

CONVENIENCE TRANSLATION OF  
THE REPORT AND FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH

**PEGASUS HAVA TAŐIMACILIĐI  
ANONİM ŐİRKETİ AND ITS SUBSIDIARIES**

INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED  
30 JUNE 2018 TOGETHER WITH  
THE INDEPENDENT AUDITOR'S  
LIMITED REVIEW REPORT

**(Convenience translation of a report and condensed consolidated financial statements  
originally issued in Turkish)**

**Report on Review of Interim Condensed Consolidated Financial Statements**

To the Board of Directors of Pegasus Hava Taşımacılığı Anonim Şirketi:

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group") as of June 30, 2018 and the interim condensed consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement cash flows for the six-month period then ended, and explanatory notes. Group management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Turkish Accounting Standard 34, Interim Financial Reporting ("TAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review**

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.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with TAS 34.

**Other matter**

The consolidated financial statements of the Group, prepared in accordance with Turkish Accounting Standards, as of 31 December 2017 and 30 June 2017 were audited/reviewed by another audit firm whose independent auditor's report thereon dated 5 March 2018 and review conclusion dated 14 August 2017 expressed an unqualified opinion/conclusion.

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



Sinem Arı Öz, SMMM  
Partner

13 August 2018  
İstanbul, Türkiye

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(Convenience Translation of The Report and Financial Statements Originally Issued in Turkish)

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

		<b>Current period (Reviewed) 30 June 2018</b>	<b>Prior period (Audited) 31 December 2017</b>
	<b>Notes</b>		
<b>ASSETS</b>			
<b>Current assets</b>		<b>4.060.123.243</b>	<b>3.096.832.046</b>
Cash and cash equivalents	26	2.081.409.310	1.988.110.247
Trade receivables	6	638.869.572	187.401.375
<i>Trade receivables from related parties</i>		-	-
<i>Trade receivables from third parties</i>		638.869.572	187.401.375
Other receivables		169.769.462	109.210.842
<i>Other receivables from related parties</i>	5	2.592.392	1.733.767
<i>Other receivables from third parties</i>		167.177.070	107.477.075
Derivative financial instruments	21	85.967.713	31.979.841
Inventories		47.137.961	30.803.253
Prepaid expenses	7	1.022.831.023	725.431.742
Current income tax assets		8.022.127	9.418.493
Other current assets		6.116.075	14.476.253
<b>Non-Current assets</b>		<b>6.926.776.517</b>	<b>4.991.239.471</b>
Other receivables		24.687.599	19.154.041
<i>Other receivables from related parties</i>		-	-
<i>Other receivables from third parties</i>		24.687.599	19.154.041
Investments accounted by using the equity method	3	33.586.465	29.144.259
Property and equipment	8	6.562.728.266	4.662.521.058
Intangible assets	9	27.274.764	24.488.486
Prepaid expenses	7	278.499.423	255.931.627
<b>TOTAL ASSETS</b>		<b>10.986.899.760</b>	<b>8.088.071.517</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Reviewed) 30 June 2018	Prior period (Audited) 31 December 2017
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>2.870.637.199</b>	<b>1.863.750.979</b>
Short term financial liabilities	22	506.237.699	541.267.652
Short term portion of long term financial liabilities	22	518.062.514	355.987.254
Trade payables	6	563.908.805	393.710.155
<i>Trade payables to related parties</i>	5	981.156	764.389
<i>Trade payables to third parties</i>		562.927.649	392.945.766
Employee benefit obligations		35.572.355	47.977.139
Other payables		41.806.769	44.161.520
<i>Other payables to third parties</i>		41.806.769	44.161.520
Deferred income	7	1.133.666.224	415.447.882
Short term provisions		69.720.342	63.993.481
<i>Short term provisions for employee benefits</i>		32.793.878	48.679.796
<i>Other short term provisions</i>		36.926.464	15.313.685
Other current liabilities		1.662.491	1.205.896
<b>Non-Current liabilities</b>		<b>5.410.079.488</b>	<b>3.739.682.332</b>
Long term financial liabilities	22	4.063.850.916	2.711.225.518
Deferred income		4.260.267	7.379.754
Long term provisions		850.327.391	626.518.465
<i>Long term provisions for employee benefits</i>		17.011.951	13.638.842
<i>Other long term provisions</i>		833.315.440	612.879.623
Deferred tax liabilities		491.640.914	394.558.595
<b>SHAREHOLDERS' EQUITY</b>		<b>2.706.183.073</b>	<b>2.484.638.206</b>
<b>Equity attributable to shareholders' of the parent</b>		<b>2.733.986.884</b>	<b>2.505.869.714</b>
Paid-in share capital	14	102.272.000	102.272.000
Share premiums on capital stock		455.687.025	455.687.025
Effects of business acquisition		29.504.957	29.504.957
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans		(3.305.232)	(3.305.232)
Currency translation differences		1.412.787.678	1.079.050.983
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		(72.564.410)	(43.927.223)
Hedge fund		62.772.519	23.761.279
Restricted profit reserves		5.016.306	5.016.306
Retained earnings		839.053.617	355.561.802
Net profit / (loss) for the period		(97.237.576)	502.247.817
<b>Non-controlling interest</b>		<b>(27.803.811)</b>	<b>(21.231.508)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10.986.899.760</b>	<b>8.088.071.517</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Reviewed) 1 January- 30 June 2018	Prior period (Reviewed) 1 January- 30 June 2017	Current period (Not Reviewed) 1 April - 30 June 2018	Prior period (Not Reviewed) 1 April - 30 June 2017
<b>Profit or loss</b>	<b>Notes</b>				
Sales	15	2.892.399.732	2.109.264.522	1.697.654.435	1.223.442.026
Cost of sales (-)	15	(2.750.896.305)	(2.121.153.836)	(1.513.889.893)	(1.090.696.946)
<b>Gross profit / (loss)</b>		<b>141.503.427</b>	<b>(11.889.314)</b>	<b>183.764.542</b>	<b>132.745.080</b>
General administrative expenses (-)	16	(109.504.175)	(83.706.120)	(51.823.155)	(42.186.727)
Marketing expenses (-)	16	(111.369.845)	(84.975.684)	(64.075.955)	(49.365.926)
Other operating income	17	121.493.066	16.104.211	106.160.040	(6.151.602)
Other operating expenses (-)	17	(22.633.410)	(2.964.882)	(22.367.222)	(414.112)
<b>Operating profit / (loss)</b>		<b>19.489.063</b>	<b>(167.431.789)</b>	<b>151.658.250</b>	<b>34.626.713</b>
Income from investing activities	18	23.592.902	143.901.013	1.234.534	143.255.833
Share of investments income accounted for using the equity method	3	3.286.251	2.463.971	2.146.330	1.368.754
<b>Operating profit / (loss) before financial expense</b>		<b>46.368.216</b>	<b>(21.066.805)</b>	<b>155.039.114</b>	<b>179.251.300</b>
Financial income	19	43.210.377	31.311.822	26.075.966	35.785.257
Financial expense (-)	19	(169.718.816)	(52.238.206)	(125.146.005)	(29.869.841)
<b>(Loss) / profit before tax</b>		<b>(80.140.223)</b>	<b>(41.993.189)</b>	<b>55.969.075</b>	<b>185.166.716</b>
<b>Tax expense</b>		<b>(19.594.588)</b>	<b>(4.316.288)</b>	<b>(40.976.068)</b>	<b>(25.060.517)</b>
Current tax expense		-	-	-	-
Deferred tax expense		(19.594.588)	(4.316.288)	(40.976.068)	(25.060.517)
<b>(Loss) / profit for the period</b>		<b>(99.734.811)</b>	<b>(46.309.477)</b>	<b>14.993.007</b>	<b>160.106.199</b>
<b>Net loss attributable to:</b>					
Non-controlling interest		(2.497.235)	(3.738.595)	(706.362)	(563.599)
Shareholders' of the parent		(97.237.576)	(42.570.882)	15.699.369	160.669.798
		<b>(99.734.811)</b>	<b>(46.309.477)</b>	<b>14.993.007</b>	<b>160.106.199</b>
(Loss) / profit per share (TL)	20	(0,95)	(0,42)	0,15	1,57
<b>Other comprehensive income</b>					
<b>Items not to be reclassified to profit or loss</b>					
Currency translation differences		329.661.627	140.981.505	158.446.911	53.440.416
<b>Items to be reclassified to profit or loss</b>					
Currency translation differences		(28.637.187)	-	(22.228.517)	-
Cash flow hedge		50.775.990	(21.633.853)	46.662.984	(11.260.245)
Deferred tax effect		(11.764.750)	4.326.771	(10.942.149)	2.252.049
<b>Other comprehensive income</b>		<b>340.035.680</b>	<b>123.674.423</b>	<b>171.939.229</b>	<b>44.432.220</b>
<b>Total comprehensive income</b>		<b>240.300.869</b>	<b>77.364.946</b>	<b>186.932.236</b>	<b>204.538.419</b>
<b>Total comprehensive income attributable to:</b>					
Non-controlling interest		(6.572.303)	(3.495.587)	(3.915.467)	(259.544)
Shareholders' of the parent		246.873.172	80.860.533	190.847.703	204.797.963
		<b>240.300.869</b>	<b>77.364.946</b>	<b>186.932.236</b>	<b>204.538.419</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

(Convenience Translation of The Report and Financial Statements Originally Issued in Turkish)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

