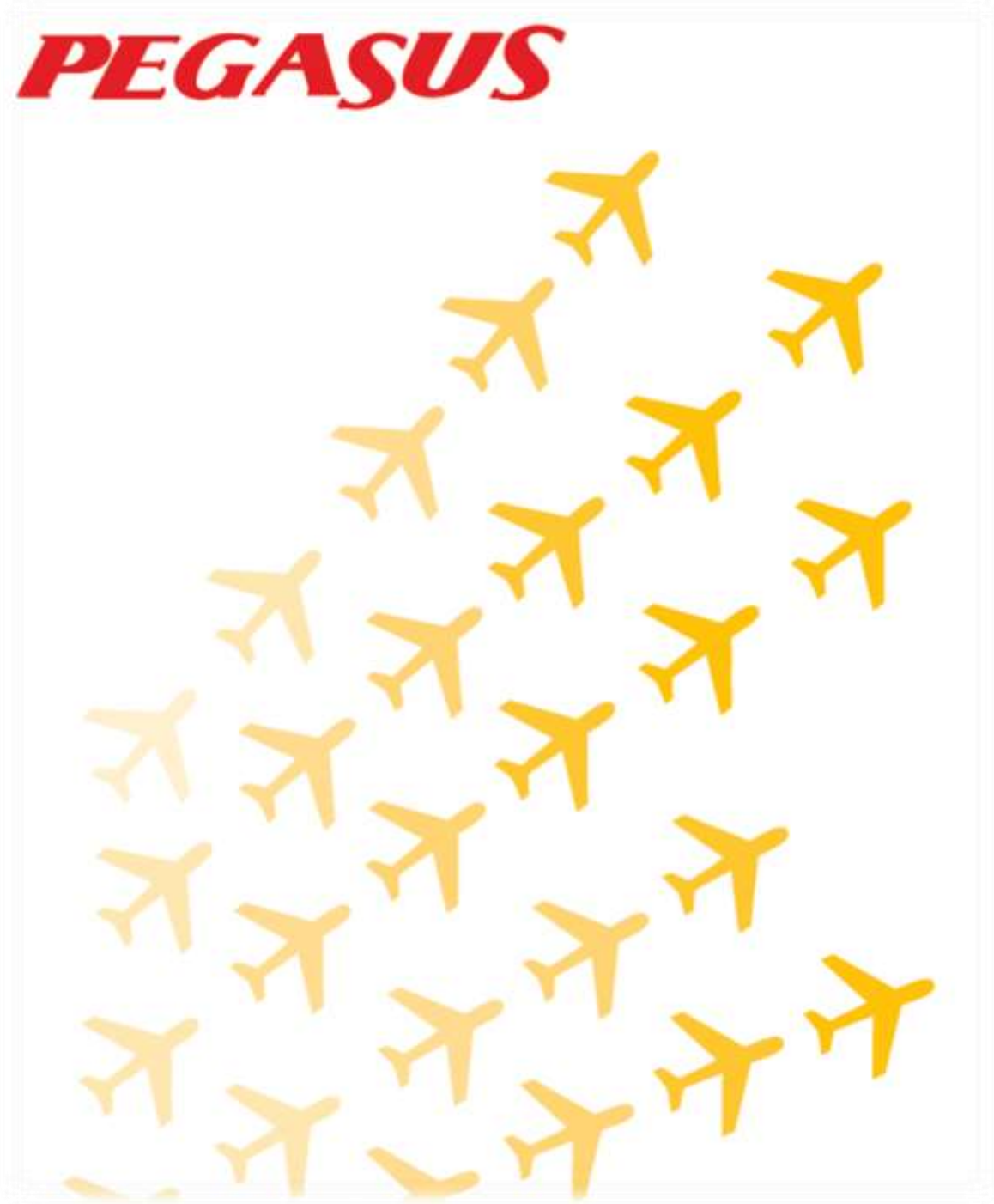


PEGASUS



INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS

FOR THE PERIOD JANUARY 1 – SEPTEMBER 30, 2014

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ

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INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
JANUARY 1 – SEPTEMBER 30, 2014

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2014 - September 30, 2014
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
Fax. +90 216 560 7001
Corporate Website. www.flypgs.com
Investor Relations Website.
<http://www.pegasusinvestorrelations.com>

Branch Information :
(1) Pegasus Hava Taşımacılığı A.Ş. Germany Branch – Berliner Allee 47 D-40212 Düsseldorf
(2) Pegasus Hava Taşımacılığı A.Ş. Netherlands Branch – Vertrekpassage 258, 118AW Schipol

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. No changes have taken place with respect to the Company's shareholding structure since December 31, 2013. Information on the capital and shareholding structure of Pegasus as of September 30, 2014 is shown in the table below.

