



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN JANUARY 1 – JUNE 30, 2018
AUGUST 13, 2018

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PEGASUS

REVIEW REPORT ON COMPLIANCE OF INTERIM OPERATING REPORT

To the Board of Directors of Pegasus Hava Taşımacılığı Anonim Şirketi

We have been assigned to do the review on the compliance of the financial information included in the accompanying interim operating report of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group") as of June 30, 2018, with the interim condensed consolidated financial statements, which have been reviewed. Interim operating report is the responsibility of the Group management. Our responsibility as the auditors is to express a conclusion regarding if the financial information included in the accompanying interim operating report is consistent with the interim condensed consolidated financial statements and explanatory notes, which have been reviewed as the subject of the review report dated August 13, 2018.

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial information included in the accompanying interim operating report is not consistent, in all material respects, with the information disclosed in the interim condensed consolidated financial statements and explanatory notes, which have been reviewed.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



13 August 2018
İstanbul, Türkiye

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – JUNE 30, 2018

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2018 – June 30, 2018
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

Pegasus has an issued capital of TL 102,272,000, within the authorized capital ceiling of TL 500,000,000. Information on the capital and shareholding structure of Pegasus as of January 1, 2018 and June 30, 2018, respectively, is shown in the table below.

<i>Shareholder</i>	<u>January 1, 2018</u>		<u>June 30, 2018</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, 2018 and June 30, 2018 are as follows.

<i>Shareholder</i>	<u>January 1, 2018</u>	<u>June 30, 2018</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 June 30, 2018, 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 June 30, 2018 has investments in the aviation and transportation, 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 June 30, 2018 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 the date of this Report, Pegasus offered scheduled passenger services on 39 domestic routes in Turkey and 70 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 109 destinations in 42 different countries.

Pegasus also offers various 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 2018, the revenue recorded from ancillary services constituted 26 % of total revenue for the period, while ancillary revenue increased by 53% in same period 2017.

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 the first six months of 2018.

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 June 30, 2018, 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	April 4, 2018 – 2018 GA ⁽¹⁾
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairman of the Board	April 4, 2018 – 2018 GA ⁽¹⁾
Sertaç HAYBAT	Non-Executive Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Mehmet Cem KOZLU	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Saad Hassan HAMMAD	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Hatice Zeynep Bodur OKYAY	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Stephen Mark GRIFFITHS	Independent Board Member	April 4, 2018 – 2018 GA ⁽¹⁾
Michael Glyn POWELL	Non-Executive Board Member	April 4, 2018 – 2018 GA ⁽¹⁾

⁽¹⁾ Appointed for a term of one year at the Annual General Assembly Meeting dated April 4, 2018.

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 June 30, 2018 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
M. Barbaros KUBATOĞLU	Chief Financial Officer
Aydın YUMRUTAŞ	Chief Flight Academy Officer ¹

Bariş FINDIK	Chief Information Technologies Officer
Boğaç UĞURLUTEĞİN	Senior Vice-President, Ground Handling
Dilara OĞUR	Chief Human Resources Officer
Ergün DEMİRCİ	Senior Vice-President, Technic
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer
Tayfun BORA	Security Manager

¹ Effective as of July 2, 2018, Mr. YUMRUTAŞ undertakes his role as the designated officer, a position he held by proxy before the said date.

c)- Number of Employees: The total number of full time employees of Pegasus and its consolidated subsidiaries defined in Section (1/E) of this Report, as of June 30, 2018 was 5.646. This number covers the members of our senior management listed above.

There are no employees under a collective bargaining agreement.

Information on benefits provided to Pegasus to our employees 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 June 30, 2018. As of June 30, 2018, 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 58,681,833	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 June 30, 2018 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE 30.06.2018
		30.06.2018	30.06.2017	Growth (%)	30.06.2018	30.06.2017	Growth (%)	
B737-400	3,148	1	1	0%	168	168	0%	20,04
B737-800	4,360	45	53	-15%	8,505	10,017	-15%	7,66

Airbus A320CEO	3,300	12	12	0%	2,172	2,172	0%	4,13
Airbus A320NEO	3,700	21	10	110%	3,906	1,860	110%	0,93
TOPLAM		79	76	-4%	14,751	14,217	-4%	5,72

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. As of December 31, 2017, 15 A320neo aircraft had joined Pegasus fleet. Pegasus is the first customer of CFM-Leap series engine used on A320neo aircraft.

