

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
BOARD OF DIRECTORS ACTIVITY REPORT FOR THE PERIOD 01.01.2013 – 30.09.2013

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : 01.01.2013 - 30.09.2013
Commercial Title : Pegasus Hava Taşımacılığı A.Ş.
Trade Registry Information : İstanbul Ticaret Sicili / 261186
Corporate Headquarters : Aeropark, Yenişehir Mah., Osmanlı Bul., No: 11 Kurtköy 34912
Pendik / İstanbul
Branch Address : None
Contact Information : Telephone. +90 216 560 7000
Fax. +90 216 560 7001
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B- CAPITAL AND SHAREHOLDING STRUCTURE OF PEGASUS

As part of the initial public offering of Pegasus shares in April 2013, Pegasus adopted the authorized capital system and within the authorized capital ceiling of TL600,000,000 increased its issued capital from TL75,000,000 to TL102,272,000. Information relating to the capital and shareholding structure of Pegasus as of 01.01.2013 and 30.09.2013 is provided in the table below.

Shareholder	01.01.2013		30.09.2013	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Esas Holding A.Ş. ("Esas Holding")	72,375,570	%96.50	64,353,570	%62.92
Publicly Traded	-	-	35,294,000	%34.51
Emine Kamışlı	874,810	%1.17	874,810	%0.86
Ali İ. Sabancı	874,810	%1.17	874,810	%0.86
Kazım Köseoğlu	437,405	%0.58	437,405	%0.43
Can Köseoğlu	437,405	%0.58	437,405	%0.43
Total	75,000,000	%100	102,272,000	%100

C- Organizational Structure and Fields of Operation of the Company

Pegasus Hava Taşımacılığı A.Ş., which was founded as a joint venture company on 1990 by Aer Lingus Group, Silkar Yatırım ve İnşaat Organizasyonu A.Ş. and Net Holding A.Ş., entered into commercial operation with two airplanes. After being acquired on 2005 by Esas Holding A.Ş., Pegasus started scheduled domestic flights in November of the same year and became the 4th top among the scheduled airlines operating in Turkey. Pegasus is a leading low-cost airline in Turkey, which provides reasonably-priced transportation opportunities on point-to-point basis in short and medium range flight lines and aims to set up a wide flight network with high flight frequency for guests. Pegasus extended its flight network, which was initially composed of 6 domestic locations at the beginning of scheduled flights, up to 76 locations and currently has 45 abroad and 31 domestic flight locations in 30 countries.

Consistently growing Pegasus, has been granted the title of “Fastest Growing Airline in Europe” both in 2011 and 2012 among 25 biggest airline companies among Europe; according to ranking based on seat capacity data given in Official Airline Guide (OAG) report.

D- INFORMATION ON SHARE PRIVILEGES

There are no privileged shares issued by Pegasus.

E- INFORMATION ON AMENDMENTS TO THE ARTICLES OF ASSOCIATION DURING THE REPORTING PERIOD

Several articles of Pegasus Articles of Association, for which the approval of the Capital Markets Board and the Ministry of Customs and Trade has been obtained, were amended by a decision at the Extraordinary General Assembly meeting dated 11.03.2013. The amendments have brought the Articles of Association in line with the Turkish Commercial Code No. 6102, the Capital Markets Law No. 6362 and the regulations issued in accordance with the foregoing. Information on the amendments has been published in the Turkish Trade Registry Gazette dated 18.04.2013 and numbered 8303. A consolidated text of Pegasus Articles of Association incorporating all amendments to date is available in our Investor Relations website.

F- INFORMATION ON THE GOVERNING BODY, SENIOR MANAGEMENT AND EMPLOYEES OF PEGASUS

a)- Governing Body: The governing body of Pegasus is the Board of Directors which consists of eight directors as of 30.09.2013. Information on the Directors, their duty and term of office is provided in the table below.

Name / Surname	Duty	Term of Office
Ali İsmail Sabancı	Chairman of the Board	27.03.2013 - 2014 GA*
Hüseyin Çağatay Özdoğru	Deputy-Chairman of the Board	27.03.2013 - 2014 GA*
Mehmet Cem Kozlu	Independent Director	27.03.2013 - 2014 GA**
Mehmet Sağıroğlu	Independent Director	27.03.2013 - 2014 GA**
Raymond Douglas Webster	Independent Director	27.03.2013 - 2014 GA*
Conor John McCarthy	Member of the Board	27.03.2013 - 2014 GA*
Şükrü Emre Berkin	Member of the Board	27.03.2013 - 2014 GA*
Sertaç Haybat	Member of the Board and CEO	27.03.2013 - 2014 GA*
*	Appointed for one year at the Ordinary General Assembly meeting dated 27.03.2013.	
**	Appointed on 01.04.2013 by the Board of Directors as per Article 363 of the Turkish Commercial Code in replacement of the resigning Directors, Mr. Michael Charles Lee and Mr. İnan Tanrıöver for the remainder of the term of office. The appointment was approved by the shareholders at the Extraordinary General Assembly meeting dated 22.04.2013.	

b)- Senior Management: Senior management of Pegasus consists of 23 individuals including the CEO and those that directly report to the CEO. Information on Pegasus senior management and their duties is provided in the table below.