				Other comprehensive income items not to be reclassified to profit or loss		Other comprehensive income items to be reclassified to profit or loss			Retained earnings				
	Paid in share capital	Share premiums on capital stock	Effects of business acquisition	Actuarial gains/(losses) on defined benefit plans	Currency translation differences	Currency translation differences	Hedge reserve	Restricted profit reserves	Retained earnings	Net profit/(loss) for the year	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' equity
<b>As at 1 January 2017</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>638.375.994</b>	-	<b>291.850</b>	<b>5.016.306</b>	<b>481.327.846</b>	<b>(133.730.835)</b>	<b>1.575.439.911</b>	<b>(6.118.566)</b>	<b>1.569.321.345</b>
Effect of acquisition of additional shares in a subsidiary	-	-	-	-	-	-	-	-	7.964.791	-	7.964.791	(12.690.511)	(4.725.720)
Transfers	-	-	-	-	-	-	-	-	(133.730.835)	133.730.835	-	-	-
Total comprehensive income	-	-	-	-	140.738.497	-	(17.307.082)	-	-	(42.570.882)	80.860.533	(3.495.587)	77.364.946
<b>As at 30 June 2017</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>779.114.491</b>	-	<b>(17.015.232)</b>	<b>5.016.306</b>	<b>355.561.802</b>	<b>(42.570.882)</b>	<b>1.664.265.235</b>	<b>(22.304.664)</b>	<b>1.641.960.571</b>
<b>As at 1 January 2018</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>1.079.050.983</b>	<b>(43.927.223)</b>	<b>23.761.279</b>	<b>5.016.306</b>	<b>355.561.802</b>	<b>502.247.817</b>	<b>2.505.869.714</b>	<b>(21.231.508)</b>	<b>2.484.638.206</b>
Changes in accounting policy (Note 2)	-	-	-	-	-	-	-	-	(18.756.002)	-	(18.756.002)	-	(18.756.002)
<b>Restated total equity as at 1 January 2018</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>1.079.050.983</b>	<b>(43.927.223)</b>	<b>23.761.279</b>	<b>5.016.306</b>	<b>336.805.800</b>	<b>502.247.817</b>	<b>2.487.113.712</b>	<b>(21.231.508)</b>	<b>2.465.882.204</b>
Transfers	-	-	-	-	-	-	-	-	502.247.817	(502.247.817)	-	-	-
Total comprehensive income	-	-	-	-	333.736.695	(28.637.187)	39.011.240	-	-	(97.237.576)	246.873.172	(6.572.303)	240.300.869
<b>As at 30 June 2018</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>1.412.787.678</b>	<b>(72.564.410)</b>	<b>62.772.519</b>	<b>5.016.306</b>	<b>839.053.617</b>	<b>(97.237.576)</b>	<b>2.733.986.884</b>	<b>(27.803.811)</b>	<b>2.706.183.073</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

(Convenience Translation of The Report and Financial Statements Originally Issued in Turkish)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Reviewed) 1 January- 30 June 2018	Prior period (Reviewed) 1 January- 30 June 2017
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the period		<b>(99.734.811)</b>	<b>(46.309.477)</b>
<b>Adjustments to reconcile the loss</b>			
Depreciation and amortization	8-9	208.493.498	162.752.291
Adjustments related with impairments		65.679	1.887.090
<i>Provision for doubtful receivable</i>		65.679	1.887.090
Adjustments related with provisions		133.919.029	108.621.231
<i>Provision for employee benefits</i>		17.156.723	20.150.927
<i>Legal provision</i>		2.666.170	2.124.786
<i>Change in redelivery provision</i>		94.308.091	86.345.518
<i>Provision for tax restructuring expenses</i>	11-17	19.788.045	-
Interest and commission income	19	48.532.695	37.163.117
Gain on equity investments accounted for using the equity method	3	(3.286.251)	(2.463.971)
Current tax expense		19.594.588	4.316.288
Other provisions related with investing or financing activities		(25.547.334)	(119.418.940)
Increase in trade receivables		(450.842.364)	(408.852.093)
(Increase)/decrease in other receivables, prepaid expenses and other current assets		(327.458.363)	123.406.834
Increase in inventories		(16.334.708)	(3.107.131)
Increase in trade payables		170.198.650	20.612.920
Increase in deferred income, other payables and other current liabilities		681.906.987	455.202.554
<b>Net cash generated from operating activities</b>		<b>339.507.295</b>	<b>333.810.713</b>
Payment for employee, executive bonus plan and retirement benefits		(30.733.058)	(3.106.673)
Payment for other provisions		(28.536)	(32.341)
		<b>308.745.701</b>	<b>330.671.699</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of subsidiary		-	(4.725.720)
Proceeds from sale of aircraft		88.849.440	587.259.038
Proceeds from sale of property, equipment and intangible assets		1.975.827	3.008.715
Cash outflows from purchase of property, equipment and intangible assets		(89.159.253)	(47.670.433)
Changes in cash advances and payables		(166.376.368)	(143.243.631)
		<b>(164.710.354)</b>	<b>394.627.969</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in borrowings		268.315.650	359.875.028
Repayment of borrowings		(405.913.250)	-
Repayment of principal in financial lease liabilities		(207.255.812)	(404.563.492)
Interest and commission paid		(87.481.875)	(47.247.748)
Interest received		39.913.159	9.502.989
		<b>(392.422.128)</b>	<b>(82.433.223)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)</b>			
		<b>(248.386.781)</b>	<b>642.866.445</b>
<b>D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS</b>			
		341.685.844	(134.902.939)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>			
		<b>93.299.063</b>	<b>507.963.506</b>
<b>E. CASH AND CASH EQUIVALENTS</b>			
AT THE BEGINNING OF THE PERIOD	26	1.988.110.247	692.270.625
<b>CASH AND CASH EQUIVALENTS</b>			
AT THE END OF THE PERIOD (A+B+C+D+E)	26	<b>2.081.409.310</b>	<b>1.200.234.131</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Pegasus Hava Taşımacılığı A.Ş. (the “Company” or “Pegasus”) and its subsidiaries (together “the Group”) is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service.

The shareholders and their respective holdings in the Company as of 30 June 2018 and 31 December 2017 are as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
Esas Holding A.Ş. (“Esas Holding”)	62,92%	62,92%
Publicly held	34,51%	34,51%
Sabancı Family Members	2,57%	2,57%
<b>Total</b>	<b>100,00%</b>	<b>100,00%</b>

Shares of the Company has been started to be traded in İstanbul Stock Exchange since 26 April 2013, after the book building between the dates of 18-19 April 2013.

The Group’s total number of full time employees as of 30 June 2018 is 5.646 (31 December 2017: 5.337). The address of its principal executive office is Aeropark Yenışehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

### Approval of Financial Statements

Board of Directors has approved the interim condensed consolidated financial statements as of 30 June 2018 and delegated authority for publishing it on 13 August 2018.

### NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

#### 2.1 Basis of Presentation

#### Statement of Compliance with TAS

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation.

Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles and the local currency in their registered countries.

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board (“CMB”) Communiqué Serial II, No: 14.1 “Basis of Financial Reporting in Capital Markets”, which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards / Turkish Financial Reporting Standards and interpretations (“TAS/TFRS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué. The accompanying consolidated financial statements are presented in accordance with the “Announcement regarding to TAS Taxonomy” which was published on 2 June 2016 by POA and the format and mandatory information recommended by CMB.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.1 Basis of Presentation (cont'd)**

**Statement of Compliance with TAS (cont'd)**

The Group has prepared the condensed financial statements and its notes for the interim period ended 30 June 2018 in accordance with TAS 34 “Interim Financial Reporting”. These condensed consolidated interim financial statements do not include all the notes of the type normally included in annual financial statements and therefore, these financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2017.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. The accompanying condensed consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with Turkish Accounting Standards.

**Functional and Presentation Currency**

Although there is no prominent currency affecting revenue and cost of sales, the Group's functional currency is determined as Euro for the reasons that, largest scale of scheduled flight revenue, which is the Group's primary operation, is generated from European flights, Euro is clearly effective on the financial liabilities of the Group and management reports and budget enabling the Company's management to make executive decisions are prepared in Euro. The functional currency of the Company and its subsidiaries is Euro except Air Manas. The functional currency of Air Manas is US Dollar.

Presentation currency of the Group's financial statements is Turkish Lira (“TL”). Financial Statements have been translated from Euro and US Dollar to TL in accordance with the relevant provisions of TAS 21 (“The Effects of Changes in Foreign Exchange Rates”) as follows:

- Assets and liabilities are translated using the Central Bank of the Republic of Turkey (“TCMB”) Euro buying rate prevailing at the statement of financial position date; 30 June 2018: 1 Euro (€) = TL 5,3092, 1 US Dollar (\$) = TL 4,5607 (31 December 2017: 1 Euro (€) = TL 4,5155, 1 US Dollar (\$) = TL 3,7719).
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions and translated from US Dollar to TL using the TCMB US Dollar average buying rates.

Translation gains or losses arising from the translations stated above are presented as foreign currency translation reserve under equity. Share capital amount, representing the nominal share capital of the Company, all other equity items are presented in historic TL terms where all translation gains or losses in relation to these balances are accounted under foreign currency translation reserve.

**Comparative Information and Reclassification of Prior Period Financial Statements**

Condensed consolidated financial statements of Group are prepared in comparison to prior period in order to identify financial position and performance trends. In order to maintain consistency with current period condensed consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current period, the Group has not made any reclassification in the prior period consolidated financial statements in order to maintain consistency with current period condensed consolidated financial statements.

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

##### 2.1 Basis of Presentation (cont'd)

###### Basis of Consolidation

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 30 June 2018 and 31 December 2017:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2018</u>	<u>31 December 2017</u>	
IHY İzmir Havayolları A.Ş. ("İzair")	Air transportation	99%	99%	Turkey
Air Company "Air Manas" LTD ("Air Manas") (*)	Air transportation	49%	49%	Kyrgyzstan
Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.	Simulator technical support and maintenance	100%	100%	Turkey

(\*) In accordance with its rights arising from Air Manas Articles of Association, the Company has the right to control Air Manas operations with 49% shareholding rate and therefore, Air Manas was included in line by line consolidation as a subsidiary as of 30 June 2018 and 31 December 2017.