	June 30, 2014	
Shareholder	Number of Shares	Shareholding Ratio
Esas Holding A.Ş. ("Esas Holding")	64,353,570	62.92%
Publicly Traded	35,294,000	34.51%
Sabancı Family Members	2.624.430	2.57%
Total	102,272,000	100%

As of September 30, 2014, Esas Holding is the controlling shareholder of Pegasus. Esas Holding is a holding company founded in 2000 by Şevket Sabancı and his family and as of September 30, 2014 has investments in the aviation, retail , food, healthcare ,real estate and logistics sectors in and outside of Turkey. Esas Holding is fully owned by Şevket Sabancı 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 2013 at 13%, the cumulative annual growth rate of the scheduled 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, Antalya and İzmir. As of September 30, 2014, Pegasus offered scheduled passenger services on 30 domestic routes in Turkey and 56 international routes to European (including North Cyprus), CIS and Middle Eastern destinations, serving a flight network covering 86 destinations in 36 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 nine months of 2014, the revenue recorded from ancillary services constituted 16.3% of total revenue for the period, while ancillary revenue increased by 64 % year-over-year.

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 7.5% of total revenue in the first nine months of 2014.

D- AMENDMENTS TO THE ARTICLES OF ASSOCIATION IN THE REPORTING PERIOD

Made no change in the Articles of Association within the ending period September 2014 apart from the amendment stated in our first and second quarter reports.

E- 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 the date of this Report, the Board of Directors consists of eight members. The identity, duty and term of office of each Director are indicated in the following page.

Name / Surname	Duty	Term of Office
Ali İsmail Sabancı	Chairman of the Board of Directors	March 31, 2014 - 2015 GA ⁽¹⁾
Hüseyin Çağatay Özdoğru	Vice-Chairman of the Board of Directors	March 31, 2014 - 2015 GA ⁽¹⁾
Mehmet Cem Kozlu	Independent Director	March 31, 2014 - 2015 GA ⁽¹⁾
Mehmet Sağiroğlu	Independent Director	March 31, 2014 - 2015 GA ⁽¹⁾
Şükrü Emre Berkin	Independent Director	March 31, 2014 - 2015 GA ⁽¹⁾
Conor John McCarthy	Non-executive Board Member	March 31, 2014 - 2015 GA ⁽¹⁾
Saad Hassan Hammad	Non-executive Board Member	April 25, 2014 - 2015 GA ⁽²⁾
Sertaç Haybat	Board Member and CEO	March 31, 2014 - 2015 GA ⁽¹⁾
⁽¹⁾	Appointed for a term of one year at the Annual General Assembly dated March 31, 2014	
⁽²⁾	Raymond Douglas Webster resigned as member of the Board of Directors effective as of April 25, 2014 and Saad Hassan Hammad was appointed to replace him for the remaining term of office as per Article 363 of the Turkish Commercial Code. The appointment will be submitted for the approval of our shareholders at the next General Assembly Meeting.	

b)- Senior Management: Pegasus senior management comprises the CEO, management personnel directly reporting to the CEO 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. ("İzAir") and Air Manas Air Company LLC ("Air Manas") among senior management. Information on the Pegasus senior management and their duties is provided in the following chart.

Name / Surname	Duty
Sertaç Haybat	President & CEO
Serhan Ulga	Senior Vice-President, Finance, CFO
Güliz Öztürk	Senior Vice-President, Commerce
Nadir Kabaş	Senior Vice-President, Flight Operations
Servet Ulaşan	Senior Vice-President, Technical
Nurçin Özsoy	Senior Vice-President, Cabin Services
Nasuh Nazif Çetin	Senior Vice-President, Foreign subsidiaries
Boğaç Uğurluteğin	Senior Vice-President, Ground Operations

