



our lowest fares are @  
**flypgs.com**

**PEGASUS**  
 AIRLINES



**PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ  
 INTERIM ACTIVITY REPORT FOR THE THREE MONTH PERIOD  
 BETWEEN JANUARY 1 AND SEPTEMBER 30, 2016**

## PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ

### INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD JANUARY 1 – SEPTEMBER 30, 2016

#### 1- GENERAL INFORMATION

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

Reporting Period	: January 1, 2016 – September 30, 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. <a href="http://www.flypgs.com">www.flypgs.com</a> Investor Relations Website. <a href="http://www.pegasusinvestorrelations.com">http://www.pegasusinvestorrelations.com</a>

##### **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 September 30, 2016 is shown in the table below.

<i>Shareholder</i>	<i>Number of Shares</i>	<u>September 30, 2016</u>
		<i>Shareholding Ratio</i>
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 September 30, 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 September 30, 2016, Pegasus offered scheduled passenger services on 33 domestic routes in Turkey and 69 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 102 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 the first six months of 2016, the revenue recorded from ancillary services constituted 21% of total revenue for the period, while ancillary revenue increased by 25% 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 5% of total revenue in the first nine 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 September 30, 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.

<u>Name / Surname</u>	<u>Duty</u>	<u>Term of Office</u>
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>
Hatice Zeynep Bodur OKYAY	Independent Director	July 14,2016 - 2016 GK <sup>(2)</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.*

<sup>(2)</sup> *Mr. Conor John McCARTHY, who has been serving as a member of our Board of Directors since February 2012, has resigned as independent director, effective as of July 14, 2016. Based on the proposal of the Corporate Governance Committee, our Board of Directors resolved on the appointment of Ms. H. Zeynep Bodur OKYAY to succeed Mr. McCARTHY for the remainder of his term of office.*

**b) - Senior Management:** Pegasus senior management comprises the General Manager, Chief Audit Executive, Family Members directly reporting to the General Manager. On a consolidated basis, Pegasus deems the General Managers of its subsidiaries IHY 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.

<u>Name / Surname</u>	<u>Duty</u>
Mehmet Tefrik NANE	General Manager (CEO)
Boğaç UĞURLUTEĞİN	Ground Operations
Güliz ÖZTÜRK	Commerce
Reha ÖZDEMİR	Flight Operations
Serhan ULGA	Finance, CFO
Aycan KURTOĞLU	Information Technologies
Dilara OĞUR	Human Resources
Ergün DEMİRÇİ	Technic
M.Cem ALKAN	Safety Management and Quality
K. Mustafa HELVACIOĞLU	Flight Academy
Mine ÖZTÜRK	Internal Audit & Chief Audit Executive
Tayfun BORA	Security
Ilgar ALPTEKİN	Air Manas
Nedim ÖZESEN	IzAir
N. Nazif ÇETİN	Operations

**c) - Number of Employees:** The total number of full time employed Family Members of Pegasus and its consolidated subsidiaries defined in Section (1) of this Report, as of September 30, 2016 was 5.592. This number, as of September 30, 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 September 30, 2016. As of September 30, 2016 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	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 Havacılık Teknolojileri A.Ş.	Turkey / simulated flight training	TL 100.000	TL 100.000	100%	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")	Turkey/ 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

Since 2005, Pegasus placed firm orders with Boeing for a total of 40 new B737-800NG aircraft and, as of September 30, 2016, all of the aircraft under the said Boeing Order have been taken delivery and are operating under the ownership of Pegasus subsidiaries with 24 of the said aircraft being part of the consolidated fleet under financial lease, 3 under ownership and 13 under operational lease.

In addition to the aircraft subject to the Boeing orders, as of September 30, 2016 Pegasus consolidated fleet includes a total of 20 B737-800 NG and 12 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 September 30, 2016 is provided in the following table:

AIRCRAFT TYPE	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE 30.06.2016
	30.09.2015	30.09.2016	Growth (%)	30.09.2015	30.09.2016	Growth (%)	
<b>B737-400</b>	1	1	-	168	168	-	18,5
<b>B737-800</b>	55	60	9	10.395	11.340	7	6,2
<b>Airbus A320 ceo</b>	9	12	33	1.620	2.172	34	2,6
<b>Airbus A320 neo</b>		4			744		
<b>TOPLAM</b>	65	77	18	12.183	14.424	18	5,5

In July 2012, Pegasus placed an order with Airbus for 57 firm order A320neo and 18 firm order A321 neo aircraft, totalling 75, and an additional 25 optional aircraft, thereby constituting a purchase order for 100 new aircraft. First A320neo delivery took place on 19th July 2016. This aircraft is also the first A320neo aircraft with LEAP engine.

