replied within the response time provided in the law.

Following the appointment of our Board of Directors at the Annual General Assembly Meeting held on April 4, 2018, the duty allocation and composition for the Board Committees were determined as follows.

Chairman of the Board – Ali İ. SABANCI

Vice-Chairman of the Board – H. Çağatay ÖZDOĞRU

Audit Committee

Chairman – M. Cem KOZLU

Member – Saad H. HAMMAD

Corporate Governance Committee (also acting as Nomination and Compensation Committee)

Chairman – Stephen M. GRIFFITHS

Members – M. Cem KOZLU, Michael G. POWELL, H. Nur KARABACAK (IR Manager)

Committee on the Early Detection of Risks

Chairman – Saad H. HAMMAD

Members – Sertaç HAYBAT, İnan TANRIÖVER

Safety Committee

Chairman – Sertaç HAYBAT

Members – M. Cem KOZLU, Mehmet T. NANE

On April 24, 2018, in addition to the Company's fleet plan presented in the investor presentation for 2017Q4, the Board of Directors resolved on the dry-lease of three A320neo aircraft to be delivered in 2019 following production by Airbus S.A.S. and for a period of 10 years. The Company expects that the delivery of all three aircraft will be finalized within the first quarter of 2019.

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

None.