The table below sets out affiliates and joint ventures then indicates the proportion of ownership interest of the Company in these affiliates and joint ventures as of 30 June 2018 and 31 December 2017:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2018</u>	<u>31 December 2017</u>	
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Simulator training	49%	49%	Turkey
Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar")	Information system solutions	50%	50%	Turkey

##### 2.2 Significant Accounting Policies and Changes

The accounting policies, presentation and methods of computation are consistent with those of the financial year ended 31 December 2017 and corresponding interim reporting period, except for the adoption of new accounting policies for transactions occurred during the three months beginning 1 January 2018.

The Group adopted TFRS 15 Revenue from Contracts with Customers for the first time for the period beginning on 1 January 2018.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

a) Impact on the condensed consolidated interim financial statements

The Group adopted the new standard on the required effective date using the modified retrospective method which requires the recognition of the cumulative effect of initially applying TFRS 15 Revenue from Contracts with Customers, as at January 1, 2018, to retained earnings and not restate prior years.

The impact of adoption of TFRS 15 on the condensed consolidated interim statement of financial position as at 30 June 2018 and condensed consolidated statement of profit or loss for the six months ended 30 June 2018 are stated as below. The adoptions of these standards do not have a significant impact on the condensed consolidated interim other comprehensive income and condensed consolidated interim statement of cash flows.

(i) Condensed Consolidated Statement of Financial Position

	30 June 2018	TFRS 15 Effects	30 June 2018 (excluding effects)
	<b>4.060.123.243</b>	-	<b>4.060.123.243</b>
Cash and cash equivalents	2.081.409.310	-	2.081.409.310
Trade receivables	638.869.572	-	638.869.572
<i>Trade receivables from related parties</i>	-	-	-
<i>Trade receivables from third parties</i>	638.869.572	-	638.869.572
Other receivables	169.769.462	-	169.769.462
<i>Other receivables from related parties</i>	2.592.392	-	2.592.392
<i>Other receivables from third parties</i>	167.177.070	-	167.177.070
Derivative financial instruments	85.967.713	-	85.967.713
Inventories	47.137.961	-	47.137.961
Prepaid expenses	1.022.831.023	-	1.022.831.023
Current income tax assets	8.022.127	-	8.022.127
Other current assets	6.116.075	-	6.116.075
<b>Non-Current assets</b>	<b>6.926.776.517</b>	-	<b>6.926.776.517</b>
Other receivables	24.687.599	-	24.687.599
<i>Other receivables from related parties</i>	-	-	-
<i>Other receivables from third parties</i>	24.687.599	-	24.687.599
Investments accounted by using the equity method	33.586.465	-	33.586.465
Property and equipment	6.562.728.266	-	6.562.728.266
Intangible assets	27.274.764	-	27.274.764
Prepaid expenses	278.499.423	-	278.499.423
<b>TOTAL ASSETS</b>	<b>10.986.899.760</b>	-	<b>10.986.899.760</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

a) Impact on the condensed consolidated interim financial statements (cont'd)

(i) Condensed Consolidated Statement of Financial Positions (cont'd)

	30 June 2018	TFRS 15 Effects	30 June 2018 (excluding effects)
<b>Current liabilities</b>	<b>2.870.637.199</b>	<b>51.748.781</b>	<b>2.818.888.418</b>
Short term financial liabilities	506.237.699	-	506.237.699
Short term portion of long term financial liabilities	518.062.514	-	518.062.514
Trade payables	563.908.805	-	563.908.805
<i>Trade payables to related parties</i>	981.156	-	981.156
<i>Trade payables to third parties</i>	562.927.649	-	562.927.649
Employee benefit obligations	35.572.355	-	35.572.355
Other payables	41.806.769	-	41.806.769
<i>Other payables to related parties</i>	-	-	-
<i>Other payables to third parties</i>	41.806.769	-	41.806.769
Derivative financial instruments	-	-	-
Deferred income	1.133.666.224	51.748.781	1.081.917.443
Current income tax liabilities	-	-	-
Short term provisions	69.720.342	-	69.720.342
<i>Short term provisions for employee benefits</i>	32.793.878	-	32.793.878
<i>Other short term provisions</i>	36.926.464	-	36.926.464
Other current liabilities	1.662.491	-	1.662.491
<b>Non-Current liabilities</b>	<b>5.410.079.488</b>	<b>(11.384.732)</b>	<b>5.421.464.220</b>
Long term financial liabilities	4.063.850.916	-	4.063.850.916
Derivative financial instruments	-	-	-
Deferred income	4.260.267	-	4.260.267
Long term provisions	850.327.391	-	850.327.391
<i>Long term provisions for employee benefits</i>	17.011.951	-	17.011.951
<i>Other long term provisions</i>	833.315.440	-	833.315.440
Deferred tax liabilities	491.640.914	(11.384.732)	503.025.646
<b>SHAREHOLDERS' EQUITY</b>	<b>2.706.183.073</b>	<b>(40.364.049)</b>	<b>2.746.547.122</b>
<b>Equity attributable to shareholders' of the parent</b>	<b>2.733.986.884</b>	<b>(40.364.049)</b>	<b>2.774.350.933</b>
Paid-in share capital	102.272.000	-	102.272.000
Share premiums on capital stock	455.687.025	-	455.687.025
Effects of business acquisition	29.504.957	-	29.504.957
Other comprehensive income/expense not to be reclassified to profit or loss			-
Actuarial losses on defined benefit plans	(3.305.232)	-	(3.305.232)
Currency translation differences	1.412.787.678	-	1.412.787.678
Other comprehensive income/expense to be reclassified to profit or loss			-
Currency translation differences	(72.564.410)	-	(72.564.410)
Hedge fund	62.772.519	-	62.772.519
Restricted profit reserves	5.016.306	-	5.016.306
Retained earnings	839.053.617	(18.756.002)	857.809.619
Net profit / (loss) for the period	(97.237.576)	(21.608.047)	(75.629.529)
<b>Non-controlling interest</b>	<b>(27.803.811)</b>	<b>-</b>	<b>(27.803.811)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>10.986.899.760</b>	<b>-</b>	<b>10.986.899.760</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

a) Impact on the condensed consolidated interim financial statements (cont'd)

(ii) Condensed Consolidated Statement of Profit or Loss

	30 June 2018	TFRS 15 Effects	30 June 2018 (excluding effects)
<b>Profit or loss</b>			
Sales	2.892.399.732	(27.702.624)	2.920.102.356
Cost of sales (-)	(2.750.896.305)	-	(2.750.896.305)
<b>Gross profit / (loss)</b>	<b>141.503.427</b>	<b>(27.702.624)</b>	<b>169.206.051</b>
General administrative expenses (-)	(109.504.175)	-	(109.504.175)
Marketing expenses (-)	(111.369.845)	-	(111.369.845)
Other operating income	121.493.066	-	121.493.066
Other operating expenses (-)	(22.633.410)	-	(22.633.410)
<b>Operating profit / (loss)</b>	<b>19.489.063</b>	<b>(27.702.624)</b>	<b>47.191.687</b>
Income from investing activities	23.592.902	-	23.592.902
Expenses from investing activities (-)	-	-	-
Share of investments income accounted for using the equity method	3.286.251	-	3.286.251
<b>Operating profit / (loss) before financial expense</b>	<b>46.368.216</b>	<b>(27.702.624)</b>	<b>74.070.840</b>
Financial income	43.210.377	-	43.210.377
Financial expense (-)	(169.718.816)	-	(169.718.816)
<b>(Loss) / profit before tax</b>	<b>(80.140.223)</b>	<b>(27.702.624)</b>	<b>(52.437.599)</b>
<b>Tax expense</b>	<b>(19.594.588)</b>	<b>6.094.577</b>	<b>(25.689.165)</b>
Current tax expense	-	-	-
Deferred tax expense	(19.594.588)	6.094.577	(25.689.165)
<b>(Loss) / profit for the period</b>	<b>(99.734.811)</b>	<b>(21.608.047)</b>	<b>(78.126.764)</b>
<b>Net loss attributable to:</b>			
Non-controlling interest	(2.497.235)	-	(2.497.235)
Shareholders' of the parent	(97.237.576)	(21.608.047)	(75.629.529)
	<b>(99.734.811)</b>	<b>(21.608.047)</b>	<b>(78.126.764)</b>
(Loss) / profit per share (TL)	(0,95)	(0,21)	(0,74)
<b>Other comprehensive income</b>			
<b>Items not to be reclassified to profit or loss</b>			
Currency translation differences	329.661.627	-	329.661.627
<b>Items to be reclassified to profit or loss</b>			
Currency translation differences	(28.637.187)	-	(28.637.187)
Cash flow hedge	50.775.990	-	50.775.990
Deferred tax effect	(11.764.750)	-	(11.764.750)
<b>Other comprehensive income</b>	<b>340.035.680</b>	<b>-</b>	<b>340.035.680</b>
<b>Total comprehensive income</b>	<b>240.300.869</b>	<b>(21.608.047)</b>	<b>261.908.916</b>
<b>Total comprehensive income attributable to:</b>			
Non-controlling interest	(6.572.303)	-	(6.572.303)
Shareholders' of the parent	246.873.172	(21.608.047)	268.481.219
	<b>240.300.869</b>	<b>(21.608.047)</b>	<b>261.908.916</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

#### 2.2 Significant Accounting Policies and Changes (cont'd)

##### a) Impact on the condensed consolidated interim financial statements (cont'd)

##### (iii) TFRS 15 Revenue from Contracts with Customers – Impact of adoption

The impact of adoption of TFRS 15, "Revenue from contracts with customers" on retained earnings as of 1 January 2018 is stated as below:

	<b>1 January 2018</b>
<b>Retained earnings – 1 January 2018 – (excluding TFRS 15 effects)</b>	355.561.802
Increase in deferred income	(24.046.156)
Deferred tax effect	5.290.154
<b>Adjustment to retained earnings from adoption of IFRS 15</b>	<b>(18.756.002)</b>
<b>Opening retained earnings 1 January 2018 - (including IFRS 15 effects)</b>	<b>336.805.800</b>

##### b) New standards and interpretations applied

##### (i) TFRS 15 Revenue from Contracts with Customers

TFRS 15 was issued in 9 September 2016, a five-step model to account for revenue arising from contracts with customers. Under TFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard supersedes all current revenue recognition requirements under TFRS. The Group adopted the new standard on the required effective date using the modified retrospective method which requires the recognition of the cumulative effect of initially applying TFRS 15, as at January 1, 2018, to retained earnings and not restate prior years.

