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**PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ**  
**INTERIM ACTIVITY REPORT FOR THE THREE MONTH PERIOD**  
**BETWEEN JANUARY 1 AND MARCH 31, 2016**

## PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ

### INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD JANUARY 1 – MARCH 31, 2016

#### 1- GENERAL INFORMATION

##### **A- GENERAL INFORMATION ON PEGASUS**

Reporting Period : January 1, 2016 – March 31, 2016  
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](http://www.flypgs.com)  
Investor Relations Website. <http://www.pegasusinvestorrelations.com>

##### **B- CAPITAL, SHAREHOLDING AND ORGANIZATION STRUCTURE OF PEGASUS**

As part of the initial public offering of its shares in April 2013, Pegasus adopted the authorized capital system and increased its issued capital to TL 102,272,000 from TL 75,000,000, within the authorized capital ceiling of TL 500,000,000. Information on the capital and shareholding structure of Pegasus as of March 31, 2016 is shown in the table below.

	<u>March 31, 2016</u>	
	<i>Number of Shares</i>	<i>Shareholding Ratio</i>
<b>Shareholder</b>		
Esas Holding A.Ş. (" <b>Esas Holding</b> ")	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%
Emine KAMIŞLI	874,810	0.86%
Ali İsmail SABANCI	874,810	0.86%
Kazım KÖSEOĞLU	437,405	0.43%
Can KÖSEOĞLU	437,405	0.43%
<b>Total</b>	<b>102,272,000</b>	<b>100%</b>

As of December 31, 2015, 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, 2016 has investments in the aviation, 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.

##### **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.

As a result of the successful implementation of this low-cost strategy, Pegasus experienced rapid expansion of its operations both in domestic routes as well as internationally. In comparison to the cumulative annual growth rate of the Turkish market between 2007 and 2015 at 12%, the cumulative annual growth rate of passengers flying with Pegasus reached 31% during the same period. In addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, Pegasus was 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).

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, 2015, Pegasus offered scheduled passenger services on 33 domestic routes in Turkey and 70 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 103 destinations in 41 different countries.

Pegasus also offers a number of 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 2016, the revenue recorded from ancillary services constituted 25% of total revenue for the period, while ancillary revenue increased by 38% year-over-year from the same period in 2015.

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, which represented 2% of total revenue in the first three months of 2016.

#### **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, 2016, the Board of Directors consisted of seven members. The identity, duty and term of office of each Director are indicated in the following chart.

<b><u>Name / Surname</u></b>	<b><u>Duty</u></b>	<b><u>Term of Office</u></b>
Ali İsmail SABANCI	Chairman of the Board	March31,2015- 2015 GA <sup>(1)</sup>
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairman of the Board	March31,2015- 2015 GA <sup>(1)</sup>
Mehmet Cem KOZLU	Independent Director	March31,2015- 2015 GA <sup>(1)</sup>
Saad Hassan HAMMAD	Independent Director	March31,2015- 2015 GA <sup>(1)</sup>
Conor John McCARTHY	Independent Director	March31,2015- 2015 GA <sup>(1)</sup>
Şükrü Emre BERKİN	Non-Executive Director	March31,2015- 2015 GA <sup>(1)</sup>
Sertaç HAYBAT	Non-Executive Director	March31,2015- 2015 GA <sup>(1)</sup>

<sup>(1)</sup> Term of office renewed for another year at the Annual General Assembly Meeting dated April 7, 2016.

**b) - Senior Management:** Pegasus senior management comprises the General Manager, Chief Audit Executive, Family Members directly reporting to the General Manager and Vice-Presidents reporting directly to Senior Vice-Presidents. On a consolidated basis, Pegasus deems the General Managers of its subsidiaries İHY İzmir Havayolları A.Ş. (“**IzAir**”) and Air Manas Air Company LLC (“**Air Manas**”) among senior management. Information on Pegasus senior management and their duties is provided in the following chart.

