



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN JANUARY 1 – SEPTEMBER 30, 2019

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PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
INTERIM ACTIVITY REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD JANUARY 1 – SEPTEMBER 30, 2019

This Report is prepared in accordance with the Regulation on the Determination of the Minimum Content of Company Interim Reports published by the Turkish Ministry of Commerce, the Financial Reporting in Capital Markets Communiqué No. II-14.1, the Corporate Governance Communiqué No. II-17.1 and the Corporate Governance Principles published by the Turkish Capital Markets Board and other applicable provisions of Turkish law.

As used in this Report, the following terms shall have the meanings indicated below:

- **“Air Manas”** refers to Air Manas Air Company LLC.
- **“Board”** or **“Board of Directors”** refers to the Pegasus Board of Directors.
- **“Company”** or **“Pegasus”** refers to Pegasus Hava Taşımacılığı A.Ş., more fully described in Section 1/A of this Report.
- **“Esas Holding”** refers to Esas Holding A.Ş., the controlling shareholder of Pegasus.
- **“Hitit CS”** refers to Hitit Bilgisayar Hizmetleri A.Ş., a joint venture affiliate of Pegasus.
- **“PFTC”** refers to Pegasus Uçuş Eğitim Merkezi A.Ş., a joint venture affiliate of Pegasus.
- **“PHT”** refers to Pegasus Havacılık Teknolojileri ve Ticaret A.Ş., a 100% owned subsidiary of Pegasus.
- **“Principles”** refers to the Corporate Governance Principles published by the Turkish Capital Markets Board.
- **“Report”** refers to this Annual Report of the Pegasus Board of Directors.

1- GENERAL INFORMATION

A- GENERAL INFORMATION ON PEGASUS

Reporting Period : January 1, 2019 – September 30, 2019
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 102,299,707, within the authorized capital ceiling of TL 500,000,000. Information on the capital and shareholding structure of Pegasus as of January 1, 2019 and September 30, 2019, respectively, is shown in the table below.

Shareholder	January 1, 2019		September 30, 2019	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Esas Holding A.Ş.	64,353,570	62.92%	64,353,570	62.92%
Publicly Traded	35,294,000	34.53%	35,294,000	34.53%
- Publicly Traded Shares Prior to IzAir Merger	35,294,000	34.50%	35,294,000	34.50%
- Shares issued for IzAir Merger	27,707	0,03%	27,707	0,03%
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	102,299,707	100%	102,299,707	100%

As of September 30, 2019, 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, 2019 has investments in the aviation, retail and entertainment, manufacturing, food, pharmaceuticals, education 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, 2019 is provided in Section 1/E of this Report.

C- INFORMATION ON BUSINESS ACTIVITIES

Pegasus is Turkey's leading low-cost airline. Pegasus operated charter flights since 1990. Following its acquisition by Esas Holding at the beginning of 2005, Pegasus changed its business model, introducing a low-cost network carrier model for the first time in Turkey 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 and international routes. Between 2009 and 2018, Pegasus' cumulative average annual passenger growth more than doubled Turkish market's 11% CAGR and reached 26%. Pegasus also became 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). With a growing, young and modern fleet of 84 aircraft with 5.55 average aircraft age as of September 30, 2019, Pegasus aims to be the leading low-cost airline in the region.

Pegasus provides 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. As of September 30, 2019, Pegasus offered scheduled passenger services on 35 domestic routes in Turkey and 76 international routes to European (including North Cyprus), CIS, Middle Eastern and African destinations, serving a flight network covering 111 destinations in 42 different countries.

Pegasus' business model is based on a strong focus on efficient operations and cost control, and revenue generation through various services ancillary to the core air passenger services.

As of September 30, 2019, the Company's CASK, non-fuel was recorded as €c 2.29, while revenue recorded from ancillary services constituted 25 % of total revenue for the period. As of September 30, 2019, Pegasus continued to derive revenue from other services, primarily consisting of charter and split charter flights for tour operators, which represented 4% of total revenue for the period.

D- INFORMATION ON PRIVILEGED SHARES

Pegasus has not issued any privileged shares. Therefore, there are no voting privileges attached to Pegasus shares or any preference in respect of the nomination of Board members or the allocation of any distribution or payment to be made from Company profits.

E- INFORMATION ON THE MANAGEMENT BODY, SENIOR MANAGEMENT AND PEGASUS EMPLOYEES

a)- Management Body: The management body of Pegasus is the Board of Directors. Within the framework of Article 10 of our Articles of Association, the Board of Directors must be composed of at least five members. As of September 30, 2019, the Board of Directors consisted of eight members.

The identity, duty and term of office of each Board member are indicated below.