The Group generates its revenues from international and domestic flight operations. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. These revenues are recognized as follows:

- Scheduled and charter flight revenues are recorded as revenue when the transportation service is provided. Tickets sold but not yet used are recorded as passenger flight liabilities.
- Ancillary revenues, cargo services and training services are recognized when services are provided.
- Service fee is the fee added to the ticket price in order to realize the sales service. The service fee, which is recorded as revenue when the ticket is sold prior to the application of TFRS 15, has started to be recorded as revenue when the related transportation service has been carried out since 1 January 2018, as a result of not being evaluated as a different performance obligation than the transportation service.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Changes in Accounting Estimates

The same presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2017.

2.4 Application of New and Revised Turkish Accounting Standards (TAS)

(a) New and Revised standards and interpretations which are effective as at 2018

TFRS 9	<i>Financial Instruments</i>
TFRS 15	<i>Revenue from Contracts with Customers</i>
TFRS 10 and TAS 28 (Amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
TFRS 2 (Amendments)	<i>Classification and Measurement of Share-based Payment Transactions</i>
TFRS Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
TAS 40 (Amendments)	<i>Transfers of Investment Property</i>
Annual Improvements to TFRSs - 2014-2016 Cycle	<i>TFRS 1, TAS 28</i>

***TFRS 9 Financial Instruments***

In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018.

The standard did not have a significant impact on the financial position or performance of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.4 Application of New and Revised Turkish Accounting Standards (TAS)**

**(a) New and Revised standards and interpretations which are effective as at 2018**

***TRFS 15 Revenue from Contracts with Customers***

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to TFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is January 1, 2018.

The Group adopted TFRS 15 using modified retrospective approach and disclosed the impact of the standard on financial position or performance of the Group in Note 2.2.

**(b) New and revised standards in issue but not yet effective**

The Group has not applied the following new and revised standards that have been issued but are not yet effective:

TFRS 16	<i>Leases<sup>1</sup></i>
TAS 28 (Amendments)	<i>Investments in Associates and Joint Ventures<sup>1</sup></i>
TFRS Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019.

The Group evaluates the effects of these standards on the consolidated financial statements.

**2.5 Seasonality on Operations**

Due to seasonality of air passenger transportation, Company expected to incur higher sales revenue in the second half of the year compared to the first half. As a result of higher sales with the effect of summer season and growth of the Company, trade receivables and passenger flight liabilities under deferred income increased as of 30 June 2018 compared to last year-end.

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

The details of investments accounted for using the equity method are as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Joint ventures</b>		
Hitit Bilgisayar	25.359.949	22.796.541
PUEM	8.226.516	6.347.718
	<b>33.586.465</b>	<b>29.144.259</b>

Total profit from investments accounted for using the equity method is as follows:

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Hitit Bilgisayar	2.575.814	1.920.869	1.847.072	1.100.101
PUEM	710.437	543.102	299.258	268.653
<b>Net profit</b>	<b>3.286.251</b>	<b>2.463.971</b>	<b>2.146.330</b>	<b>1.368.754</b>

The summarized financial information of the investment accounted by using the equity method is as follows:

**Pegasus Uçuş Eğitim Merkezi A.Ş.**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Current assets	2.041.786	513.286
Non-current assets	20.927.113	21.333.742
Current liabilities	(6.028.155)	(5.982.733)
Non-current liabilities	(287.878)	(3.014.663)
<b>Net assets of joint venture</b>	<b>16.652.866</b>	<b>12.849.632</b>
Group's ownership interest in the joint venture	49,40%	49,40%
<b>Group's share in the net assets of the joint venture</b>	<b>8.226.516</b>	<b>6.347.718</b>
	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>
Revenue	4.541.061	3.483.658
Profit for the year	1.438.132	1.099.396
Group's ownership interest	49,40%	49,40%
<b>Group's share in the net profit of the joint venture</b>	<b>710.437</b>	<b>543.102</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in TL unless otherwise stated.)

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

Hitit Bilgisayar Hizmetleri A.Ş.

	30 June 2018	31 December 2017
Current assets	22.054.805	19.039.061
Non-current assets	32.754.437	30.083.777
Current liabilities	(5.301.232)	(4.857.939)
Non-current liabilities	(573.136)	(456.841)
<b>Net assets of joint venture</b>	<b>48.934.874</b>	<b>43.808.058</b>
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
<b>Group's share in the net assets of the joint venture</b>	<b>25.359.949</b>	<b>22.796.541</b>
	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>
Revenue	23.720.947	20.075.662
Profit for the year	5.151.627	3.841.738
Group's weighted average ownership interest	50%	40%
<b>Group's share in the net profit of the joint venture</b>	<b>2.575.814</b>	<b>1.920.869</b>

NOTE 4 - SEGMENT REPORTING

The Group is managed as a single business unit that provides low fares airline-related services, including scheduled services, charter services, ancillary services and other services. The Group's Chief Operating Decision Maker is the Board of Directors. The resource allocation decisions are based on the entire network and the deployment of the entire aircraft fleet. The objective in making resource allocation decisions is to maximise consolidated financial results, rather than results on individual routes within the network. All other assets and liabilities have been allocated to the Group's single reportable segment.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 5 - RELATED PARTY TRANSACTIONS

The immediate parent and controlling party of the Group is Esas Holding. The Group has a number of operating and financial relationships with its shareholders and other entities owned by its shareholders. There are no set payment terms for any of the related party transactions. The related party receivables and payables resulting from operating activities are generally settled in normal course of business.

#### (i) Balances with Related Parties:

##### a) Other receivables from related parties

	30 June 2018	31 December 2017
<b>Balances with joint ventures and subsidiaries:</b>		
PUEM	2.580.614	1.702.020
<b>Balances with other related parties:</b>		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	-	31.747
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	11.778	-
	<b>2.592.392</b>	<b>1.733.767</b>

##### b) Trade payables to related parties

	30 June 2018	31 December 2017
<b>Balances with joint ventures and subsidiaries:</b>		
Hitit Bilgisayar	917.084	764.389
<b>Balances with other related parties:</b>		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	64.072	-
	<b>981.156</b>	<b>764.389</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

#### (ii) Significant Transactions with Related Parties:

The significant transactions with Esas Holding consist of the financial guarantee that Esas provides for aircraft acquisitions and their related commissions. The Group records these commissions within finance expense.

The Group also leases their head office building from Esasburda İnşaat Sanayi ve Ticaret A.Ş. ("Esasburda"), another Esas Holding subsidiary, and records rent expense.

The Group receives simulator training services from PUEM for their pilots and generates revenues from labor hire and common area use.

The Group receives software and software support services from Hitit Bilgisayar that provides informations system solutions for transportation industry.

#### a) Sale of services

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
<b>Transactions with joint ventures and subsidiaries:</b>				
PUEM	955.089	663.097	535.234	307.318
<b>Transactions with other related parties:</b>				
Air Berlin Plc&Co Luftverkehrs Kg (*)	-	884.401	-	33.378
	<b>955.089</b>	<b>1.547.498</b>	<b>535.234</b>	<b>340.696</b>

(\*) Air Berlin Plc & Co Luftverkehrs Kg entered into liquidation process in August 2017. Therefore, the Group's management ceased commercial operations with the company as of that date.

#### b) Purchases of goods or services

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
<b>Transactions with joint ventures and subsidiaries:</b>				
Hitit Bilgisayar	6.719.912	6.905.718	3.115.545	2.134.226
PUEM	4.541.061	3.483.658	2.315.854	1.719.615
<b>Transactions with other related parties:</b>				
Esasburda	998.188	1.087.334	467.325	651.525
Other	24.488	-	11.500	-
	<b>12.283.649</b>	<b>11.476.710</b>	<b>5.910.224</b>	<b>4.505.366</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)**

**(ii) Significant Transactions with Related Parties (cont'd):**

**c) Rent expenses**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Esasburda	3.529.348	3.138.010	1.805.130	1.655.361
	<b>3.529.348</b>	<b>3.138.010</b>	<b>1.805.130</b>	<b>1.655.361</b>

**d) Surety commission expenses**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Esas Holding (Note 19)	4.304.543	6.269.914	2.065.578	2.885.247
	<b>4.304.543</b>	<b>6.269.914</b>	<b>2.065.578</b>	<b>2.885.247</b>

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,0725% of the 115% of the amount guaranteed.

**(iii) Compensation of Key Management Personnel:**

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the period ended 30 June 2018 and 2017 are as follows:

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Salaries and other short term benefits	6.552.428	4.652.216	2.453.869	2.292.704
Other long term benefits	810.479	985.195	-	-
	<b>7.362.907</b>	<b>5.637.411</b>	<b>2.453.869</b>	<b>2.292.704</b>

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 6 - TRADE RECEIVABLES AND PAYABLES

##### Short term trade receivables

The details of short term trade receivables as of 30 June 2018 and 31 December 2017 are as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
Trade receivables	204.374.122	144.962.630
Credit card receivables	428.876.483	49.128.679
Income accruals	13.356.091	289.997
	<b>646.606.696</b>	<b>194.381.306</b>
Less: Allowance for doubtful receivables	(7.737.124)	(6.979.931)
	<b>638.869.572</b>	<b>187.401.375</b>

The average collection period of trade receivables is approximately 26 days (31 December 2017: 22 days).

