



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN JANUARY 1 – JUNE 30, 2019

AUGUST 8, 2019

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(Convenience translation of a report and condensed consolidated financial statements originally issued in Turkish)

Review Report On Compliance Of Interim Operating Report

To the Board of Directors of Pegasus Hava Taşımacılığı Anonim Şirketi

We have been engaged to perform a review on the compliance of the financial information included in the accompanying interim operating report of Pegasus Hava Taşımacılığı Anonim Şirketi (the Company) and its subsidiaries (the Group) as of June 30, 2019, with the interim condensed consolidated financial statements, which we reviewed. Interim operating report is the responsibility of the Group management. Our responsibility as the auditors is to express a conclusion regarding if the financial information included in the accompanying interim operating report is consistent with the interim condensed consolidated financial statements and explanatory notes, which we reviewed as the subject of the review report dated 8 August 2019.

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial information included in the accompanying interim operating report is not consistent, in all material respects, with the information disclosed in the interim condensed consolidated financial statements and explanatory notes, which we reviewed.

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



Sinem Arı Öz, SMMM
Partner

8 August 2019
İstanbul, Türkiye

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD JANUARY 1 – JUNE 30, 2019

This Report is prepared in accordance with the Regulation on the Determination of the Minimum Content of Company Interim Reports published by the Turkish Ministry of Commerce, the Financial Reporting in Capital Markets Communiqué No. II-14.1, the Corporate Governance Communiqué No. II-17.1 and the Corporate Governance Principles published by the Turkish Capital Markets Board and other applicable provisions of Turkish law.

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

- **“Air Manas”** refers to Air Manas Air Company LLC, a consolidated subsidiary of Pegasus.
- **“Board”** or **“Board of Directors”** refers to the Pegasus Board of Directors.
- **“Company”** or **“Pegasus”** refers to Pegasus Hava Taşımacılığı A.Ş., more fully described in Section 1/A of this Report.
- **“Esas Holding”** refers to Esas Holding A.Ş., the controlling shareholder of Pegasus.
- **“Hitit CS”** refers to Hitit Bilgisayar Hizmetleri A.Ş., a joint venture affiliate of Pegasus.
- **“PFTC”** refers to Pegasus Uçuş Eğitim Merkezi A.Ş., a joint venture affiliate of Pegasus.
- **“PHT”** refers to Pegasus Havacılık Teknolojileri ve Ticaret A.Ş., a 100% owned subsidiary of Pegasus.
- **“Principles”** refers to the Corporate Governance Principles published by the Turkish Capital Markets Board.
- **“Report”** refers to this Annual Report of the Pegasus Board of Directors.

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2019 – June 30, 2019
Commercial Title : Pegasus Hava Taşımacılığı A.Ş.
Trade Registration : Istanbul Trade Registry / 261186
Headquarters : Aeropark, Yenışehir Mahallesi, Osmanlı Bulvarı, No: 11/A
Kurtköy 34912 Pendik / Istanbul
Contact Information : Telephone. +90 216 560 7000
Corporate Website. www.flypgs.com
Investor Relations Website.
<http://www.pegasusinvestorrelations.com>

B- 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, 2019 and June 30, 2019, respectively, is shown in the table below.

Shareholder	January 1, 2019		June 30, 2019	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Esas Holding A.Ş.	64,353,570	62.92%	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%	35,294,000	34.53%
- Publicly Traded Shares Prior to IzAir Merger	35,294,000	34.51%	35,294,000	34.50%
- Shares issued for IzAir Merger	-	-	27,707	0.03%
Emine KAMIŞLI	874,810	0.86%	874,810	0.86%
Ali İsmail SABANCI	874,810	0.86%	874,810	0.86%
Kazım KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Can KÖSEOĞLU	437,405	0.43%	437,405	0.43%
Total	102,272,000	100%	102,299,707	100%

As of June 30, 2019, 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 June 30, 2019 has investments in the aviation, retail and entertainment, manufacturing, food, pharmaceuticals, education 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 June 30, 2019 is provided in Section 1/E of this Report.

C- 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 in Turkey and focused on providing affordable and on-time air travel service with a young fleet.