Adı / Soyadı	Görevi
Sertaç Haybat	CEO
Serhan Ulga	Senior Vice President, Finance & HR, 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, Flight Services
K. Mustafa Helvacıoğlu	Vice President, Safety Management Systems
Mustafa Hesapçioğlu	Vice President, Quality
Aycan Kurtoğlu	Vice President, Chief Information Officer
Verda Beste Taşar	Vice President, Investor Relations
Cahit Taşbaş	Vice President, Training
Boğaç Uğurluteğin	Vice President, Ground Operations
Mine Öztürk	Vice President, Internal Audit
Barbaros Kubatoğlu	Vice President, Budget and Finance
Tamer Yüzüak	Vice President, Finance and Strategic Planning
Sezer Özmutlu	Vice President, Revenue Control
Emre Pekesen	Vice President, Sales
Onur Dedeköylü	Vice President, Marketing
Aydın Alpa	Vice President, Cargo Operations
Muzaffer Şimşek	Vice President, Flight Operations (Head Pilot)
Ömer Kaya	Vice President, Performance & CIT
Ersel Geyik	Vice President, Support Services
Tayfun Bora	Manager, Security

c)- Number of Employees: As of 30.09.2013 Pegasus had a total of 3,005 full time employees (2,045 as of 31.12.2012), including the members of the senior management listed above.

None of the employees are unionized.

F- INFORMATION ON TRANSACTIONS UNDERTAKEN BY DIRECTORS WITH THE COMPANY AND THEIR ACTIVITIES COMPETING WITH PEGASUS

At the Ordinary General Assembly meeting dated 27.03.2013 and the Extraordinary General Assembly Meeting dated 22.04.2013, members of our Board of Directors have been authorized to conduct transactions with Pegasus on their own and third parties' behalf and to undertake competing activities on their own and third parties' behalf, within the framework of Articles 395 and 396 of the Turkish Commercial Code.

Furthermore, pursuant to Principle 1.3.7 of the Corporate Governance Principles set out in the Communiqué Series: IV, No: 56 regarding the "Determination and Implementation of Corporate Governance Principles" published by the Capital Markets Board, our shareholders are informed through Annual Activity Reports on material commercial transactions undertaken with Pegasus or its subsidiaries by the members of our Board of Directors and senior management as well as their spouses and close relatives on their or on third parties'

behalf that may give rise to a conflict of interest. For the 9-month period that ended 30.09.2013, there are no transactions between said persons and Pegasus.

2- FINANCIAL BENEFITS GRANTED TO THE MEMBERS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate of all honoraries, fees, salary and similar payments, social security payments and health insurance benefits granted to the members of the Board of Directors and our senior management for the 9-month period that ended 30.09.2013 is 3,217, 292.

3- RESEARCH & DEVELOPMENT ACTIVITIES

In the first nine months of 2013 there was no research and development activities undertaken by Pegasus.

4- DIVIDEND POLICY AND DIVIDEND PAYMENTS

The main principles relating to the distribution of profit are laid out in Article 21 of our Articles of Association.

In this framework, in the event there remains distributable profit following the deduction of previous years' losses from the net annual profit relating to a fiscal year, our shareholders have the authority to resolve on the distribution of profit, by taking into consideration our Company's goals and its financing requirements, in cash, in shares or a by using a combination of the two and the completion of distribution within the timeframe foreseen in the applicable law.

The proposal for distribution of profit by our Board of Directors will be prepared in consideration of the above needs and will be submitted to the attention of our shareholders for discussion at the General Assembly. The Board of Directors must inform our shareholders at the General Assembly on how the profit will be used in the event there is no dividend distribution.

Our Articles of Association do not include any provisions granting privileges in respect of the distribution or payment of the Company profit.

Pegasus complies with the provisions of the Turkish Commercial Code No. 6102, the Capital Markets Law No. 6362 and the Corporate Governance Principles determined by the Capital Markets Board relating to the right to receive dividends and distribution of profit.

Pegasus has not made dividend payments for the year that ended 31.12.2013.