<b><u>Name / Surname</u></b>	<b><u>Duty</u></b>
Mehmet Tevfik NANE	President & General Manager (CEO)
Boğaç UĞURLUTEĞİN	Senior Vice-President, Ground Operations
Güliz ÖZTÜRK	Senior Vice-President, Commerce
Nadir KABAŞ	Senior Vice-President, Flight School
Nurçin ÖZSOY	Senior Vice-President, Cabin Services
Reha ÖZDEMİR	Senior Vice-President, Flight Operations
Serhan ULGA	Senior Vice-President, Finance, CFO
Servet ULAŞAN	Senior Vice-President, Technical
Aycan KURTOĞLU	Vice-President, Information Technologies
Aydın ALPA	Vice-President, Cargo
Aydın YUMRUTAŞ	Vice-President, Flight Operations (Head Pilot)
Dilara OĞUR	Vice-President, Human Resources
Doğan İNANÇ	Vice-President, Flight Training
Emre PEKESEN	Vice-President, Sales
Ergün DEMİRCİ	Vice-President, Technic AMO Part-147
Ersel GEYİK	Vice-President, Support Services
İpek DÖŞER	Vice-President, Cabin Services
K. Mustafa HELVACIOĞLU	Vice-President, Safety Management and Quality
M. Barbaros KUBATOĞLU	Vice-President, Financial Controller
Mine ÖZTÜRK	Vice-President, Internal Audit & Chief Audit Executive
Murat DEMİRBİLEK	Vice-President, Ground Operations
Onur DEDEKÖYLÜ	Vice-President, Marketing
Ömer KAYA	Vice-President, Performance & CIT
Tahsin İSTANBULLU	Vice-President, Technic CAMO Part-M
Tamer YÜZÜAK	Vice-President, Finance and Strategic Planning
Turgut ATAY	Vice-President, Network Planning
V. Beste TAŞAR	Vice-President, Investor Relations
Tayfun BORA	Manager, Security
İlgar ALPTEKİN	General Manager, Air Manas
N. Nazif ÇETİN	General Manager, IzAir

**c) - Number of Employees:** The total number of full time employed Family Members of Pegasus and its consolidated subsidiaries defined in Section (1/E) of this Report, as of March 31, 2016 was 5,378. This number, as of March 31, 2016 covers the members of our senior management listed above. There are no Family Members employed under a collective bargaining agreement.

Information on benefits provided to Pegasus to our Family Members are detailed in the "Pegasus Compensation and Indemnification Policy" available on 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, 2016. As of March 31, 2016 Pegasus did not have any indirect subsidiaries or joint ventures.

<b>Commercial Title</b>	<b>Nationality / Area of Activity</b>	<b>Issued Share Capital</b>	<b>Nominal Shareholding</b>	<b>Share Percentage</b>	<b>Affiliation with Pegasus</b>
Air Manas	Kyrgyzstan / Scheduled and unscheduled air transportation	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary
IzAir	Turkey / Scheduled and unscheduled air transportation	TL 59,500,000	TL 41,125,000	69.12%	Subsidiary
Pegasus Uçuş Eğitim Merkezi A.Ş. (" <b>PUEM</b> ")	T.C. / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture/ Associate
Hitit Bilgisayar Hizmetleri A.Ş. (" <b>Hitit Bilgisayar</b> ")	Information Technologies Solutions	TL 200,000	TL 80,000	40.00%	Joint Venture/ Associate

## **2- FINANCIAL STATUS**

### **A- INFORMATION ON INVESTMENTS MADE BY PEGASUS IN THE RELEVANT ACCOUNTING PERIOD**

Since 2005, Pegasus placed firm orders with Boeing for a total of 40 new B737-800NG aircraft and, as of March 31, 2016, all of the aircraft under the said Boeing Order have been taken delivery, with 25 of the said aircraft being part of the consolidated fleet under financial lease, two under ownership and 13 under operational lease.

In addition to the aircraft subject to the Boeing orders, as of March 31, 2016 Pegasus consolidated fleet includes a total of 18 B737-800 NG and ten Airbus A320-200 ceo aircraft obtained through operational lease agreements. Pegasus consolidated fleet also includes one Boeing B737-400 operated by Air Manas.