##### Short term trade payables

The details of short term trade payables as of 30 June 2018 and 31 December 2017 are as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
Trade payables	277.631.499	280.291.185
Accrued direct operational costs	219.407.880	82.205.807
Other accrued expenses	65.888.270	30.448.774
Due to related parties (Note 5)	981.156	764.389
	<b>563.908.805</b>	<b>393.710.155</b>

The average credit period of trade payables is approximately 31 days (31 December 2017: 28 days).

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 7 - PREPAID EXPENSES AND DEFERRED INCOME**

The details of prepaid expenses as of 30 June 2018 and 31 December 2017 are as follows:

**Short term prepaid expenses**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Advances on aircraft purchases	469.057.079	395.375.762
Advances to suppliers	483.765.952	247.896.894
Prepaid aircraft operating lease expenses	54.097.298	52.423.814
Prepaid insurance expenses	3.362.484	10.166.538
Prepaid advertising expenses	395.503	426.651
Other prepaid expenses	12.152.707	19.142.083
	<b>1.022.831.023</b>	<b>725.431.742</b>

**Long term prepaid expenses**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Advances on aircraft purchases	223.711.824	198.287.869
Other prepaid expenses	54.787.599	57.643.758
	<b>278.499.423</b>	<b>255.931.627</b>

The details of deferred income as of 30 June 2018 and 31 December 2017 are as follows:

**Short term deferred income**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Passenger flight liabilities	1.052.681.870	380.715.038
Advances received from customers	67.261.797	21.770.670
Other deferred income	13.722.557	12.962.174
	<b>1.133.666.224</b>	<b>415.447.882</b>

The details of passenger flight liabilities as of 30 June 2018 and 31 December 2017 are as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
Flight liability from ticket sales	872.991.094	268.933.251
Passenger airport fees received from customers	149.538.306	87.660.301
Flight liability from flight points	30.152.470	24.121.486
	<b>1.052.681.870</b>	<b>380.715.038</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 8 - PROPERTY AND EQUIPMENT**

<b>30 June 2018</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	<b>72.526.512</b>	<b>75.261.821</b>	<b>101.564.014</b>	<b>58.525.763</b>	<b>499.675.611</b>	<b>5.106.452.248</b>	<b>3.510.816</b>	<b>5.917.516.785</b>
Additions	2.384.198	112.929	2.408.958	37.012	81.394.439	1.132.331.394	2.328.355	1.220.997.285
Disposals	-	(1.447.654)	(744.876)	-	-	(156.468.636)	-	(158.661.166)
Transfers	-	-	-	964.687	-	-	(964.687)	-
Currency translation differences	13.032.757	13.159.075	17.983.465	10.372.656	93.959.129	1.014.612.197	718.082	1.163.837.361
<b>Closing</b>	<b>87.943.467</b>	<b>87.086.171</b>	<b>121.211.561</b>	<b>69.900.118</b>	<b>675.029.179</b>	<b>7.096.927.203</b>	<b>5.592.566</b>	<b>8.143.690.265</b>
<b>Accumulated depreciation:</b>								
Opening	<b>(10.771.676)</b>	<b>(12.180.327)</b>	<b>(62.382.916)</b>	<b>(43.069.275)</b>	<b>(111.270.901)</b>	<b>(1.015.320.632)</b>	-	<b>(1.254.995.727)</b>
Depreciation for the year	(2.806.194)	(3.358.220)	(6.143.795)	(3.334.405)	(22.877.549)	(165.114.045)	-	(203.634.208)
Disposals	-	852.782	621.371	-	-	81.550.338	-	83.024.491
Currency translation differences	(2.121.446)	(2.342.963)	(11.377.260)	(7.822.636)	(21.252.390)	(160.439.860)	-	(205.356.555)
<b>Closing</b>	<b>(15.699.316)</b>	<b>(17.028.728)</b>	<b>(79.282.600)</b>	<b>(54.226.316)</b>	<b>(155.400.840)</b>	<b>(1.259.324.199)</b>	-	<b>(1.580.961.999)</b>
<b>Net book value</b>	<b>72.244.151</b>	<b>70.057.443</b>	<b>41.928.961</b>	<b>15.673.802</b>	<b>519.628.339</b>	<b>5.837.603.004</b>	<b>5.592.566</b>	<b>6.562.728.266</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 8 - PROPERTY AND EQUIPMENT (cont'd)**

<b>30 June 2017</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	<b>58.446.618</b>	<b>54.947.225</b>	<b>73.778.851</b>	<b>47.936.130</b>	<b>325.933.190</b>	<b>4.510.753.029</b>	<b>415.109</b>	<b>5.072.210.152</b>
Additions	1.366.703	-	3.851.655	-	45.469.780	179.250.770	1.363.917	231.302.825
Disposals	(79.394)	(711.269)	(868)	-	(766.038)	(770.834.670)	-	(772.392.239)
Transfers	-	-	-	99.315	(19.802.804)	19.802.804	(99.315)	-
Currency translation differences	3.530.626	4.213.834	5.890.271	3.779.041	34.995.755	286.338.524	36.453	338.784.504
<b>Closing</b>	<b>63.264.553</b>	<b>58.449.790</b>	<b>83.519.909</b>	<b>51.814.486</b>	<b>385.829.883</b>	<b>4.225.310.457</b>	<b>1.716.164</b>	<b>4.869.905.242</b>
<b>Accumulated depreciation:</b>								
Opening	<b>(5.064.340)</b>	<b>(6.463.246)</b>	<b>(42.584.799)</b>	<b>(28.876.246)</b>	<b>(61.786.906)</b>	<b>(1.078.819.212)</b>	-	<b>(1.223.594.749)</b>
Depreciation for the year	(2.121.439)	(2.083.619)	(4.578.980)	(3.759.819)	(18.844.251)	(127.339.827)	-	(158.727.935)
Disposals	26.797	469.399	39	-	127.095	297.038.550	-	297.661.880
Currency translation differences	(405.892)	(512.786)	(3.444.284)	(2.329.130)	(5.205.982)	(26.564.827)	-	(38.462.901)
<b>Closing</b>	<b>(7.564.874)</b>	<b>(8.590.252)</b>	<b>(50.608.024)</b>	<b>(34.965.195)</b>	<b>(85.710.044)</b>	<b>(935.685.316)</b>	-	<b>(1.123.123.705)</b>
<b>Net book value</b>	<b>55.699.679</b>	<b>49.859.538</b>	<b>32.911.885</b>	<b>16.849.291</b>	<b>300.119.839</b>	<b>3.289.625.141</b>	<b>1.716.164</b>	<b>3.746.781.537</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 9 - INTANGIBLE ASSETS**

<b>30 June 2018</b>	<b>Brand</b>	<b>Software</b>	<b>Total</b>
<b>Cost:</b>			
Opening	<b>3.183.429</b>	<b>66.414.193</b>	<b>69.597.622</b>
Additions	-	3.447.918	3.447.918
Transfers	-	-	-
Currency translation differences	559.559	11.939.623	12.499.182
<b>Closing</b>	<b>3.742.988</b>	<b>81.801.734</b>	<b>85.544.722</b>
<b>Accumulated amortization:</b>			
Opening	<b>(1.684.564)</b>	<b>(43.424.572)</b>	<b>(45.109.136)</b>
Amortization for the year	(87.123)	(4.772.167)	(4.859.290)
Currency translation differences	(302.551)	(7.998.981)	(8.301.532)
<b>Closing</b>	<b>(2.074.238)</b>	<b>(56.195.720)</b>	<b>(58.269.958)</b>
<b>Net book value</b>	<b>1.668.750</b>	<b>25.606.014</b>	<b>27.274.764</b>

<b>30 June 2017</b>	<b>Brand</b>	<b>Software</b>	<b>Total</b>
<b>Cost:</b>			
Opening	<b>2.385.298</b>	<b>47.464.326</b>	<b>49.849.624</b>
Additions	-	2.731.831	2.731.831
Currency translation differences	436.818	3.767.836	4.204.654
<b>Closing</b>	<b>2.822.116</b>	<b>53.963.993</b>	<b>56.786.109</b>
<b>Accumulated amortization:</b>			
Opening	<b>(1.142.954)</b>	<b>(28.348.941)</b>	<b>(29.491.895)</b>
Amortization for the year	(69.242)	(3.955.114)	(4.024.356)
Currency translation differences	(210.620)	(2.287.726)	(2.498.346)
<b>Closing</b>	<b>(1.422.816)</b>	<b>(34.591.781)</b>	<b>(36.014.597)</b>
<b>Net book value</b>	<b>1.399.300</b>	<b>19.372.212</b>	<b>20.771.512</b>

Remaining average useful life of intangible assets as of 30 June 2018 is 1,9 years (31 December 2017: 2,1 years).

**NOTE 10 - LEASING TRANSACTIONS**

Details related to leasing transactions are disclosed in Note 22.

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 11- PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

##### Litigation

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 26.506.742 as of 30 June 2018(31 December 2017: TL 21.077.892). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 12.419.847(31 December 2017: TL 9.782.213) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

##### Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 545.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.212. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 30 June 2018 the appellate review of both lawsuits have been finalized in the Group's favor, whereby the court decision turning down the Group's request for the cancellation of the monetary fines has been overturned and the court decision cancelling the liquidation of the letter of credit by the administration has been upheld. The Group management believes that significant cash outflow is not probable and has not provided any provision for this fine.

##### Tax Inspection

Company's accounts as well as operations pertaining to year 2010 are inspected and examined in terms of Taxation Laws; and Corporation Tax Inspection Report number 2013-B-228/3, Corporation Tax Withholding Inspection Report number 2013-B-228/5, and Value Added Tax Withholding Tax Inspection Report number 2013-B-228/6 are hereby presented.