Name / SURNAME	Duty	Serves Since ⁽¹⁾	Committee Duties
Ali İsmail SABANCI	Chairperson of the Board	2005	-
Hüseyin Çağatay ÖZDOĞRU	Vice-Chairperson of the Board	2006	-
Sertaç HAYBAT	Non-Executive Board Member	2005	Chair, Safety Comm. Member, Risk Comm.
Mehmet Cem KOZLU	Independent Board Member ⁽²⁾	2013	Chair, Audit Comm. Member, Corp. Gov. Comm. Member, Safety Comm.
Agah UĞUR	Independent Board Member ⁽³⁾	2019	Member, Audit Comm.
Hatice Zeynep Bodur OKYAY	Independent Board Member	2016	-
Stephen Mark GRIFFITHS	Independent Board Member	2016	Chair, Corp. Gov. Comm.
Michael Glyn POWELL	Non-Executive Board Member	2018	Member, Corp. Gov. Comm.

⁽¹⁾ Board appointments are made annually at the discretion of our shareholders and our current Board members were appointed for a term of one year at the Annual General Assembly Meeting dated April 17, 2019.

⁽²⁾ Subject to the non-objection letter of the Capital Markets Board dated March 8, 2019 for the independent director nominees and for a one-year exemption of Mr. Mehmet Cem KOZLU from the requirement of "Not to have served as a member of the board at the Company for more than six years in the past ten years" stipulated in paragraph (g) of Corporate Governance Principle No. 4.3.6.

⁽³⁾ Appointed to succeed Saad Hassan HAMMAD upon his resignation dated August 29, 2019 to serve for the remainder of his term of office. The Capital Markets Board non-objection for Agah UĞUR to serve as an Independent Board Member was issued on September 27, 2019.

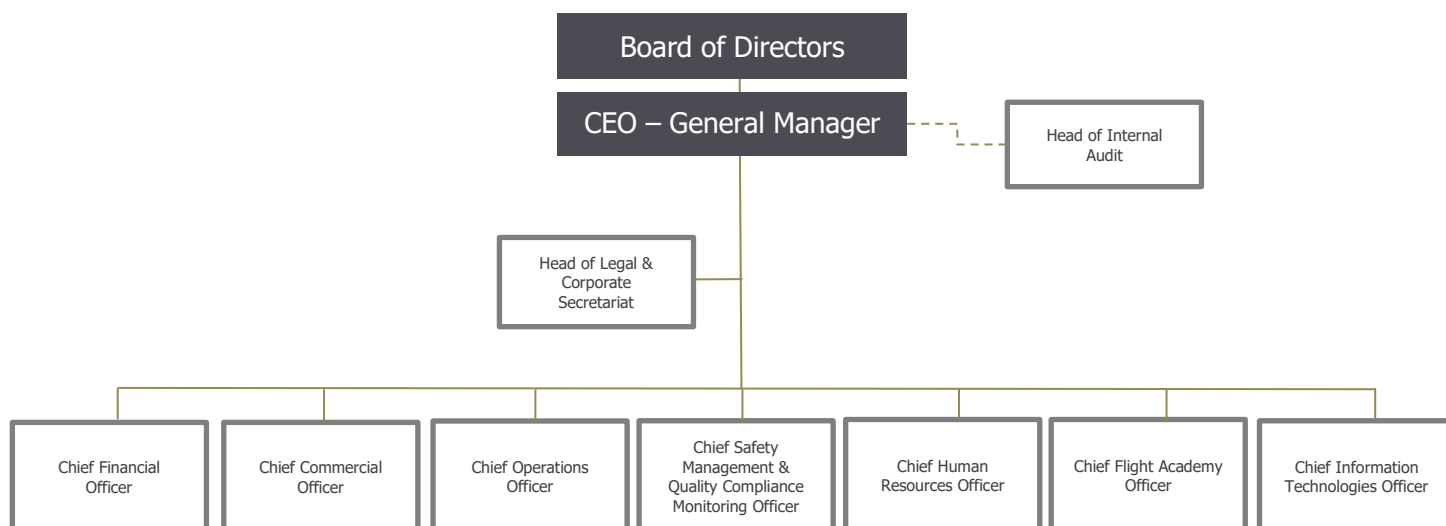
b)- Senior Management: Pegasus senior management comprises the General Manager (CEO) and executives directly reporting to the CEO. Information on Pegasus senior management and their duties as of September 30, 2019 is provided in the following chart.

Name / SURNAME	Duty	Serves Since ⁽¹⁾
Mehmet T. NANE	President & General Manager (CEO)	2016
Güliz ÖZTÜRK	Chief Commercial Officer	2010
M. Barbaros KUBATOĞLU	Chief Financial Officer	2018
Nasuh N. ÇETİN	Chief Operations Officer	2016
Aydın YUMRUTAŞ	Chief Flight Academy Officer	2018
Barış FINDIK	Chief Information Technologies Officer	2017

Dilara OĞUR	Chief Human Resources Officer	2015
Murat Cem ALKAN	Chief Safety Management & Quality Compliance Monitoring Officer	2017
Ali UZUN	Head of Legal and Corporate Secretariat (General Counsel)	2018
Özgür DİNÇER	Head of Internal Audit	2017

⁽¹⁾ Indicates service in the stated duty.