Information relating to the aircraft operated by Pegasus and its consolidated subsidiaries as of March 31, 2016 is provided in the following table:

<b>AIRCRAFT TYPE</b>	<b>RANGE (KM)</b>	<b>NUMBER OF AIRCRAFT</b>			<b>SEAT CAPACITY</b>			<b>AVERAGE FLEET AGE</b>
		<b>31.03.2015</b>	<b>31.03.2016</b>	<b>Growth (%)</b>	<b>31.03.2015</b>	<b>31.03.2016</b>	<b>Growth (%)</b>	
<b>B737-400</b>	3,148	1	1	-	168	168	-	<b>18.0</b>
<b>B737-800</b>	4,360	53	58	9	10,017	10,962		<b>5.8</b>
<b>Airbus A320</b>	3,900	5	10	100	900	1.800	100	<b>2.5</b>
<b>TOPLAM</b>		<b>59</b>	<b>69</b>	<b>17</b>	<b>11,085</b>	<b>12,930</b>	<b>17</b>	<b>5.5</b>

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.

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 the 75 firm order aircraft and 25 option aircraft (assuming the option is exercised in full) under the Airbus order, expected to be delivered between 2016 and 2022, amount to approximately USD 12 billion as of March 31, 2016.

Pegasus also placed a new order for the purchase of five new B737-800NG aircraft to be delivered in 2017, with a value of approximately USD 505 million (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).

In 2013 Pegasus decided on purchasing CFMI's Leap type engine from the two available options for the Airbus A320neo/A321neo aircraft purchase agreement. Based on this decision, the delivery of the new Airbus aircraft will commence in 2016. Pegasus further agreed with CFMI on the provision of maintenance services for a term for up to 20 years starting from the delivery of each engine. Based on the assumption that the entire Airbus order is purchased and the relevant aircraft and the engines are operated for 20 years, it is expected that the payments to be made in compensation of the maintenance services procured until 2042, may reach USD 4.3 billion.

The delivery schedule for the A320neo/A321neo and the B737-800NG aircraft subject to our firm orders with Airbus and Boeing is as follows:

Aircraft Type	2016	2017	2018	2019	2020	2021	2022
A320neo	9	5	10	14	13	8	-
A321neo	-	-	-	-	-	5	13
B737-800	-	5	-	-	-	-	-

\* If the option for the 25 aircraft under the Airbus order is fully or partially exercised by Pegasus, the delivery of the option aircraft will commence after 2022, unless the parties agree on earlier deliveries.

#### 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, 2016 compared against the same period in 2015 and the year-over-year changes for the relevant line items are set out in the following charts:

		Jan.- Mar. 2016	Jan.- Mar. 2015	Change
<b>TOTAL</b>	<b>Number of Passengers (mn)</b>	5.36	4.52	18.6%
	Cycle	38,249	31,232	22.5%
	Number of Seats (mn)	<b>7.04</b>	5.80	21.3%
	Load Factor	<b>pp 76.1%</b>	<b>77.8%</b>	<b>-1.70%</b>
	ASK <sup>(1)</sup> (mn km)	6.933	5.644	22.8%
	Passengers per Cycle	140	145	-3.1%
	Block Hours	12.0	11.6	3.9%
<b>DOMESTIC</b>	<b>Number of Passengers (mn)</b>	3.48	2,86	21.5%
	Cycle	22,871	18,719	22.2%
	Number of Seats (mn)	4.29	3,52	21.9%
	Load Factor	<b>pp 81.2%</b>	<b>81,5%</b>	<b>-0.25%</b>
	ASK (mn km)	2.602	2.066	26.0%
<b>INTERNATIONAL<sup>(2)</sup></b>	Passengers per Cycle	152	153	-0.6%
	<b>Number of Passengers (mn)</b>	1.88	1,65	13.7%
	Cycle	15,378	12,513	22.9%
	Number of Seats (mn)	2.75	2.29	20.4%
	Load Factor	<b>pp 68.2%</b>	<b>72.2%</b>	<b>-4.03%</b>
ASK (mn km)	4.331	3.579	21.0%	
Passengers per Cycle	122	132	-7.5%	

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes charter operational results.