5- INFORMATION ON DIRECT AND INDIRECT SUBSIDIARIES AND AFFILIATES OF PEGASUS

Information on the direct and indirect subsidiaries and affiliates of Pegasus as of 30.09.2013 is provided in the table below.

Commercial Title	Registered / Area of Activity	Issued Capital	Nominal Shareholding	Shareholding Ratio	Affiliation to Pegasus
IHY İzmir Havayolları A.Ş. ("İzAir")	Turkey / unscheduled air transport	TL 59,500,000	TL 41,125,000	69.12%	Subsidiary *
İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş.	Turkey / Hotel and gas station	TL 4,205,000	TL 2,499,995	59.45%	Subsidiary

("İzmirliiler Otelcilik")	operations				
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Turkey / Simulator training	TL 200,000	TL 98,800	49.40%	Joint Venture
Air Manas Air Company LLC ("Air Manas")	Kyrgyzstan / scheduled & unscheduled air transport	KGS [12.425.000]	KGS [6.088.250]	49.00%	Subsidiary
*	Following the capital increase decision of IzAir shareholders at the Ordinary General Assembly meeting dated 27.03.2013, shareholding of Pegasus in IzAir increased from 51% to 69.12% and as of 01.04.2013 IzAir is treated as a consolidated subsidiary in our financial statements.				

6- INFORMATION ON SHARE BUYBACK TRANSACTIONS CONDUCTED BY PEGASUS

In the first nine months of 2013 there were no share buyback transactions conducted by Pegasus.

7- EVALUATION OF TARGETS SET OUT IN THE PREVIOUS PERIOD, FULFILLMENT OF SHAREHOLDER DECISIONS AND REASONS FOR ANY SHORTFALL WITH RESPECT TO THE FOREGOING

There are no unachieved targets or unfulfilled General Assembly decisions for the first nine months of 2013.

8- INFORMATION ON EXTRAORDINARY GENERAL ASSEMBLY MEETINGS, IF ANY

Pegasus shareholders convened for two extraordinary meetings during the 9-month period that ended 30.09.2013. Information on meeting dates and decisions adopted at the meetings is provided below while further information including meeting minutes and list of attendees are available in our Investor Relations website.

Date of Extraordinary General Assembly	Decisions Adopted
28.02.2013	<ul style="list-style-type: none"> Amendment of the Articles of Association Adoption of General Assembly Bylaws
04.04.2013	<ul style="list-style-type: none"> Approval of Director appointments to replace resigning members of the Board of Directors and the determination of honoraries payable to the newly appointed Directors Authorization of the newly appointed Directors within the framework of Articles 395 and 396 of the Turkish Commercial Code

9-INVESTMENTS

AIRCRAFT TYPE	RANGE (km)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		30.09.2012	30.09.2013	Change (%)	30.09.2012	30.09.2013	Change (%)	30.09.2013
Boeing 737-400	3.148	2	1	-50,00%	336	168	-50,00%	15,50
Boeing 737-800	4.630	37	39	5,41%	6.993	7.371	5,41%	3,26
TOTAL		39	40	2,56%	7.329	7.539	2,86%	3,57

Since 2005, Pegasus placed firm purchase orders with Boeing for 40 new 737-800NG aircraft, of which 36 have been delivered. As of 30.09.2013, we have four outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in the last quarter of 2013, one to be delivered in 2014 and the remaining two aircraft to be delivered in 2015.

The following table shows the expected expansion of our fleet between 2013 and 2022, which is the expected final year of deliveries of the firm order aircraft under the Airbus Order, assuming first deliveries under the Airbus Order take place in 2016 and excluding expected outflow of aircraft. As mentioned in the disclosure we published on the Public Disclosure Platform (www.kap.gov.tr) on 05.07.2013, we chose CFMI's Leap type engine for the aircraft to be delivered under the Airbus Order, as a result of which the delivery of the aircraft will commence in 2016. The delivery timetable for the firm order Boeing and Airbus aircraft is provided below.

AIRCRAFT TYPE	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Boeing 737-800NG	3 ⁽¹⁾	1	2	-	-	-	-	-	-	-
Airbus A320neo (2)	-	-	-	7	5	10	14	13	8	-
Airbus A321neo (2)	-	-	-	-	-	-	-	-	5	13

(1) 2 new Boeing 737-800NG aircraft scheduled for delivery in 2013 have been delivered as of 30.09.2013.

(2) If we exercise, either in part or in full, the option under the Airbus Order for 25 additional aircraft, the deliveries of these aircraft will commence after 2022 unless earlier deliveries are agreed between Airbus and us .