Kemal Mustafa Helvaciođlu	Vice-President, Safety Management and Quality
Aycan Kurtuđlu	Vice-President, Information Technologies
Verda Beste Tařar	Vice-President, Investor Relations
Cahit Tařbař	Vice-President, Flight Training
Mine Öztürk	Chief Audit Executive
Barbaros Kubatođlu	Vice-President, Financial Controller
Tamer Yüzüak	Vice-President, Strategic Planning and Finance
Sezer Özmutlu	Vice-President, Revenue Control
Zeynep Didem Egeli	Vice-President, Human Resources
Emre Pekesen	Vice-President, Sales
Onur Dedeköylü	Vice-President, Marketing
Turgut Atay	Vice-President, Network
Aydın Alpa	Vice-President, Cargo
Muzaffer řimřek	Vice-President, Flight Operations (Head Pilot)
Ömer Kaya	Vice-President, Performance & CIT
Tahsin İstanbullu	Vice-President, Technic
Ersel Geyik	Vice-President, Support Services
İpek Döřer	Vice-President, Cabin Services
Tayfun Bora	Manager, Security
Gürol Yüksel	CEO, İHY İzmir Havayolları A.ř.
İlgar Alptekin	CEO, Air Manas Air Company LLC

c)- Number of Employees: The total number of full time employed Family Members of Pegasus and its consolidated subsidiaries defined in Section (1/F) of this Report, as of December 31, 2013 and September 30, 2014, respectively were 3,105 and 3,516. This number covers the members of our senior management listed above.

F- 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, 2014.

As of September 30, 2014 Pegasus does not have any indirect subsidiaries or joint ventures.

Commercial Title	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share Percentage	Affiliation with Pegasus
İHY İzmir Havayolları A.ř. ("İzAir")	Turkey / Scheduled and unscheduled air transportation	TL 59,500,000	TL 41,125,000	69.%	Subsidiary ⁽¹⁾
İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.ř. ("İzmirliiler Otelcilik")	Turkey / Hotel and gas station operations	TL 4,205,000	TL 2,499,995	59%	Subsidiary
Pegasus Uçuř Eđitim Merkezi A.ř. ("PUEM")	T.C. / Simulated flight training	TL 200,000	TL 98,800	49%	Joint Venture
Air Manas Air Company LLC ("Air Manas")	Kyrgyzstan / Scheduled and unscheduled air transportation	KGS 12,425,000	KGS 6,088,250	49%	Subsidiary

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 June 30, 2014, 38 aircraft have been taken delivery. Pegasus expects to take delivery of the remaining two aircraft under the Boeing orders in 2015.

In addition to the aircraft subject to the Boeing orders, as of September 30, 2014 Pegasus consolidated fleet includes a total of 15 aircraft obtained through operational lease agreements. Aircraft which includes through sales and lease back agreements to our fleet, are not included to this number.

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 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE September 30, 2014
		September 30, 2013 (1)	September 30, 2014	Growth (%)	September 30, 2013 (1)	September 30, 2014	Growth (%)	
B737-400	3,148	1	1	-	168	168	-	16.25
B737-800	4.360	44	49	11.3	8.316	9.261	11.36	4.76
Airbus A320	3.900	-	4	100	-	720	100	0.70
TOTAL		45	54	20	8.484	10.149	19.6	4.68

In July 2012, Pegasus placed an order with Airbus for 57 firm order A320neo and 18 firm order A321neo aircraft, totaling 75, and an additional 25 optional aircraft, thereby constituting a purchase order for 100 new aircraft.

The delivery schedule for our firm order B737-800NG and A320neo/A321neo orders is as follows:

Aircraft Type	2014	2015	2016	2017	2018	2019	2020	2021	2022
B737-800NG		2							
A320neo			7	5	10	14	13	8	
A321neo								5	13
*	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.								

As of the date of this Report, and subject to the market conditions and changes that may take place in connection therewith, Pegasus expects to increase the number of aircraft in its consolidated fleet to 55 at the end of 2014.

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, 2014 compared against the same period in 2013 and the year-over-year changes for the relevant line items are set out in the following charts:

Pegasus Operational Results for the Period January 1, 2014 - September 30, 2014			
Domestic	September 30, 2014	September 30, 2013	Change %
Number of passengers (<i>million</i>)	9,06	7,60	19,3%
Number of seats (<i>million</i>)	10,96	9,27	18,2%
Load factor (%)	82,7%	82,0%	0,7%
Cycle	58.492	49.344	18,5%
Passengers per cycle	155	154	0,6%
ASK ⁽¹⁾ (<i>million</i>)	6.362	5.271	20,7%
International ⁽²⁾			
Number of passengers (<i>million</i>)	5,96	4,98	19,5%
Number of seats (<i>million</i>)	7,67	6,33	21,2%
Load factor (%)	77,7%	78,7%	-1,0%
Cycle	42.026	34.587	21,5%
Passengers per cycle	142	144	-1,6%
ASK (<i>million</i>)	12.035	9.805	22,7%
Transfer passengers ratio (%) ⁽³⁾	28.18	26.87	1.3pp