Under such Corporation Tax Inspection Report number 2013-B-228/3, it is allegedly stated that deducted amount of TL 1.553.762,38 over the corporation tax return of such lump sum expenses calculated and deducted under scope of the provision of Article 40/1 of Corporation Tax Law over transport proceeds obtained abroad cannot possibly be subjected to any deduction, and further that such portion deducted over the tax return is not related to transport proceeds obtained abroad, while on the other hand it is expressed on the same Report that those minor fixed assets purchased in year 2010, and each to be entered as direct expenses according to Article 313 of Tax Procedures Law are required to be redeemed through amortization , and therefore it is pointed out that TL 76.798,80 as well is to be included in the income of the corporation pertaining to year 2010.

A lawsuit has been filed by the Company, claiming revocation of such determination act with respect to an income difference in the amount of TL 1.630.561,18. Lawsuit filed before Istanbul Tax Court is concluded in favor of the Company. In respect of this judgment, Major Taxpayers Tax Office has appealed in upper court council of state and appeal process has not been concluded yet.

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

##### Tax Inspection (cont'd)

On such Corporation Tax Inspection Report number 2013-B-228/5, it is stated that despite the fact that rental payments of the Company with respect to such aircraft subject matter of financial leasing from the acquisition of the same through financial leasing from companies with legal and principal places of business domiciled abroad, constitute commercial income of the company obtaining the same under scope of business revenues, alleging that such payments are real property capital income under Article 30 of Corporation Tax Law, they are subject to added value tax withholding at the rate of 1% and in the total amount of TL 706.539,70 as per the relevant months of year 2010, and further on the same report, it is stated that such package computer software in the form of commercial commodity, purchased from any company with legal and principal places of business domiciled abroad, is subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right charge within framework of Article 30 of Corporation Tax Law.

Major Taxpayers Tax Office that we are affiliated to, accrued corporation tax withholding in the total amount of TL 719.508 for year 2010 through Tax Fine Notices issued as per the relevant months of year 2010 by basing on the said Tax Inspection Report, and charged tax loss fine in the total amount of TL 1.079.262 on grounds of such tax accrued. Lawsuits have been filed within legal terms granted, before Istanbul Tax Courts as of the respective, with the demand for waiver of the assessments set forth and rescission of any fines accrued. The lawsuits based on the Corporate Tax Law Article 30, claiming that the Company is subject to real property income tax resulting in 1% withholding tax, amounting to TL 706.539,70, for the year 2010 have been concluded in favor of the Company. Such lawsuit filed subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right (royalty) fee is concluded against the Company and such Judgment is brought by the Company to appeal before the Council of State, and the trial process is still ongoing. Under such capacity and in parallel to the relevant opinions of Company's legal advisors and taxation specialists, no provision has been provided therefore, including the periods on the accompanied consolidated financial statements not inspected.

Value Added Tax Inspection Report Number 2013-B-228/6, is based on the allegation that corporation tax withholdings arising on such amounts set forth to be accrued under such Corporation Tax Withholding Inspection Report Number 2013-B-228/5, and corporation tax withholdings anticipated under the said report are at the same time subject to value added tax withholding.

In the aforesaid process, all of the lawsuits filed with the demand for rescission of such fined value added tax assessments imposed in the name of the Company as per respective monthly periods of year 2010, with the claim that the rate of value added tax required to be calculated over corporation tax withholdings claimed as being payable over such leasing payments with respect to aircraft subject matter of financial leasing with the purpose of acquiring the same from companies with legal domiciles as well as principal places of business abroad being 18% are concluded, and such lawsuits filed in tax courts are concluded in favor of the Company. A part of the judgments were subject to appeal by Major Taxpayers Tax Office before Istanbul Tax Court due to their amounts, but in respect of judgment of İstanbul Regional Administrative Court, the appeals has been rejected and lawsuits were concluded in favor of the Company. A part of these lawsuits were brought to appeal before the Council of State due to their amounts, and the trial process is still ongoing.

It is believed that as a result of the said action filed, the principal taxes anticipated to be accrued, including any fines charged thereon, are to be released. Therefore, in parallel to the opinions of the Company's legal advisors as well as taxation specialists, no provision has been provided on the accompanied consolidated financial statements, including the period not inspected.

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

##### Tax Inspection (cont'd)

An audit was conducted in 2016 and 2017 by the Ministry of Finance on our accounts and transactions for 2014 in respect of income tax withholding. As a result of this audit, the Company's policy of applying income tax exemption for flight indemnity and flight indemnity difference payments made to the pilots and the flight crew certified by the civil aviation authority to provide services in the aircraft during flight, as per Article 29/2 of the Income Tax Law No. 193, was criticized. In this respect, the relevant tax office determined additional income tax liability in the amount of TL 38.644.642,45 and additional stamp tax liability in the amount of TL 293.312,84 against the Company and further imposed a tax penalty of TL 57.966.963,68 for income tax and TL 439.969,26 for stamp tax.

Related to the restructuring of Taxes and Other Receivables Numbered 7143 and Amendments to Certain Laws related to tax loss penalty amounting to TL 58.406.932,94 with a total amount of 38.937.955,29 TL against the Company with the assessment of income tax and withholding tax, an application was made for the benefit of the provisions of the law. In this scope, it is envisaged to terminate the disputes by paying in advance the total liability amounting to TL 19.788.045 including the interest accruing based on Domestic Producers' Price Index.

A provision has been recognized in the accompanying consolidated financial statements for the total liability of TL 19.788.045.

##### Tax and Regulatory Environment in Kyrgyzstan

The Kyrgyz Republic has a number of laws related to various taxes imposed by both republican and local governmental authorities. Legislation related to taxes has not been in force for significant period of time, in contrast to more developed market economies and therefore, implementing regulations are often. The accompanying consolidated financial statements consist of management assumptions that are determined by consulting tax and legislative experts.

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 12 - COMMITMENTS

##### Purchase Commitments

	30 June 2018	31 December 2017
Commitments to purchase aircraft	49.138.115.656	43.557.045.242
	<b>49.138.115.656</b>	<b>43.557.045.242</b>

As of 30 June 2018, the Group holds firm orders for 82 aircraft. The expected deliveries are: 4 aircraft in 2018, 14 aircraft in 2019, 14 aircraft in 2019, 13 aircraft in 2020, 19 aircraft in 2021, 12 aircraft in 2022, 10 aircraft in 2023, 10 aircraft in 2024 . The purchase commitments for these aircraft were calculated based on their list prices and actual prices would be typically lower than the list prices.

The Group has provided advances on aircraft purchases amounting TL 692.768.903 (31 December 2017: TL 593.663.631) and TL 469.057.079 of this amount is reclassified under short term, TL 223.711.824 of this amount is reclassified under long term prepaid expenses (31 December 2017: TL 395.375.762 of this amount is reclassified under short term, TL 198.287.869 of this amount is reclassified under long term prepaid expenses).

##### The Company as Lessee

###### Operating Lease Agreements:

Payments recognised as expense:

	1 January- 30 June 2018	1 January- 30 June 2017
Minimum lease payments	290.847.871	283.651.692
	<b>290.847.871</b>	<b>283.651.692</b>

Operating leases have remaining lease terms of between 1 to 8 years. The Company does not have the option to purchase the leased aircraft at the expiration of the lease period.

The non-cancellable operating lease liabilities as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Less than 1 year	636.343.616	560.853.156
Between 1 - 5 years	1.416.682.631	1.378.861.599
Over 5 years	114.251.462	164.687.976
	<b>2.167.277.709</b>	<b>2.104.402.731</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 12 - COMMITMENTS (cont'd)**

**Collaterals-Pledges-Mortgages(“CPM”)**

The details of the CPMs given by the Group as of 30 June 2018 is as follows:

<b>30 June 2018</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.125.355.103	233.253.319	6.899.650	11.911.918	13.013.151
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	68.008.589	11.037.000	-	17.672.143	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	2.382.094	522.309	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	<b>1.195.745.786</b>	<b>244.812.628</b>	<b>6.899.650</b>	<b>29.584.061</b>	<b>13.013.151</b>

(\*) Consisted of given CPMs to third parties in order to guarantee PUEM's, which is a joint venture accounted by equity method, liabilities for routine trade operations.

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

The other CPMs given by the Company constitute 0% of the Company's equity as of 30 June 2018.

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in TL unless otherwise stated.)

**NOTE 12 - COMMITMENTS (cont'd)**

**Collaterals-Pledges-Mortgages(“CPM”) (cont'd)**

The details of the CPMs given by the Group as of 31 December 2017 is as follows:

<b>31 December 2017</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.183.021.114	299.287.196	6.871.650	12.116.667	10.994.137
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	56.034.566	10.087.000	-	17.987.411	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	3.544.150	939.619	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	<b>1.242.599.830</b>	<b>310.313.815</b>	<b>6.871.650</b>	<b>30.104.078</b>	<b>10.994.137</b>

(\*) Consisted of given CPMs to third parties in order to guarantee PUEM’s, which is a joint venture accounted by equity method, liabilities for routine trade operations.

