



## INVESTOR QUESTIONS AND ANSWERS OF ORDINARY GENERAL ASSEMBLY MEETING

HELD ON MARCH 31, 2015

Question : Regarding the 3<sup>rd</sup> agenda item ; Mr. Kaan Evren BOLGÜN, a Company shareholder took the floor and stated the following: *"I attend the Meeting as an individual shareholder. I have a question on hedging transactions. We see that the Company enters into hedging transactions against its exposure to appreciation in USD. The Company gives a summary of its strategy in this regard in its financial reports but when we compare this with other companies we cannot see the details as to the efficiency and details of the transactions the Company enters into. I would appreciate if a general explanation could be provided here. Furthermore, I would like to understand the counterparties to these transactions and the volume of transactions entered into with these counterparties. Besides these, is the Company using an integrated financial risk management software/system? Finally, I note a 40% increase in the Company's marketing budget; what is the expectation for the year end in 2015?"*

Question: Mr. Ulaş DEĞİRMENCİ, a Company shareholder and proxy holder later took the floor and stated the following: *"We would like to know who the counterparties are to hedging transactions and the volume of transactions entered into with these counterparties. We also wonder how could the information on hedging loss get out? The change in fuel prices and the Company's stock performance at BIST follow a parallel trend. However; the sales made by foreign investors brokered by Citibank are not parallel to the changes in the stock exchange indices. A similar situation occurred last year when loss on foreign exchange occurred. The stock return is lower compared to interest rates and the USD."*

Question : Mr. Serhat SIVIŞ, a Company shareholder later took the floor and stated the following: *"We see losses in the amount of TL 146 million on account of hedging transactions. I work as an option trader so I wonder about the details of this. I also would like to know the counterparties."*

Answer: In response to the questions and statements made Mr. Sertaç HAYBAT, member of the Board of Directors and the Company General Manager (CEO) responded that the Company's hedging strategy is regularly disclosed to the public through the Company's financial reports, through investor meetings and through the Company website, that the Company's revenue is mainly in Euro and TL, in contrast to which the USD revenue remains in the levels of approximately 15%, that the Company's expense items and most importantly fuel expenses are in USD, that the Company therefore enters into hedging transactions to meet its USD shortage, that the Company policy authorizes management to hedge up to 100% of the Company's expected USD shortage for a 12-month timeframe if the market rates allow it and that in respect of fuel, the Company strategy allows for hedging of at least 30% and a maximum of 60% of fuel needs on an annual basis, that all financially viable airlines in the world have suffered from the recent dip in fuel prices and that this matter should be taken into consideration in recognition of this global effect. It was noted that the chooser forward product the Company uses grants counterparty banks two options, either to sell USD or fuel to the Company at



the prevailing rates and that the recent market trends resulted in the chooser forward transactions favoring the sale of fuel by counterparties, that approximately TL 140 million worth of loss has therefore been booked in the Company's financial statements for the year 2014. For the purposes of providing an example, it was mentioned that the other airline having stock traded on BIST has booked its loss on fuel hedges under equity as TL 825 million (as direct forward transactions), which will be reflected on the fuel cost line item as the relevant contracts become due, that the Company books a similar loss under equity in the amount of TL 72.6 million, that given the Company has already booked the majority of its hedge loss under its profit and loss statement the additional risk carried for 2015 remain at the level of TL 72.6 million and that the Company would further provide the shareholders comparative data on foreign peers through the Investor Relations Department. In respect of the insider allegations, it was noted that such suspicions should be addressed through the appropriate means and that the Company diligently abides by its obligation to provide equal information to all shareholders. It was further indicated that the counterparties to hedging transactions are international banks such as RBS, Citi, Standard Bank, Barclays, Deutsche Bank, Crédit Suisse, JP Morgan and Morgan Stanley, that in terms of volume Citi ranks first among the said counterparties and that the Company executes transactions with the counterparty providing the best rates at request. It was finally indicated that the Company is not aware of an integrated risk management software and that it does not use one.

Question : In response to the inquiry of Ms. Sevda ALKAN, a Company shareholder attending the Meeting through E-GEM as to the compliance of the Company with the corporate governance principles stipulated by the Capital Markets Board as to the presence of female directors in the Board of Directors.

Answer : Mr. Sertaç HAYBAT, member of the Board of Directors and Company General Manager (CEO) explained that the "Pegasus Policy on Female Participation in the Board of Directors" has been adopted by a decision of the Board of Directors and that the policy was communicated publicly through the Annual Activity Report of the Board of Directors for the year 2014.