Pegasus management organization chart is as follows:



———— Reporting Line

----- Additional Reporting Line

c)- Number of Employees: The total number of full-time employees of Pegasus and its consolidated subsidiaries defined in Section 1/G of this Report, as of September 30, 2019 was 6,033. This number, as of September 30, 2019 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.

F- 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, 2019 is provided in the following table:

AIRCRAFT TYPE	RANGE (KM)	NUMBER OF AIRCRAFT			SEAT CAPACITY			AVERAGE FLEET AGE
		30.09.2019	30.09.2018	Growth (%)	30.09.2019	30.09.2018	Growth (%)	30.09.2019
B737-400	3,148	1	1	0%	168	168	0%	21.16
B737-800	4,360	39	48	-19%	7,371	9,072	-19%	7.77
A320CEO	3,300	12	12	0%	2,172	2,172	0%	5.25
A320NEO	3,700	31	22	41%	5,766	4,906	41%	1.55
A321NEO	5,950	1	0	-	239	0	-	0.06
TOTAL		84	83	1%	15,716	15,504	1%	5.55

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. 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. Pegasus is the first customer of CFM-Leap series engine used on A320NEO aircraft. As part of this order 9 A320NEO aircraft joined Pegasus fleet in the first nine months of 2019. One A321NEO aircraft joined Pegasus fleet in September 2019.

The delivery schedule for the A320NEO/A321NEO aircraft under our Airbus order is as follows:

Aircraft Type	2016	2017	2018	2019	2020	2021	2022	2023	2024
A320neo	9	6	7	5	15	8	7	0	0
A321neo	0	0	0	2	5	5	11	10	10

G- 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, 2019. As of September 30, 2018, Pegasus did not have any indirect subsidiaries or joint ventures. Pegasus was not subject to any cross-shareholding for the same period.

Affiliate	Nationality / Area of Activity	Issued Share Capital	Nominal Shareholding	Share %	Affiliation with Pegasus
Air Manas	Kyrgyzstan / Scheduled and unscheduled air transport	KGS 12,425,000	KGS 6,088,250	49.00%	Subsidiary*
PHT	Turkey / Simulated flight training	TL 100,000	TL 100,000	100.00%	Subsidiary
PFTC	Turkey / Simulated flight training	TL 200,000	TL 98,800	49.40%	Joint Venture/ Associate
Hitit CS	Turkey / Information Technologies Solutions	TL 200,000	TL 100,000	50.00%	Joint Venture/ Associate

*See section 4/A for information on the X of participation interest in AirManas.

2-FINANCIAL STATUS

A- PEGASUS SHARE

Pegasus shares started trading on Borsa Istanbul on April 26, 2013 at the initial public offer price of TL 18.40. As of September 30, 2019, the indices including Pegasus shares and information on Pegasus shares are as follows:

Issuer	: PEGASUS HAVA TAŞIMACILIĞI A.Ş.
Trade Platforms	: BORSA ISTANBUL (BIST)
Market Segment	: STAR MARKET
Indices	: BIST SERVICES / BIST ISTANBUL / BIST ALL / BIST ALL-100 / BIST-50 / BIST TRANSPORTATION / BIST STAR / BISTKYUR CORPORATE GOVERNANCE / BIST SUSTAINABILITY
BIST Ticker	: PGSUS
Bloomberg Ticker	: PGSUS.TI
Reuters Ticker	: PGSUS.IS

Pegasus shares closed the nine-month period ending September 30, 2019 at a price of TL 60.70 TL/share with year to date increase of 165%.

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, 2019 compared against the same period in 2018 and the year-over-year changes for the relevant line items are set out in the following charts:

Overall Traffic Results	Jan. – Sep. 2019	Jan. – Sep. 2018	Y-O-Y Change %
Number of passengers (<i>million</i>)	22.45	23.06	-2.6
Cycle	140,965	144,444	-2.4
Number of seats (<i>million</i>)	26.08	26.72	-2.4
Load factor (%)	86.1	86.3	-0.2
ASK ⁽¹⁾ (<i>million</i>)	28,986	26,918	7.7
Passengers per cycle	159	160	-0.2
Avg. daily aircraft utilization (<i>hours</i>) ⁽²⁾	13.1	12.9	2.0
Domestic			
Number of passengers (<i>million</i>)	11.68	13.68	-14.6
Cycle	69,159	82,159	-15.8
Number of seats (<i>million</i>)	12.93	15.34	-15.7
Load factor (%)	90.4	89.2	1.3
ASK ⁽¹⁾ (<i>million</i>)	7,659	9,257	-17.3
Passengers per cycle	169	167	1.4
International			
Number of passengers (<i>million</i>)	10.33	8.83	16.9
Cycle	68,902	58,842	17.1
Number of seats (<i>million</i>)	12.65	10.78	17.3
Load factor (%)	81.7	81.9	-0.3
ASK ⁽¹⁾ (<i>million</i>)	20,520	16,579	23.8
Passengers per cycle	150	150	-0.1
Charter			
Number of passengers (<i>million</i>)	0.44	0.54	-19.2
Cycle	2,904	3,443	-15.7
Number of seats (<i>million</i>)	0.51	0.60	-16.1
ASK ⁽¹⁾ (<i>million</i>)	807	1,082	-25.4

(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).

Summary Balance Sheet ('000 Euro)	30.09.2019	31.12.2018	Change (%)
Current assets	1,052,795	731,046	44%
Non-current assets	2,143,298	1,535,670	40%
Total assets	3,196,093	2,266,716	41%
Short-term liabilities	769,689	589,758	31%
Long-term liabilities	1,656,630	1,060,894	56%
Shareholders' equity	769,774	616,064	25%
Summary P&L ('000 Euro)			
Sales income	1,343,725	1,155,975	16%
Gross profit	373,779	262,502	42%
Profit from operations	297,734	175,660	69%

Operating profit before financial income / (expense)	299,662	182,440	64%
Profit / (Loss) before tax	216,762	160,924	35%
Net profit / (Loss) for the period	199,515	144,062	38%
Profit / (Loss) per share	1.95	1.37	42%

Changes in Financial Position ('000 Euro)	30.09.2019	31.12.2018	Change (%)
Cash and cash equivalents	634,787	454,719	40%
Financial assets	23,693	-	100%
Financial liabilities	1,648,582	1,082,080	52%
Net debt position ⁽¹⁾	990,102	627,361	58%

⁽¹⁾ Net debt position = Financial liabilities - Cash and cash equivalents - Financial assets

C- FINANCING SOURCES AND CAPITAL MARKETS INSTRUMENTS ISSUED BY PEGASUS

Pegasus finances approximately 85% of the purchase price for the Boeing and Airbus aircraft acquired by way of financial lease through loans obtained from various banks, As of September 30, 2019, the outstanding balance of the total loans borrowed for the financing of 44 aircraft acquired by way of financial lease is EUR 1,139,903,367 M.

Furthermore, as of September 30, 2019, Pegasus and its subsidiaries had drawn EUR 121,985,266 M on cash loans and EUR 227,685,191 M 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.

3- RISKS AND THE EVALUATION OF THE MANAGEMENT BODY

A- 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 Risks (Risk Committee) assists the Board with respect to the determination in advance, management and mitigation of the risks that may endanger the existence, development and the future of Pegasus.

When performing its risk detection and management duties, the Committee cooperates with other Board Committees and the Company management. In this respect, the Committee 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 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 Risk Committee, Risk areas thus defined are regularly reviewed, re-evaluated and the mitigating actions implemented by Company 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 once every two months.

4- 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 had previously disclosed on 29.08.2019 that Mr. Agah UĞUR's appointment by our Board of Directors as an independent board member in accordance with Article 363 of the Turkish Commercial Code was subject to a non-objection from the Capital Markets Board. Further to the Company's application in this regard, the Capital Markets Board response dated 27.09.2019 did not raise any objections to Mr. UĞUR's appointment as an independent board member.

In previous Material Event Disclosure dated September 13, 2019, the Company had announced that, pursuant to the resolution of the Company Board of Directors dated September 12, 2019, the Company executed an agreement with the same date with AviaTrade Corp, LP operating in the United Kingdom for the sale of our entire 49% participation interest in our subsidiary Air Manas Air Company LLC operating domestic scheduled flights in the Kyrgyz Republic; that Air Manas is fully consolidated by the Company and the transaction is not expected to have a material impact on our operations or financial results and that the share transfer shall be consummated upon registration of the sale with the authorities in the Kyrgyz Republic, Registration of the sale and share transfer have been completed as of October 14, 2019 and registration certificate has been received on October 15, 2019.

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

The following annexes have been incorporated into this Report by reference:

- **Annex-1:** Pegasus Corporate Governance Compliance Report (*URF*)
- **Annex-2:** Pegasus Corporate Governance Information Document (*KYBF*)

The above annexes are accessible through the following link:

<https://www.kap.org.tr/en/sirket-bilgileri/ozet/1710-pegasus-hava-tasimaciligi-a-s>

We didn't start aviation in Turkey but
we transformed it!