As a result of the successful implementation of this low-cost strategy, Pegasus experienced rapid expansion of its operations both in domestic and international routes. Between 2009 and 2018, Pegasus' cumulative average annual passenger growth more than doubled Turkish market's 11% CAGR and reached 26%. Pegasus also became the fastest growing airline among the 25 largest European airlines in terms of seat capacity in 2011, 2012 and 2013 according to the Official Airline Guide (OAG). With a growing, young and modern fleet of 81 aircraft with 5.7 average aircraft age as of June 30, 2019, 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 June 30, 2019, Pegasus offered scheduled passenger services on 35 domestic routes in Turkey and 75 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 110 destinations in 42 different countries.

Pegasus' business model is based on a strong focus on efficient operations and cost control, and revenue generation through various services ancillary to the core air passenger services.

As of June 30, 2019, the Company's CASK, non-fuel was recorded as €c 2.33, while revenue recorded from ancillary services constituted 29 % of total revenue for the period. As of June 30, 2019, Pegasus continued to derive revenue from other services, primarily consisting of charter and split charter flights for tour operators, which represented 3% of total revenue for the period.

D- 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.

E- 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. As of June 30, 2019, the Board of Directors consisted of eight members.

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

Name / SURNAME	Duty	Serves Since ⁽¹⁾	Committee Duties
Ali İsmail SABANCI	Chairperson of the Board	2005	-
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairperson of the Board	2006	-
Sertaç HAYBAT	Non-Executive Board Member	2005	Chair, Safety Comm. Member, Risk Comm.
Mehmet Cem KOZLU	Independent Board Member ⁽²⁾	2013	Chair, Audit Comm. Member, Corp. Gov. Comm. Member, Safety Comm.
Saad Hassan HAMMAD	Independent Board Member	2015	Chair, Risk Comm. Member, Audit Comm.
Hatice Zeynep Bodur OKYAY	Independent Board Member	2016	-
Stephen Mark GRIFFITHS	Independent Board Member	2016	Chair, Corp. Gov. Comm.
Michael Glyn POWELL	Non-Executive Board Member	2018	Member, Corp. Gov. Comm.

⁽¹⁾ Board appointments are made annually at the discretion of our shareholders and our current Board members were appointed for a term of one year at the Annual General Assembly Meeting dated April 17, 2019.

⁽²⁾ Subject to the non-objection letter of the Capital Markets Board dated March 8, 2019 for the independent director nominees and for a one-year exemption of Mr. Mehmet Cem KOZLU from the requirement of "Not to have served as a member of the board at the Company for more than six years in the past ten years" stipulated in paragraph (g) of Corporate Governance Principle No. 4.3.6.

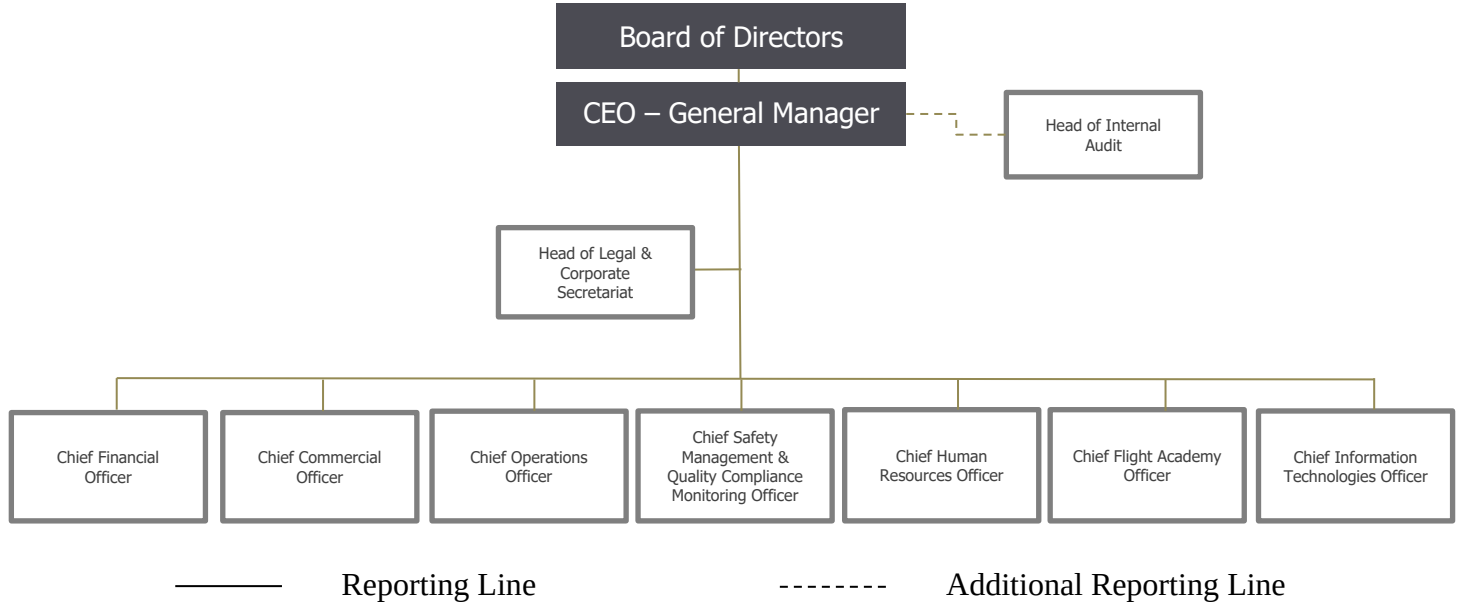
b)- Senior Management: Pegasus senior management comprises the General Manager (CEO) and executives directly reporting to the CEO. Information on Pegasus senior management and their duties as of June 30, 2019 is provided in the following chart.