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers. The other CPMs given by the Company constitute 0% of the Company’s equity as of 31 December 2017.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 13 - EXPENSES BY NATURE

The details of expenses by nature for the years ended 30 June 2018 and 2017 are as follows:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Jet fuel expenses	1.033.543.967	675.757.276	594.707.622	350.140.868
Personnel expenses	369.206.318	319.958.345	193.513.135	170.053.828
Operating lease expenses	290.847.871	283.651.692	148.901.252	138.485.904
Maintenance expenses	255.627.207	217.995.509	135.465.728	107.126.333
Handling and station fees	223.153.256	173.104.753	125.621.233	93.452.840
Depreciation and amortisation expenses	208.493.498	162.752.291	113.113.346	80.045.051
Navigation expenses	193.706.100	144.512.963	108.119.005	76.856.328
Landing expenses	96.213.938	72.532.969	54.281.641	38.645.607
Commission expenses	60.373.221	46.681.489	34.985.502	28.442.049
Passenger service and catering expenses	31.431.794	24.114.385	16.928.509	13.295.785
Advertising expenses	27.211.746	18.369.052	17.329.566	11.171.246
Other expenses	181.961.409	150.404.916	86.822.464	74.533.760
	<b>2.971.770.325</b>	<b>2.289.835.640</b>	<b>1.629.789.003</b>	<b>1.182.249.599</b>

### NOTE 14 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS

The Company's shareholding structure as of 30 June 2018 and 31 December 2017 is as follows:

Shareholders:	30 June 2018		31 December 2017	
	(%)	TL	(%)	TL
Esas Holding	62,92	64.353.570	62,92	64.353.570
Publicly held	34,51	35.294.000	34,51	35.294.000
Emine Kamyşlı	0,86	874.810	0,86	874.810
Ali İsmail Sabancı	0,86	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
<b>TL historic capital</b>	<b>100,0</b>	<b>102.272.000</b>	<b>100,0</b>	<b>102.272.000</b>

The Company's share capital consists of 102.272.000 shares of par value TL 1 each (31 December 2017: 102.272.000 shares). All issued shares are fully paid in cash.

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in TL unless otherwise stated.)

**NOTE 15 - SALES AND COST OF SALES**

The details of sales and cost of sales for the years ended 30 June 2018 and 2017 are as follows:

**Sales:**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Scheduled flight and service revenue	2.740.347.629	1.936.464.918	1.590.874.473	1.134.269.890
<i>International flight revenue</i>	<i>1.239.610.145</i>	<i>858.312.711</i>	<i>728.964.198</i>	<i>517.511.025</i>
<i>Domestic flight revenue</i>	<i>734.682.767</i>	<i>577.270.786</i>	<i>432.666.754</i>	<i>341.069.389</i>
<i>Service revenue</i>	<i>766.054.717</i>	<i>500.881.421</i>	<i>429.243.521</i>	<i>275.689.476</i>
Charter flight and service revenue	105.130.988	47.254.431	84.796.000	38.429.850
<i>Charter flight revenue</i>	<i>104.478.686</i>	<i>46.607.847</i>	<i>84.595.865</i>	<i>38.144.841</i>
<i>Service revenue</i>	<i>652.302</i>	<i>646.584</i>	<i>200.135</i>	<i>285.009</i>
Wetlease revenue	-	79.837.804	-	29.786.467
Other revenue	46.921.115	45.707.369	21.983.962	20.955.819
	<b>2.892.399.732</b>	<b>2.109.264.522</b>	<b>1.697.654.435</b>	<b>1.223.442.026</b>

Geographical details of revenue from the scheduled flights are as follows:

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Europe	904.213.498	600.487.582	535.474.890	363.934.801
Domestic	734.682.767	577.270.786	432.666.754	341.069.389
Other	335.396.647	257.825.129	193.489.308	153.576.224
	<b>1.974.292.912</b>	<b>1.435.583.497</b>	<b>1.161.630.952</b>	<b>858.580.414</b>

**Cost of sales:**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Jet fuel expenses	1.033.543.967	675.757.276	594.707.622	350.140.868
Personnel expenses	318.229.913	281.494.290	171.009.354	150.874.409
Operating lease expenses	290.847.871	283.651.692	148.901.252	138.485.904
Maintenance expenses	255.627.207	217.995.509	135.465.728	107.126.333
Handling and station fees	223.153.256	173.104.753	125.621.233	93.452.840
Navigation expenses	193.706.100	144.512.963	108.119.005	76.856.328
Depreciation and amortisation expenses	187.360.656	145.700.614	102.006.670	71.535.489
Landing expenses	96.213.938	72.532.969	54.281.641	38.645.607
Passenger service and catering expenses	31.431.794	24.114.385	16.928.509	13.295.785
Other expenses	120.781.603	102.289.385	56.848.879	50.283.383
	<b>2.750.896.305</b>	<b>2.121.153.836</b>	<b>1.513.889.893</b>	<b>1.090.696.946</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

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(Amounts are expressed in TL unless otherwise stated.)

**NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Marketing expenses	111.369.845	84.975.684	64.075.955	49.365.926
General administrative expenses	109.504.175	83.706.120	51.823.155	42.186.727
	<b>220.874.020</b>	<b>168.681.804</b>	<b>115.899.110</b>	<b>91.552.653</b>

The details of general administrative expenses and marketing expenses for the years ended 30 June 2018 and 2017 are as follows (there are no research & development expenses in the periods ended in respective dates):

**General administrative expenses:**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Personnel expenses	39.496.481	28.687.579	17.145.178	14.178.440
IT expenses	20.080.242	13.242.423	9.433.885	5.914.110
Depreciation and amortisation expenses	17.108.396	13.805.979	8.991.545	6.889.580
Rent expenses	9.927.392	9.549.778	5.385.371	4.720.036
Consultancy expenses	6.407.864	5.309.845	2.560.721	3.071.371
Legal and notary expenses	2.834.887	1.941.282	1.231.641	820.651
Travel expenses	1.457.398	2.014.648	25.986	1.700.466
Office utility expenses	1.443.238	1.340.496	680.156	554.242
Communication expenses	1.032.741	873.121	561.545	446.683
Training expenses	930.593	282.756	708.142	152.252
Other expenses	8.784.943	6.658.213	5.098.985	3.738.896
	<b>109.504.175</b>	<b>83.706.120</b>	<b>51.823.155</b>	<b>42.186.727</b>

**Marketing expenses:**

	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April - 30 June 2018</b>	<b>1 April - 30 June 2017</b>
Commission expenses	60.373.221	46.681.489	34.985.502	28.442.049
Advertising expenses	27.211.746	18.369.052	17.329.566	11.171.246
Personnel expenses	11.479.924	9.776.476	5.358.603	5.000.979
Call center expenses	6.128.110	5.002.585	3.163.736	2.526.532
Depreciation and amortisation expenses	4.024.446	3.245.698	2.115.131	1.619.982
Other expenses	2.152.398	1.900.384	1.123.417	605.138
	<b>111.369.845</b>	<b>84.975.684</b>	<b>64.075.955</b>	<b>49.365.926</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

The details of other operating income and expenses for the years ended 30 June 2018 and 2017 are as follows:

#### Other operating income:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Foreign exchange gain from operating activities	120.844.326	14.638.428	105.736.049	(6.964.112)
Other income	648.740	1.465.783	423.991	812.510
	<b>121.493.066</b>	<b>16.104.211</b>	<b>106.160.040</b>	<b>(6.151.602)</b>

#### Other operating expenses:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Tax restructuring expenses (Note 11)	19.788.045	-	19.788.045	-
Penalty and compensation expenses	1.858.220	-	1.858.220	-
Doubtful receivable expense	65.679	1.887.090	242.519	(279.638)
Other expense	921.466	1.077.792	478.438	693.750
	<b>22.633.410</b>	<b>2.964.882</b>	<b>22.367.222</b>	<b>414.112</b>

### NOTE 18 - INCOME FROM INVESTING ACTIVITIES

The details of income from investing activities for the years ended 30 June 2018 and 2017 are as follows:

#### Income from investing activities:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Income from sale of aircraft (*)	22.335.452	121.601.904	-	121.601.904
Income from sale of subsidiary (**)	-	20.224.633	-	20.224.633
Other income	1.257.450	2.074.476	1.234.534	1.429.296
	<b>23.592.902</b>	<b>143.901.013</b>	<b>1.234.534</b>	<b>143.255.833</b>

(\*)Income from aircraft sales consists of sale of 1 Boeing 737-800 type aircraft realized in 2018.

(\*\*)The deferred income from sale of subsidiary, was recognized in the statement of profit or loss as a result of the completion process of transferring of shares on 15 June 2017.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 19 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses for the years ended 30 June 2018 and 2017 are as follows:

#### Financial income:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Interest income	40.229.860	10.930.064	20.643.145	6.207.769
Gain on derivative contracts	2.980.517	-	5.432.821	-
Foreign exchange gain	-	20.381.758	-	29.577.488
	<b>43.210.377</b>	<b>31.311.822</b>	<b>26.075.966</b>	<b>35.785.257</b>

#### Financial expenses:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Foreign exchange loss	80.956.261	-	76.175.203	-
Interest expense on financial lease	43.956.926	24.747.705	23.932.360	13.046.460
Other commission expenses	33.949.677	15.720.873	19.823.729	8.712.387
Interest expense on bank loans	6.551.409	1.354.689	3.149.135	1.292.196
Surety commission expenses	4.304.543	6.269.914	2.065.578	2.885.247
Losses from derivative contracts	-	4.145.025	-	3.933.551
	<b>169.718.816</b>	<b>52.238.206</b>	<b>125.146.005</b>	<b>29.869.841</b>

### NOTE 20 - EARNINGS / LOSS PER SHARE

Earnings/(loss) per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 30 June 2018 and 2017 are as follows:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April - 30 June 2018	1 April - 30 June 2017
Loss attributable to the shareholders of the parent	(97.237.576)	(42.570.882)	15.699.369	160.669.798
Weighted average number of shares issued in the year	102.272.000	102.272.000	102.272.000	102.272.000
<b>(Loss) / earnings per share</b>	<b>(0,95)</b>	<b>(0,42)</b>	<b>0,15</b>	<b>1,57</b>

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 21 - DERIVATIVE INSTRUMENTS**

**Fair Value of Derivative Instruments**

	30 June 2018		31 December 2017	
	Asset	Liability	Asset	Liability
Short term	85.967.713	-	31.979.841	-
	<b>85.967.713</b>	<b>-</b>	<b>31.979.841</b>	<b>-</b>

Explanations related to derivative instruments are disclosed in Note 24.