Question: Mr. Ümit BAŞARAN, a Company shareholder took the floor and stated the following: "I am curious about the effects of fragile Euro on the Company's financial results. Should we expect a negative effect for 2015? I am also curious about the growth expectations for 2015. Is there any way we will see the negative effect of Turkish Airlines growing operations at the Sabiha Gökçen Airport? Will you make any statements regarding the Esas Holding A.Ş. shares converted into tradable form? I hope hedging for 2016 is locked at good rates and will produce positive results for the Company and I wish the Company a successful year in 2015." Later, Mr. Ulaş DEĞİRMENCİ, a Company shareholder took the floor on his own behalf and on behalf of the shares he represents by proxy and stated the following: "We are hearing rumors about a share sale to or potential partnership with Qatar Airways. If the new airport is built, how ready is the Company for that development? Is there a risk of not obtaining slots there as well? Will the Company continue to operate mainly out of Sabiha Gökçen



Airport?" Later, Mr. Serhat SIVIŞ, a Company shareholder took the floor and stated the following: "I note a marketing error with respect to flights for the winter season. For the past 10 years I have been going skiing abroad. Reservations are usually arranged weekly starting from Saturday. Your flights are Sunday to Sunday. For that reason we have to fly with Turkish Airlines. Is that a marketing error or is there another reason behind this?" Finally, Mr. Tuna ŞENER, a Company shareholder took the floor and stated the following: "I congratulate the Company for a successful 2014 without any accidents. We just saw the Germanwings accident. Is Pegasus well-prepared for such events? I also see that the new omnibus bill approved by the Parliament provides for incentives for rights offerings. Do you have any such plans? Finally, page 218 of the Domestic Prospectus notes that depreciation will go down in 2015. What were the results in 2014 and what will happen in 2015?"

Answer : In response to the foregoing questions and statements Mr. Sertaç HAYBAT, member of the Board of Directors and Company General Manager (CEO) underlined that the Company is not in the possession of any information in respect of a share sale or venture with Qatar Airways and to the best of the Company's knowledge Esas Holding A.Ş.'s decision to convert part of their shares in the Company into tradable form aims to provide operational flexibility in the future. In response to a previous question it was explained that the increases in marketing expenses are planned in line with the increase in the seat capacity offered by the Company but with a mindset that these expenses should be reduced gradually, that the marketing expenses are forecasted in Euro due to expenses made outside of Turkey and that the increase should mainly stem from the increase based on the Euro/TL exchange rates changing in favor of Euro. On the question regarding the marketing of winter season flights, it was explained that the Company flies to Geneva, Lyon and Munich (as these were the destinations indicated as examples) in sufficient frequencies and the shortcoming should rather be a result of full capacity instead of slot or frequency restrictions. In relation to the question relating to the Germanwings event, it was indicated that the recent findings suggest that it might not have been an accident and that the system preventing the captain to re-enter cockpit, overriding the access code from inside, seems important in context of these findings, that the Company policy has been and is that a member of the cabin crew enters into the cockpit if for any reason a member of the flight crew has to leave for the sole reason of providing access to the cockpit in similar circumstances. In relation to the inquiry about the new airport and capacity restrictions, it was underlined that like other similar things, slot allocation is not carried out transparently in Turkey, that Sabiha Gökçen Airport had also become a slot coordinated airport and that starting from next year this airport would too become unable to accommodate additional capacity, that the General Directorate of State Airports Authority organized a tender to construct a second parallel runway at the Sabiha Gökçen Airport which could double air traffic movements and that the results of the tender have not been announced for a long time, that nevertheless, the airport accommodates such a project and that the Company is closely viewing developments in this respect, especially in light of its need for additional infrastructure capacity to operate aircraft it will receive in the coming years under its firm Airbus order comprising 75 firm order aircraft and 25 option aircraft. With regards to Turkish Airlines' operations at the Sabiha Gökçen Airport, it was underlined that the Company could only speculate as to the reasons for such a move, and that the Company views lack of capacity



elsewhere as the main reason for this. It was also highlighted that the entry of Turkish Airlines at Sabiha Gökçen affects the Company negatively operations-wise, that the Company's cost base is around 50% of its competitor thereby allowing competitive strength so long as this low cost base is maintained. With respect to expectations for the year 2015 it was noted that the Company expects 16-18% growth in total passengers carried year over year and capacity increase should also materialize around 18%, parallel to the passenger growth, while utilization levels should follow 2014 trends above 12 block hours, that the target ancillary revenue per passenger in 2015 overall is Euro 10 and increase in costs are expected, something which is valid for all airlines operating in Europe given the foreign exchange trends. In response to the question on depreciation, it was explained that the Company's depreciation was TL 136,3 million in 2013 and TL 164,8 in 2014 but that the increase is not as a result of additional aircraft subject to financial lease and rather due to the increase as a result of Euro appreciation against TL as the Company's functional currency Euro is used to account for these valuations in the Company's financial statements. The inquiry on cash capital increase was also answered by explaining that the omnibus law has not yet been officially published and not yet considered by the Company and that the Company is not in immediate cash shortage.