Name / SURNAME	Duty	Serves Since ⁽¹⁾
Mehmet T. NANE	President & General Manager (CEO)	2016
Güliz ÖZTÜRK	Chief Commercial Officer	2010
M. Barbaros KUBATOĞLU	Chief Financial Officer	2018
Nasuh N. ÇETİN	Chief Operations Officer	2016
Aydın YUMRUTAŞ	Chief Flight Academy Officer	2018
Bariş FINDIK	Chief Information Technologies Officer	2017
Dilara OĞUR	Chief Human Resources Officer	2015
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer	2017

Ali UZUN	Head of Legal and Corporate Secretariat (General Counsel)	2018
Özgür DİNÇER	Head of Internal Audit	2017

⁽¹⁾ Indicates service in the stated duty.

Pegasus management organization chart is as follows:



c)- Number of Employees: The total number of full-time employees of Pegasus and its consolidated subsidiaries defined in Section 1/G of this Report, as of June 30, 2019 was 6,037. This number, as of June 30, 2019 covers 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.

F- 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 June 30, 2019 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		30.06.2019	30.06.2018	Growth (%)	30.06.2019	30.06.2018	Growth (%)	30.06.2019
B737-400	3,148	1	1	0%	168	168	0%	21.3
B737-800	4,360	41	45	-9%	7,749	8,505	-9%	7.8
A320CEO	3,300	12	12	0%	2,172	2,172	0%	5.4
A320NEO	3,700	27	21	29%	5,022	3,906	29%	1.5
TOTAL		81	79	3%	15,111	14,751	2%	5.7

In July 2012, Pegasus placed an order with Airbus for 57 firm order A320neo and 18 firm order A321 neo aircraft, totaling 75, and an additional 25 optional aircraft, thereby constituting a purchase order for 100 new aircraft. In December 2017, Pegasus exercised its option for 25 additional aircraft and converted these option aircrafts to firm orders in A321neo configuration, subject to an additional option to reconvert the order to A320neo configuration subject to the applicable notice periods prior to the scheduled delivery of aircraft. Pegasus is

the first customer of CFM-Leap series engine used on A320neo aircraft. As part of this order five A320neo aircraft joined Pegasus fleet in the first half of 2019.

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

Aircraft Type	2016	2017	2018	2019	2020	2021	2022	2023	2024
A320neo	9	6	7	5	15	8	7	0	0
A321neo	0	0	0	2	5	5	11	10	10

G- 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 June 30, 2019. As of June 30, 2018, Pegasus did not have any indirect subsidiaries or joint ventures. Pegasus was not subject to any cross-shareholding for the same period.

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

2-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 June 30, 2019, 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

Pegasus shares closed the three-month period ending June 30, 2019 at a price of TL 45.60/share with year to date increase of 99%.

