

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – MARCH 31, 2017

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2017 – March 31, 2017
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

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 January 1, 2017 and March 31, 2017, respectively, is shown in the table below.

<i>Shareholder</i>	<u>January 1, 2017</u>		<u>March 31, 2017</u>	
	<i>Number of Shares</i>	<i>Shareholding Ratio</i>	<i>Number of Shares</i>	<i>Shareholding 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, 2017 and March 31, 2017 are as follows.

<i>Shareholder</i>	<u>January 1, 2017</u>	<u>March 31, 2017</u>
	<i>Shareholding Ratio</i>	<i>Shareholding Ratio</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
Emrecan 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, 2017, 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, 2017 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.

Our Company's management organization chart as of March 31, 2017 is provided in Section (1/F) 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, 2017, Pegasus offered scheduled passenger services on 32 domestic routes in Turkey and 71 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 103 destinations in 40 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 2017/Q1, the revenue recorded from ancillary services constituted 25,5% of total revenue for the period, while ancillary revenue increased by 28,3% in same period 2016/Q1.

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 9% of total revenue in 2017/Q1.

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, 2017, 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⁾
Mehmet Cem KOZLU	Independent Director	March 31, 2017 - 2017 GA ⁽¹⁾
Saad Hassan HAMMAD	Independent Director	March 31, 2017 - 2017 GA ⁽¹⁾
Sertaç HAYBAT	Non-Executive Director	March 31, 2017 - 2017 GA ⁽¹⁾
Hatice Zeynep Bodur OKYAY	Independent Director	March 31, 2017 - 2017 GA ⁽¹⁾
Stephen Mark GRIFFITHS	Independent Director	March 31, 2017 - 2017 GA ⁽¹⁾

⁽¹⁾ Appointed for a term of one year at the Annual General Assembly Meeting dated March 31, 2017.

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, 2017 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
Serhan ULGA	Chief Financial 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
Kemal Mustafa HELVACIOĞLU	Chief Flight Academy Officer
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer
Tayfun Bora	Security Manager

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, 2017 was 5,165. This number 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 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, 2017. As of March 31, 2017 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 41,125,000	69.12%	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

The Company reached an agreement with Air Berlin plc ("**Air Berlin**") to buyout Air Berlin's 29.51% stake in our subsidiary IHY İzmir Havayolları A.Ş. ("**IzAir**"), represented by a total of 1,755,683,263 Group (A), (B) and (C) shares for a consideration of Euro 1.2 million. The transaction is subject to the completion of the filings with and the approvals to be obtained from the General Directorate of Turkish Civil Aviation and the competent competition

authorities. The share transfer envisages the termination of the agreements between the Company and Air Berlin in respect of their shareholding in IzAir and the "Air Berlin Turkey Project" details of which have been provided in the Company's Offering Circular dated April 26, 2013 and the increase of the Company's shareholding in IzAir to 98.63%.

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, 2017 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		31.03.2017	31.03.2016	Growth (%)	31.03.2017	31.03.2016	Growth (%)	31.03.2017
B737-400	3,148	1	1	0%	168	168	0%	19.00
B737-800	4,360	60	58	3%	11,290	10,914	3%	6.73
Airbus A320CEO	3,300	12	10	20%	2,172	1,810	20%	3.09
Airbus A320NEO	3.700	9	-		1,674	-		0,42
TOPLAM		82	69	19%	15.304	12.892	19%	5.65

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.

The Company's expected capital expenditures relating the Airbus order expected to be delivered between 2016 and 2022 are amount to approximately USD 12 billion. As of March 31, 2017, 9 firm order Airbus A320NEO aircraft joined Pegasus fleet. Pegasus became the first customer of CFM-Leap series engine used on A320neo aircraft.