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 September 30, 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
<b>A320neo</b>	5	3	10	7	13	8	7
<b>A321neo</b>	-	-	-	7	-	5	6
<b>B737-800</b>	-	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 – September 30, 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.-September 2016	Jan.September 2015	Change (%)
TOTAL	Number of Passengers (mn)	18,08	16,84	7,4%
	Cycle	125.470	114.113	10,0%
	Number of Seats (mn)	23,09	21,18	9,0%
	Load Factor	pp <b>78,3%</b>	<b>79,5%</b>	<b>-1,2%</b>
	ASK <sup>(1)</sup> (mn km)	23.017	21.003	9,6%
	Passengers per Cycle	144	148	-2,4%
	Block Hours <sup>(3)</sup>	12,4	12,7	-2,6%
DOMESTIC	Number of Passengers (mn)	11,42	10,30	10,9%
	Cycle	74.051	66.834	10,8%
	Number of Seats (mn)	13,82	12,52	10,4%
	Load Factor	pp <b>82,6%</b>	<b>82,3%</b>	<b>0,3%</b>
	ASK (mn km)	8.324	7.316	13,8%
INTERNATIONAL <sup>(2)</sup>	Passengers per Cycle	154	154	0,1%
	Number of Passengers (mn)	6,66	6,54	1,9%
	Cycle	51.419	47.279	8,8%
	Number of Seats (mn)	9,27	8,66	7,0%
	Load Factor	pp <b>71,9%</b>	<b>75,5%</b>	<b>-3,6%</b>
	ASK (mn km)	14.693	13.687	7,4%
	Passengers per Cycle	130	138	-6,3%

<sup>(1)</sup> Refers to available seat kilometres, and is equal to the number of seats available for passengers during a specified period multiplied by the number of kilometres that those seats are flown.

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

<sup>(3)</sup> 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, 2016**

<b>Summary Balance Sheet (thousand TL)</b>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>Change</b>
Current assets	1.751.297	1.833.732	-4%
Fixed assets	2.961.222	2.264.365	31%
Total assets	4.712.519	4.098.097	15%
Short-term liabilities	978.348	991.846	-1%
Long-term liabilities	2.125.731	1.653.520	29%
Shareholders' equity	1.608.440	1.833.732	-4%
<b>Summary P&amp;L (thousand TL)</b>	<b>30.09.2016</b>	<b>30.09.2015</b>	<b>Change</b>
Sales income	2.860.023	2.737.023	4%
Gross profit	306.491	467.609	-34%
Profit/(loss) from operations	-4.995	280.340	-102%
Operating profit before financial income/(expense)	-9.036	303.905	-103%
Profit/(loss) before tax	57.498	270.568	-79%
Profit/(loss) for the period	43.279	197.851	-78%
Earnings/(loss) per share	0,0004	0,0019	-79%
<b>Changes in Financial Position (thousand TL)</b>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>Change</b>
Cash and cash equivalents	657.183	954.974	-31%
Financial liabilities	1.817.618	1.415.437	28%
Net debt position <sup>(1)</sup>	1.160.435	460.463	152%

<sup>(1)</sup> 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 aircraft acquired by way of financial lease through loans obtained from various banks. As of September 30, 2016, the outstanding balance of the total loans borrowed for the financing of 28 aircraft acquired by way of financial lease is TL 1.770.364.084

Furthermore, as of September 30, 2016, Pegasus and its subsidiaries had drawn TL 9.141.513 on cash loans and TL 525.321.842 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 six 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 Six Month Period Ending on September 30, 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 Extraordinary Shareholders' Meeting of our Company will be held on Friday, November 11, 2016 at the Company headquarters located at Aeropark, Yenişehir Mahallesi, Osmanlı Bulvarı No: 11/A Kurtköy 34912 Pendik, Istanbul, at the request of the Board of Directors, and will convene to discuss the following agenda items.

- 1) Submission of the appointment made for the replacement of the resigning member of the Board of Directors in accordance with Article 363 of the Turkish Commercial Code, to the approval of the General Assembly
- 2) Appointment of Stephen Mark GRIFFITHS, nominated by the Board of Directors, as a member of the Board of Directors and determination of his term of office
- 3) Determination of the salary, honorarium, bonus and similar financial rights of the non-executive members of the Board of Directors for whom no honorarium has previously been determined
- 4) Authorization of the members of the Board of Directors appointed after April 7, 2016 to enter into transactions within the scope of Articles 395 and 396 of the Turkish Commercial Code
- 5) Discussion and approval of the changes to the "Pegasus Donations and Charitable Contributions Policy" proposed by the Board of Directors

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

None.