<b>Pegasus Financial Results for the Period January 1 - March 31, 2016</b>			
<b>Summary Balance Sheet (mn TL)</b>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>Change</b>
Current assets	1.690.725.544	1.833.732.173	-8%
Fixed assets	2.264.706.961	2.264.365.079	0%
Total assets	3.955.432.505	4.098.097.252	-3%
Short-term liabilities	1.048.306.590	991.845.572	6%
Long-term liabilities	1.628.087.942	1.653.520.051	-2%
Shareholders' equity	1.279.037.973	1.452.731.629	-12%
<b>Summary P&amp;L (mn TL)</b>	<b>31.03.2016</b>	<b>31.03.2015</b>	<b>Change</b>
Sales income	691.100.801	583.146.329	19%
Gross profit	-86.358.839	-35.362.891	144%
Profit/(loss) from operations	-205.893.307	-10.916.128	1786%
Operating profit before financial income/(expense)	-214.192.502	-1.976.072	10739%
Profit/(loss) before tax	-191.956.233	-46.479.487	313%
Profit/(loss) for the period	-190.563.934	-80.645.511	136%
<b>Earnings/(loss) per share</b>	-1,86	-0,73	155%
<b>Changes in Financial Position (mn TL)</b>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>Change</b>
Cash and cash equivalents	664.938.169	954.974.093	-30%
Financial liabilities	1.371.946.222	1.415.436.782	-3%
Net debt position <sup>(1)</sup>	707.008.053	460.462.689	54%
<i>(1) Net debt position = Financial liabilities - Cash and cash equivalents</i>			

#### **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, 2016, the outstanding balance of the total loans borrowed for the financing of 25 aircraft acquired by way of financial lease is TL 1,321,325,625.

Furthermore, as of March 31, 2016, Pegasus and its subsidiaries had drawn TL 7,523,879 on cash loans and TL 450,529,263 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 in order 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.

Risk management policies implemented by Pegasus in the first three months of 2016 within the framework of limits and guidance set out by the Board of Directors with respect to market risk (currency risk, interest rate risk and cost of fuel risk), credit risk and liquidity risk are provided in Note 23 of our Consolidated Financial Statements for the Three Month Period Ending on March 31, 2016.

### **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 deadline for the exercise of our call option entitling the Company to acquire Group (B) registered shares representing 10% of the share capital of our affiliate Hitit Bilgisayar Hizmetleri Anonim Şirketi, granted as part of the transaction announced on March 26, 2016, has been extended until May 31, 2016. The put option granted to the other shareholders of Hitit Bilgisayar has also been extended in line with the revised call option deadline. There is no change with respect to the previously announced call option price.

The Annual General Assembly Meeting of our Company was held on April 7, 2016. Results of the meeting were published on the same day through the Public Disclosure Platform and Pegasus Investor Relations Website ([www.pegasusinvestorrelations.com](http://www.pegasusinvestorrelations.com)) and were later published on pages 332 through 334 in the Turkish Trade Registry Gazette dated 05 May 2016 and numbered 9069. Following decisions were adopted at the General Assembly Meeting:

- 1) Annual Activity Report of the Board of Directors, the Auditor Report and the Consolidated Financial Statements for the year 2015 have been approved;
- 2) Members of the Board of Directors were released with respect to the Company's transactions in 2015;
- 3) The net profit for the year 2015 were allocated as extraordinary reserves;
- 4) Articles 10 and 11 of the Company Articles of Association were amended in line with the proposal of the Board of Directors;
- 5) Members of the Board of Directors listed in Section (1/D) of the Report were reappointed for a term of one year, Mehmet Cem KOZLU, Saad Hassan HAMMAD and Conor John McCARTHY were appointed as Independent Directors, the compensation to be paid to the Directors in 2016 were determined and members of the Board of Directors were authorized to enter into transactions within the scope of Articles 395 and 396 of the Turkish Commercial Code;
- 6) DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (member of Deloitte Touche Tohmatsu) was appointed as the Company's independent auditor for the accounting year 2016;
- 7) Maximum ceiling for donations and charitable contributions to be made by the Company in 2016 was determined as TL 5,000,000.

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

None.