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PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT FOR THE NINE-MONTH PERIOD
BETWEEN JANUARY 1 AND SEPTEMBER 30, 2017

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – SEPTEMBER 30, 2017

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2017 – September 30, 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 September 30, 2017, respectively, is shown in the table below.

<i>Shareholder</i>	<u>January 1, 2017</u>		<u>September 30, 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 September 30, 2017 are as follows.

<i>Shareholder</i>	<u>January 1, 2017</u>	<u>September 30, 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
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 September 30, 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 September 30, 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 September 30, 2017 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 September 30, 2017, 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 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 2017/9M, the revenue recorded from ancillary services constituted 20% of total revenue for the period, while ancillary revenue increased by 38% compared to 2016/9M.

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 5% of total revenue in 2017/9M.

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 September 30, 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⁾
Hatice Zeynep Bodur OKYAY	Independent Director	March 31, 2017 - 2017 GA ⁽¹⁾
Stephen Mark GRIFFITHS	Independent Director	March 31, 2017 - 2017 GA ⁽¹⁾
Sertaç HAYBAT	Non-Executive 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 September 30, 2017 is provided in the following chart.

<u>Name / Surname</u>	<u>Duty</u>
Mehmet Tevfik 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 September 30, 2017 was 5,224. 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 September 30, 2017. As of September 30, 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	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 September 30, 2017 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		30.09.2017	30.09.2016	Growth (%)	30.09.2017	30.09.2016	Growth (%)	
B737-400	3,148	1	1	0%	168	168	0%	19.50
B737-800	4,360	53	60	-12%	10.017	11.340	-12%	7.20
Airbus A320CEO	3,300	12	12	0%	2.172	2.172	0%	3.59
Airbus A320NEO	3,700	11	4	175%	2.046	744	175%	0.79
TOPLAM		77	77	0%	14.403	14.424	0%	5.88

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 Airbus order expected to be delivered between 2016 and 2022 amount to approximately USD 12 billion. As of September 30, 2017, 11 firm order Airbus A320NEO aircraft joined Pegasus fleet.

The delivery schedule for the remaining 64 A320neo/A321neo aircraft subject to our firm orders with Airbus is as follows:

Aircraft Type	2017Q4	2018	2019	2020	2021	2022
A320neo	4	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. Three aircraft are scheduled to be delivered in 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 the three remaining aircraft, amount to approximately USD 300 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 – September 30, 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.-Sept. 2017	Jan.-Sept. 2016	Change (%)
Total	Number of Passengers (mn)	20,78	18,08	14,9
	Cycle	133.221	125.470	6,2
	Number of Seats (mn)	24,65	23,09	6,8
	Load Factor	<i>pp</i> 84,3	78,3	6,0
	ASK ⁽¹⁾ (mn km)	24.790	23.017	7,7
	Passengers per Cycle	156	144	8,2
	Utilization (Block Hours) ⁽²⁾	12,1	12,4	-2,4
Domestic	Number of Passengers (mn)	12,46	11,42	9,1
	Cycle	76.530	74.051	3,3
	Number of Seats (mn)	14,32	13,82	3,5
	Load Factor	<i>pp</i> 87,1	82,6	5,4
	ASK (mn km)	8.657	8.324	4,0
	Passengers per Cycle	163	154	5,6
International	Number of Passengers (mn)	8,32	6,66	24,9
	Cycle	56.691	51.419	10,3
	Number of Seats (mn)	10,34	9,27	11,5
	Load Factor	<i>pp</i> 80,5	71,9	8,6
	ASK (mn km)	16.133	14.693	9,8
Charter	Number of Passengers (mn)	0,44	0,24	83,4
	Cycle	2.804	1.732	61,9
	Number of Seats (mn)	0,48	0,28	72,0
	ASK (mn km)	776	489	58,7

⁽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.

Pegasus Financial Results for the Period January 1 - September 30, 2017			
Summary Balance Sheet (thousand TL)	30.09.2017	31.12.2016	Change (%)
Current assets	3.072.664	1.459.826	110%
Fixed assets	4.208.791	4.158.192	1%
Total assets	7.281.455	5.618.018	30%
Short-term liabilities	1.935.515	1.038.827	86%
Long-term liabilities	3.046.642	3.009.870	1%
Shareholders' equity	2.299.299	1.569.321	47%
Summary P&L (thousand TL)	30.09.2017	30.12.2016	Change (%)
Sales income	4.162.118	2.860.023	46%
Gross profit	763.180	306.491	149%
Income/(loss) from operations	556.171	-4.995	-11235%
Operating income/(loss) before financial expense	643.455	-9.036	-7221%
Income before tax	638.328	57.498	1010%
Net income for the period	492.162	43.279	1037%
Income per share	0,0048	0,0004	1100%
Changes in Financial Position (thousand TL)	30.09.2017	31.12.2016	Change (%)
Cash and cash equivalents	1.823.036	692.271	163%
Financial liabilities	3.025.833	2.676.566	13%
Net debt position ⁽¹⁾	1.202.797	1.984.295	-39%
<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 September 30, 2017, the outstanding balance of the total loans borrowed for the financing of 29 aircraft acquired by way of financial lease is TL 2.502.782.223.

Furthermore, as of September 30, 2017, Pegasus and its subsidiaries had drawn TL 461.773.001 on cash loans and TL 1.159.174.182 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.

In 2013, the Committee on the Early Detection of Risk was 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 overseen 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

Effective as of 01.11.2017, Ms. Berna KÖKTENER 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 No. II-17.1. Berna KÖKTENER will be reporting to the Company's Chief Financial Officer Serhan ULGA.

On October 12, 2017, the Company filed for a review of the additional tax liability and tax penalty imposed against the Company in respect of income tax withholding on flight indemnity and flight indemnity difference payments made to the pilots and flight crew certified by the civil aviation authority to provide services in the aircraft during flight, as a result of the audit that was conducted for the year 2014, before the Tax Settlement Commission of the Revenue Administration, in accordance with the provisions of Tax Procedure Law No. 213. In this respect, the relevant tax office determined additional income tax liability in the amount of TL 38,644,642.45 and additional stamp tax liability in the amount of TL 293.312,84 against the Company and further imposed a tax penalty of TL 57,966,963.68 for income tax and TL 439,969.26 for stamp tax. The Company is entitled to further challenge the tax office decision before tax courts if no settlement is reached. In line with this application and in accordance with the Company's belief in being in full compliance with the applicable tax law, in light of the established practices in the Turkish aviation sector and opinions from tax advisers, the Company decided not to request partial tax relief in respect of Law No. 6736 regarding the Restructuring of Certain Receivables.

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

None.