10- DONATIONS

Pegasus did not make any donations or other charitable contributions during the 9-month period that ended 30.09.2013.

11-RISK MANAGEMENT

a)- Foreign currency risk management

The Group has significant transactions in non-euro currencies including, but not limited to, Turkish Lira revenues, non-euro borrowings and US dollars fuel purchases. These non-euro denominated transactions expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. Foreign currency position of the Group for the periods ended 30 September 2013 and 31 December 2012 stated on the Financial Note 21 of our Condensed Consolidated Financial Statements for the nine months interim report.

b)- Management of Fuel Oil Price Risks

In order to improve the accuracy of its fuel oil procurement plans, and protect itself against risks that are associated with fuel oil prices, the Group takes measures for protection from financial risks by means of various options and swap deals with financial institutions for up to 60% of its estimated fuel oil costs which are anticipated to be incurred for up to 12 months. In 2012 when the program for protection from risks associated with fuel oil prices was implemented for the first full year, 45% of overall consumption volume was covered under protection from financial risks. As of September 30, 2013, deals were performed for protection from financial risks for 48.4% of estimated fuel oil consumption for the year 2013.

c)- Management of Liquidity Risks

The Group manages its liquidity risks by regularly following up its estimated and actual cash flows, and ensuring the continuance of sufficient funds and borrowing reserves through matching of financial assets and maturities of liabilities

12 OPERATIONAL AND FINANCIAL DATA

BALANCE SHEET	30 September 2013	31 December 2012	Change %
Current Assets	1.277.254.128	339.329.147	276%
Non-Current Assets	2.122.910.413	1.869.681.888	14%
TOTAL ASSETS	3.400.164.541	2.209.011.035	54%
Current Liabilities	733.327.029	538.075.762	36%
Non-Current Liabilities	1.537.386.086	1.343.583.125	14%
Shareholders' Equity	1.129.451.426	327.352.148	245%
TOTAL LIABILITIES AND EQUITY	3.400.164.541	2.209.011.035	54%

CONSOLIDATED INCOME STATEMENT	January September 13	January September 12	Change %
Sales	1.828.002.780	1.469.380.589	24%
Gross Profit	443.280.594	245.036.713	81%
Operating profit	285.616.247	159.717.775	79%
Operating profit before financial expense	283.091.791	155.209.512	82%
Profit before tax	226.025.965	117.026.806	93%
Profit for the period	159.420.411	88.151.750	81%
Earnings per share (TL)	1,77	1,18	51%

CHANGES IN FINANCIAL PERFORMANCE	30 September 2013	31 December 2012	Change %
Cash and Cash Equivalents	958.801.229	210.150.238	356%
Financial Liabilities	1.495.526.121	1.426.874.045	5%
Net Debt(*)	-536.724.892	-1.216.723.807	144%

(*) Net Debt: Cash and Cash Equivalents-Financial Liabilities

OPERATIONAL TRAFFIC RESULTS	January September 13	January September 12	Değişim %
Pax (mio)	12,58	10,29	22,3%
Seat (mio)	15,60	13,03	19,7%
Load factor (%)	80,6%	78,9%	1,7%
Cycle	83.931	70.521	19,0%
Pax per cycle	150	146	2,8%
ASK (mio)	15.076	12.402	21,6%
Block Hour	143.692	128.755	11,6%
Utilization (per BH)	12,8	11,9	7,6%
Destinations Flown	71	56	-

13- CORPORATE GOVERNANCE COMPLIANCE STATEMENT

Pegasus evaluates compliance with the Corporate Governance Principles published by the Capital Markets Board and to adopt regulations to comply with the changing corporate governance environment in light of the developments in capital markets. Pegasus aims to undertake the necessary work relating to corporate governance compliance with respect to all actions concerning shareholder rights, public disclosures and transparency, stakeholders and the Board of Directors. In this respect, we aim to ensure compliance with the relevant principles by ensuring equal treatment of stakeholders, assuming responsibility to inform and commitment to corporate governance principles. Corporate governance principles play a

determining role for Pegasus within the broader context of national and international capital markets.

Work to produce more comprehensive and long-term results of corporate governance compliance in the future is underway and Pegasus acts aware of the responsibility bestowed on it by these principles.

This Activity Report has been prepared in accordance with the "Regulation Determining the Minimum Content of Annual Reports" published by the Ministry of Customs and Commerce in the Official Gazette dated 28.08.2012 and numbered 28395 and the Capital Markets Board Communiqués No. II-14.1 regarding "Financial Reporting in Capital Markets" and Series: IV, No: 56 regarding the "Determination and Implementation of Corporate Governance Principles.