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 – June 30, 2019 compared against the same period in 2018 and the year-over-year changes for the relevant line items are set out in the following charts:

Overall Traffic Results	Jan. – Jun. 2019	Jan. – Jun. 2018	Y-O-Y Change %
Number of passengers (<i>million</i>)	13.89	14.39	-3,5
Cycle	88,843	91,010	-2,4
Number of seats (<i>million</i>)	16.43	16.86	-2,5
Load factor (%)	84.5	85.4	-0,8
ASK ⁽¹⁾ (<i>million</i>)	17,759	16,368	8,5
Passengers per cycle	156	158	-1,1
Avg. daily aircraft utilization (<i>hours</i>) ⁽²⁾	12.5	12.4	1,3
Domestic			
Number of passengers (<i>million</i>)	7.56	8,93	-15.4
Cycle	45,490	54,104	-15.9
Number of seats (<i>million</i>)	8.50	10.11	-15.9
Load factor (%)	88.9	88.4	0.6
ASK ⁽¹⁾ (<i>million</i>)	5,090	6,136	-17.1
Passengers per cycle	166	165	0.6
International			
Number of passengers (<i>million</i>)	6.20	5.25	18.3
Cycle	42,413	35,445	19.7
Number of seats (<i>million</i>)	7.78	6.51	19.5
Load factor (%)	79.7	80.5	-0.8
ASK ⁽¹⁾ (<i>million</i>)	12,425	9,846	26.2
Passengers per cycle	146	148	-1.1
Charter			
Number of passengers (<i>million</i>)	0.13	0.21	-38.3
Cycle	940	1,461	-35.7
Number of seats (<i>million</i>)	0.15	0.24	-35.7
ASK ⁽¹⁾ (<i>million</i>)	245	385	-36.6

⁽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 Euro)	30.06.2019	31.12.2018	Change (%)
Current assets	891,996	731,046	22%
Fixed assets	1,971,606	1,535,976	28%
Total assets	2,863,602	2,267,022	26%
Short-term liabilities	765,073	589,758	30%
Long-term liabilities	1,496,146	1,060,894	41%
Shareholders' equity	602,315	616,064	-2%

Summary P&L ('000 Euro)	30.06.2019	30.06.2018	Change (%)
Sales income	697,198	582,249	20%
Gross profit	100,387	28,093	257%
Profit from operations	63,379	3,437	1744%
Operating profit before financial income / (expense)	64,531	8,868	628%
Profit / (Loss) before tax	16,831	(21,273)	-179%
Net profit / (Loss) for the period	16,831	(25,237)	-167%
Profit / (Loss) per share	0,16	(0,29)	-157%

Changes in Financial Position ('000 Euro)	30.06.2019	31.12.2018	Change (%)
Cash and cash equivalents	456,040	454,719	0%
Financial liabilities	1,481,363	1,082,080	37%
Net debt position ⁽¹⁾	1,025,323	627,361	63%

⁽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 Boeing and Airbus aircraft acquired by way of financial lease through loans obtained from various banks. As of June 30, 2019, the outstanding balance of the total loans borrowed for the financing of 41 aircraft acquired by way of financial lease is EUR 1,039 M.

Furthermore, as of June 30, 2019, Pegasus and its subsidiaries had drawn EUR 1,263 M on cash loans and EUR 275 M 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.

3- RISKS AND THE EVALUATION OF THE MANAGEMENT BODY

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

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

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

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

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

evaluation of the Committee. The risk evaluation analysis reviewed by the Committee and recommendations by the Committee are communicated to the Board once every two months.

4- 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

Effective as of 22.07.2019, Mr. Ömer Lütfü ÖMERBAŞ has been appointed as Pegasus Investor Relations Manager and as a member of the Corporate Governance Committee as per the provisions of Article 11 of the CMB's Corporate Governance Communiqué N II-17.1. Ömer Lütfü ÖMERBAŞ will be reporting to Barbaros KUBATOĞLU, the Company's Chief Financial Officer.

Pegasus Airlines has signed a 6-year maintenance agreement with SR Technics Switzerland Ltd with respect to the CFM56-5B engines used on its Airbus 320 CEO fleet. The agreement covers 11 aircraft and 22 engines and accordingly maintenance services for our entire CFM56-5B portfolio for our Airbus 320 CEO aircraft is now procured from SR Technics.

B- 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 Report (*URF*)
- **Annex-2:** Pegasus Corporate Governance Information Document (*KYBF*)

The above annexes are accessible through the following link:

<https://www.kap.org.tr/en/sirket-bilgileri/ozet/1710-pegasus-hava-tasimaciligi-a-s>

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