In December 2017, Pegasus exercised its option for 25 additional aircraft and converted these option aircrafts to firm orders in A321neo configuration, subject to an additional option to reconvert the order to A320neo configuration subject to the applicable notice periods prior to the scheduled delivery of aircraft.

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

Aircraft Type	2016	2017	2018	2019	2020	2021	2022	2023	2024
A320neo	9	6	7	7	13	8	7	0	0
A321neo	0	0	0	7	0	5	11	10	10

In addition to A320neo/A321neo order, in 2016 Pegasus had placed an order with Boeing for the purchase of five new B737-800NG aircraft. The deliveries of the three aircraft remaining under this order as of June, 30, 2018 were completed as of August 2018.

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 – June 30, 2018 compared against the same period in 2017 and the year-over-year changes for the relevant line items are set out in the following charts:

		Jan.-Jun. 2018	Jan.-Jun. 2017	Change (%)
Total	Number of Passengers (mn) Cycle	14,39	12,63	13,9
	Number of Seats (mn)	91.010	82.705	10,0
	Load Factor	16,86	15,32	10,0
	ASK ⁽¹⁾ (mn km)	85,4	82,5	2,9
	Passengers per Cycle	16.368	15.023	8,9
	Utilization (Block Hours) ⁽²⁾	158	153	3,5
Domestic	Number of Passengers (mn) Cycle	12,4	11,5	7,9
	Number of Seats (mn)	8,93	7,82	14,2
	Load Factor	54.104	48.710	11,1
	ASK (mn km)	10,11	9,11	10,9
	Passengers per Cycle	88,4	85,8	3,0
	Utilization (Block Hours) ⁽²⁾	6.136	5.532	10,9
International	Number of Passengers (mn) Cycle	165	161	2,8
	Number of Seats (mn)	5,25	4,69	11,9
	Load Factor	35.445	33.078	7,2
	ASK (mn km)	6,51	6,07	7,4
	Passengers per Cycle	80,5	77,2	3,3
	Utilization (Block Hours) ⁽²⁾	9.846	9.281	6,1
Charter	Number of Passengers (mn) Cycle	148	142	4,4
	Number of Seats (mn)	0,21	0,12	69,3
	Load Factor	1.461	917	59,3
	ASK (mn km)	0,24	0,14	67,9
		385	210	83,2

(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 - Jun 30, 2018			
Summary Balance Sheet (thousand TL)			
Current assets	30.06.2018	31.12.2017	Change (%)
	4.060.123	3.096.832	31%
Fixed assets	6.926.777	4.991.239	39%
Total assets	10.986.900	8.088.071	36%
Short-term liabilities	2.870.637	1.863.751	54%
Long-term liabilities	5.410.079	3.739.682	45%
Shareholders' equity	2.706.183	2.484.638	9%
Summary P&L (thousand TL)			
Sales income	30.06.2018	30.06.2017	Change (%)
	2.892.400	2.109.265	37%
Gross profit	141.503	(11.889)	-1290%
Income/(loss) from operations	19.489	(167.432)	-112%
Operating income/(loss) before financial expense	46.368	(21.067)	-320%
Income before tax	(80.140)	(41.993)	91%
Net income for the period	(99.735)	(46.309)	115%
Income per share	(0,0010)	(0,0004)	150%
Changes in Financial Position (thousand TL)			
Cash and cash equivalents	30.06.2018	31.12.2017	Change (%)
	2.081.409	1.988.110	5%
Financial liabilities	5.088.151	3.608.480	41%
Net debt position ⁽¹⁾	3.006.742	1.620.370	86%

⁽¹⁾ 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 June 30, 2018, the outstanding balance of the total loans borrowed for the financing of 34 aircraft acquired by way of financial lease is TL 4.525.659.778.

Furthermore, as of June 30, 2018, Pegasus and its subsidiaries had drawn TL 506.237.699 on cash loans and TL 1.195.745.786 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 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 Company applied to benefit from the provisions of the Law No. 7143 regarding the Restructuring of Certain Tax and Other Receivables and the Amendment of Tax and Certain Other Laws for the additional tax liability and tax penalty imposed against the Company in respect of income tax withholding and stamp tax for the year 2014. In this framework, the Company expects the conclusion of the disputes regarding the said tax accrual and penalty upon upfront payment for a total liability of approximately TL 19.8 million, including the interest accruing based on Domestic Producers' Price Index.

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

None.