Total			
Number of passengers (<i>million</i>)	15,02	12,58	19,4%
Number of seats (<i>million</i>)	18,63	15,60	19,4%
Load factor (%)	80,6%	80,6%	0,0%
Cycle	100.518	83.931	19,8%
Passengers per cycle	149	150	-0,3%
ASK (<i>million</i>)	18.397	15.076	22,0%
Block hours ⁽⁴⁾	178.010	143.692	23,9%
Average daily aircraft utilization (<i>hours</i>)	12,8	12,8	-0,1%
Destinations flown ⁽⁵⁾	86	71	
➤ Domestic	30	28	
➤ International	56	43	
Number of aircraft in fleet ⁽⁶⁾	54	45	

⁽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⁾ Includes charter operational results.

⁽³⁾ Represents the percentage of a combination of two or more successive Pegasus operated flights that a passenger takes under one ticket and includes at least one international scheduled flight, among all international flights.

⁽⁴⁾ Refers to the hours from an aircraft's take-off to landing (including taxi time)

⁽⁵⁾ Includes destinations announced and for which ticket sales have commenced

⁽⁶⁾ As of December 31, 2013, includes the aircraft in IzAir and Air Manas fleets whereas for December 31, 2012, excludes the three B737-800 aircraft comprising the IzAir fleet and allocated for joint split charter operations between Antalya and various cities in Germany under the Air Berlin Turkey brand name

Pegasus Financial Results for the Period January 1, 2014 - September 30, 2014			
Summary Balance Sheet (Turkish Lira)	September 30, 2014	September 31, 2013	Change %
Current assets	1.721.887.494	1.220.215.191	41
Fixed assets	2.095.671.578	2.277.989.446	-8
Total assets	3.817.559.072	3.498.204.637	9
Short-term liabilities	847.951.894	677.597.387	25
Long-term liabilities	1.629.609.556	1.674.380.165	-3
Shareholders' equity	1.339.997.622	1.146.227.085	17
Summary Profit and Loss Statement	September 30, 2014	September 30, 2013	Change %
Sales income	2.419.814.918	1.824.288.693	33
Gross profit	425.608.206	441.962.071	-4
Profit/(loss) from operations	307.786.261	285.616.247	8
Operating profit before financial income/(expense)	314.603.299	283.091.791	11
Profit/(loss) before tax	307.138.125	226.025.965	36
Profit/(loss) for the period	234.137.498	159.420.411	47
Earnings/(loss) per share	2,30	1,77	30
Changes in Financial Position	September 30, 2014	December 31, 2013	Change %
Cash and cash equivalents	1.235.491.384	877.401.671	41
Financial liabilities	1.496.561.341	1.626.359.342	-8
Net debt position (1)	261.069.957	748.957.671	-65
⁽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 September 30, 2014, the outstanding balance of the total loans borrowed for the financing of 27 aircraft acquired by way of financial lease is TL 1.482.153.001. Furthermore, as of September 30, 2014, Pegasus and its subsidiaries have drawn TL 337.456.777 on non-cash loans under their 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.

Our Company also maintains a Directors' and Officers' Liability Insurance for an aggregate liability limit of 25.000.000 US Dollars.

The risk management policies implemented by Pegasus in the first six months of 2014 within the framework of the 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 set out in Note 21 to the Consolidated Financial Statements of the Company for the 6-month Period ended on September 30, 2014.

3- OTHER MATTERS

B- MATERIAL EVENTS TAKING PLACE AFTER PERIOD END THAT MAY AFFECT THE RIGHTS AND BENEFITS OF THE SHAREHOLDERS, CREDITORS AND OTHER RELATED PERSONS AND ENTITIES

After the reporting period the company made the below announcements to the Public Disclosure Platform namely as material events that may affect the rights and benefits of the shareholders, creditors and other related persons and entities

On the purpose of determining the compliance level of Corporate Governance Principals the company nominated Kobirate International Credit Rating and Corporate Governance Services. At the end of the rating process, which has been conducted under the main headings of Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors, the Corporate Governance Compliance Rating Grade determined as 8,77 .

In connection with the information provided in section 3.4.7 "Agreements relating to IzAir" of the Company's offering circular published on April 13, 2013 and Note 1 to the Company's consolidated financial statements for the year ending December 31, 2013, the call option granted to Air Berlin to increase its current shareholding in our consolidated subsidiary, IHY Izmir Havayolları A.Ş., from 29.51%

to 47.62% has not been exercised by Air Berlin as of August 14, 2014, the last day available for the exercise of such right.

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

None.