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

Aircraft Type	2016	2017	2018	2019	2020	2021	2022
A320neo	9	6	7	7	13	8	7
A321neo	-	-	-	7	-	5	6

* *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.*

In 2016, Pegasus placed a new order with Boeing for the purchase of five new B737-800NG aircraft. While the aircraft subject to this order were initially scheduled to be delivered in 2017 an agreement was reached with Boeing for the deferral of three aircraft deliveries until 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 aircraft, amount to approximately USD 505 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, 2017 compared against the same period in 2016 and the year-over-year changes for the relevant line items are set out in the following charts:

		Jan.-Mar. 2017	Jan.-Mar. 2016	Change
TOTAL	Number of Passengers (mn)	5,76	5,36	7,4%
	Cycle	38.436	38.249	0,5%
	Number of Seats (mn)	7,12	7,04	1,1%
	Load Factor	pp 80,9%	76,1%	4,8%
	ASK ⁽¹⁾ (mn km)	6.993	6.933	0,9%
	Passengers per Cycle	150	140	6,9%
	Block Hours	10,9	12,0	-9,5%
DOMESTIC	Number of Passengers (mn)	3,63	3,48	4,3%
	Cycle	22.712	22.871	-0,7%
	Number of Seats (mn)	4,25	4,29	-0,9%
	Load Factor	pp 85,5%	81,2%	4,3%
	ASK (mn km)	2.610	2.602	0,3%
	Passengers per Cycle	160	152	5,0%
	INTERNATIONAL	Number of Passengers (mn)	2,11	1,87
Cycle		15.532	15.315	1,4%
Number of Seats (mn)		2,85	2,75	3,6%
Load Factor		pp 74,1%	68,2%	5,9%
ASK (mn km)		4.345	4.323	0,5%
Passengers per Cycle		136	122	11,0%
CHARTER		Number of Passengers (mn)	0,02	0,01
	Cycle	192	63	204,8%
	Number of Seats (mn)	0,02	0,01	193,5%
	ASK (mn km)	38	9	343,6%

⁽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.

Pegasus Financial Results for the Period January 1 - March 31, 2017			
Summary Balance Sheet (mn TL)	31.03.2017	31.12.2016	Change
Current assets	1.605.529	1.459.826	-10%
Fixed assets	4.045.898	4.158.192	-3%
Total assets	5.651.427	5.618.018	1%
Short-term liabilities	1.395.851	1.038.827	34%
Long-term liabilities	2.813.429	3.009.870	-7%
Shareholders' equity	1.442.148	1.569.321	-8%
Summary P&L (mn TL)	31.03.2017	31.03.2016	Change
Sales income	885.822	691.101	28%
Gross loss	-144.634	-86.359	67%
Loss from operations	-202.059	-205.893	-2%
Operating loss before financial expense	-208.781	-214.193	-3%
Loss before tax	-227.160	-191.956	18%
Loss for the period	-206.416	-190.564	8%

Loss per share	-0,0020	-0,0019	5%
Changes in Financial Position (mn TL)	31.03.2016	31.12.2016	Change
Cash and cash equivalents	244.281	692.271	-65%
Financial liabilities	2.598.373	2.676.566	-3%
Net debt position ⁽¹⁾	2.354.093	1.984.295	19%
<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, 2017, the outstanding balance of the total loans borrowed for the financing of 30 aircraft acquired by way of financial lease is TL 2.476.351.930.

Furthermore, as of March 31, 2017, Pegasus and its subsidiaries had drawn TL 51.271.865 on cash loans and TL 738.496.239 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.

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 March 31, 2017. Results of the meeting were published on the same day through the Public Disclosure Platform and Pegasus Investor Relations Website (www.pegasusinvestorrelations.com) and were later published on pages 557 through 558 in the Turkish Trade Registry Gazette dated 2 May 2017 and numbered 9317. 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 2016 have been approved;
- 2) Members of the Board of Directors were released with respect to the Company's transactions in 2016;
- 3) The Company has no distributable net profit emerged for the year 2016 due to net loss for the period;
- 4) The information provided regarding the amendments made to the "Pegasus Information Policy" and the "Pegasus Compensation and Indemnification Policy" and the "Pegasus Ethical Behavior Guide" adopted by 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, Hatice Zeynep Bodur OKYAY and Stephen Mark GRIFFITHS were appointed as Independent Directors, the compensation to be paid to the Directors in 2017 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 2017;
- 7) Maximum ceiling for donations and charitable contributions to be made by the Company in 2017 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.