**NOTE 22 - FINANCIAL INSTRUMENTS**

**Financial Liabilities**

The details of financial liabilities as of 30 June 2018 and 31 December 2017 are as follows:

<b>Short term financial liabilities</b>	<b>30 June 2018</b>	<b>31 December 2017</b>
Short term bank borrowings	506.237.699	541.267.652
Short term portion of long term financial lease obligations	518.062.514	355.987.254
	<b>1.024.300.213</b>	<b>897.254.906</b>
<b>Long term financial liabilities</b>	<b>30 June 2018</b>	<b>31 December 2017</b>
Long term financial lease obligations	4.063.850.916	2.711.225.518
	<b>4.063.850.916</b>	<b>2.711.225.518</b>

a) Bank Borrowings

The effective interest rates, original currency and TL equivalents of the borrowings as of 30 June 2018 and 31 December 2017 are as follows :

<b>30 June 2018</b>	<b>Weighted average interest rate (%)</b>	<b>Currency</b>	<b>Original amount</b>	<b>TL equivalent</b>
Short term bank borrowings	2,67%	USD	111.000.000	506.237.699
				<b>506.237.699</b>
<b>31 December 2017</b>	<b>Weighted average interest rate (%)</b>	<b>Currency</b>	<b>Original amount</b>	<b>TL equivalent</b>
Short term bank borrowings	2,21%	USD	143.500.000	541.267.652
				<b>541.267.652</b>

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 22 - FINANCIAL INSTRUMENTS (cont'd)

##### Financial Liabilities (cont'd)

##### b) Financial Lease Liabilities

The details of financial lease liabilities as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Less than 1 year	647.701.610	444.735.353
Between 1 - 5 years	2.397.997.168	1.695.330.708
Over 5 years	2.332.856.950	1.511.332.834
	5.378.555.728	3.651.398.895
Less: Future interest expenses	(796.642.298)	(584.186.123)
	<b>4.581.913.430</b>	<b>3.067.212.772</b>

Present value of minimum lease payments of financial lease liabilities are as follows;

	30 June 2018	31 December 2017
Less than 1 year	518.062.514	355.987.254
Between 1 - 5 years	1.991.255.051	1.387.401.998
Over 5 years	2.072.595.865	1.323.823.520
	<b>4.581.913.430</b>	<b>3.067.212.772</b>

The Group purchases certain of its aircraft and handling equipment through financial lease arrangements. The average lease term is 6,70 years. For the year ended 30 June 2018, the floating interest rate applicable to Euro-denominated lease obligations, amounting to TL 2.571.284.253, is 1,8% (31 December 2017: 1,64%) and the floating rate applicable to US Dollar-denominated lease obligations, amounting to TL 1.521.225.365, is 5,30% (31 December 2017: 5,54%).

#### NOTE 23 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

##### Financial Risk Factors

##### *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 Dollar 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.

The Group's foreign currency position of monetary and non-monetary assets/liabilities for the years ended 30 June 2018 and 31 December 2017 are as follows:

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**NOTE 23 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

**Financial Risk Factors (cont'd)**

**Foreign currency risk management (cont'd)**

<b>30 June 2018</b>	<b>TL Total</b>	<b>USD</b>	<b>TL</b>	<b>GBP</b>	<b>Other</b>
1. Trade receivables	588.466.072	13.259.854	457.127.866	941.527	65.232.717
2a. Monetary financial assets	1.796.400.458	369.496.669	43.507.478	3.944.838	44.135.446
2b. Non monetary financial assets	-	-	-	-	-
3. Other	297.443.647	63.984.228	133.192	-	5.497.586
<b>4. CURRENT ASSETS</b>	<b>2.682.310.177</b>	<b>446.740.751</b>	<b>500.768.536</b>	<b>4.886.365</b>	<b>114.865.749</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	23.659.065	4.592.238	671.163	19.800	1.925.658
<b>8. NON CURRENT ASSETS</b>	<b>23.659.065</b>	<b>4.592.238</b>	<b>671.163</b>	<b>19.800</b>	<b>1.925.658</b>
<b>9. TOTAL ASSETS</b>	<b>2.705.969.242</b>	<b>451.332.989</b>	<b>501.439.699</b>	<b>4.906.165</b>	<b>116.791.407</b>
10. Trade payables	263.719.306	36.939.342	85.923.754	261.824	7.760.326
11. Financial liabilities	671.901.155	147.324.129	-	-	-
12a. Other liabilities, monetary	119.221.208	14.423.994	52.078.268	124.969	611.991
12b. Other liabilities, non monetary	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>1.054.841.669</b>	<b>198.687.465</b>	<b>138.002.022</b>	<b>386.793</b>	<b>8.372.317</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.519.859.760	333.251.422	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>1.519.859.760</b>	<b>333.251.422</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>2.574.701.429</b>	<b>531.938.887</b>	<b>138.002.022</b>	<b>386.793</b>	<b>8.372.317</b>
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	2.409.222	14.003.113	-	(10.275.000)	-
19.a Off-balance sheet foreign currency derivative assets	63.863.997	14.003.113	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	61.454.775	-	-	10.275.000	-
20. Net foreign currency asset/(liability) position	131.267.813	(80.605.898)	363.437.677	4.519.372	108.419.090
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(189.834.899)	(149.182.364)	362.633.322	4.499.572	100.995.846

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**NOTE 23 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

**Financial Risk Factors (cont'd)**

**Foreign currency risk management (cont'd)**

31 December 2017	TL Total	USD	TL	GBP	Other
1. Trade receivables	186.534.476	20.358.928	74.550.319	926.837	30.483.706
2a. Monetary financial assets	1.783.513.540	452.531.681	49.136.540	2.095.796	16.825.480
2b. Non monetary financial assets	-	-	-	-	-
3. Other	569.326.978	146.780.474	10.882.284	59.813	4.499.556
<b>4. CURRENT ASSETS</b>	<b>2.539.374.994</b>	<b>619.671.083</b>	<b>134.569.143</b>	<b>3.082.446</b>	<b>51.808.742</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	263.707.915	69.286.432	667.356	19.800	1.598.476
<b>8. NON CURRENT ASSETS</b>	<b>263.707.915</b>	<b>69.286.432</b>	<b>667.356</b>	<b>19.800</b>	<b>1.598.476</b>
<b>9. TOTAL ASSETS</b>	<b>2.803.082.909</b>	<b>688.957.515</b>	<b>135.236.499</b>	<b>3.102.246</b>	<b>53.407.218</b>
10. Trade payables	233.326.734	39.864.039	70.606.121	422.200	10.212.542
11. Financial liabilities	662.721.400	175.699.621	-	-	-
12a. Other liabilities, monetary	106.868.503	5.055.674	87.401.848	-	397.158
12b. Other liabilities, non monetary	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>1.002.916.637</b>	<b>220.619.334</b>	<b>158.007.969</b>	<b>422.200</b>	<b>10.609.700</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.193.147.908	316.325.435	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>1.193.147.908</b>	<b>316.325.435</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>2.196.064.545</b>	<b>536.944.769</b>	<b>158.007.969</b>	<b>422.200</b>	<b>10.609.700</b>
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	204.548	16.216.800	-	(12.000.000)	-
19.a Off-balance sheet foreign currency derivative assets	61.168.148	16.216.800	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	60.963.600	-	-	12.000.000	-
20. Net foreign currency asset/(liability) position	607.018.364	152.012.746	(22.771.470)	2.680.046	42.797.518
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(226.016.529)	(64.054.160)	(34.321.110)	2.600.433	36.699.486

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NOTE 23 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk arising primarily with respect to the US Dollar and Turkish Lira.

The following table details the Group's sensitivity to a 10% increase and decrease in US Dollar, and TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Foreign currency sensitivity tables as of 30 June 2018 and 31 December 2017 are as follows:

30 June 2018	Profit/(Loss)		Shareholders' equity	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / (liability)	(68.037.601)	68.037.601	-	-
Part of hedged from USD risk	6.386.400	(6.386.400)	-	-
<b>USD net effect</b>	<b>(61.651.201)</b>	<b>61.651.201</b>	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	36.263.332	(36.263.332)	264.341.055	(264.341.055)
Part of hedged from TL risk	-	-	-	-
<b>TL net effect</b>	<b>36.263.332</b>	<b>(36.263.332)</b>	<b>264.341.055</b>	<b>(264.341.055)</b>
<b>31 December 2017</b>				
	Profit/(Loss)		Shareholders' equity	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / (liability)	(24.160.589)	24.160.589	-	-
Part of hedged from USD risk	6.116.815	(6.116.815)	-	-
<b>USD net effect</b>	<b>(18.043.774)</b>	<b>18.043.774</b>	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	(3.432.111)	3.432.111	246.087.693	(246.087.693)
Part of hedged from TL risk	-	-	-	-
<b>TL net effect</b>	<b>(3.432.111)</b>	<b>3.432.111</b>	<b>246.087.693</b>	<b>(246.087.693)</b>

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**NOTE 24 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)**

**Fair Value of Financial Instruments**

<b>30 June 2018</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	2.081.409.310	-	-	-	2.081.409.310	26
Trade receivables	638.869.572	-	-	-	638.869.572	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	638.869.572	-	-	-	638.869.572	6
Other receivables	194.457.061	-	-	-	194.457.061	
- <i>Related party</i>	2.592.392	-	-	-	2.592.392	5
- <i>Other</i>	191.864.669	-	-	-	191.864.669	
Derivative financial assets	-	80.477.589	5.490.124	-	85.967.713	21
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	506.237.699	506.237.699	22
Obligations under financial leases	-	-	-	4.581.913.430	4.581.913.430	22
Trade payables	-	-	-	563.908.805	563.908.805	6
- <i>Related party</i>	-	-	-	981.156	981.156	5
- <i>Other</i>	-	-	-	562.927.649	562.927.649	
Passenger airport fees liability	-	-	-	149.538.306	149.538.306	7

(\*) The Group's management believes that carrying amount of financial instruments approximates their fair value.

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NOTE 24 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Fair Value of Financial Instruments (cont'd)

31 December 2017	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected at fair value in profit/loss	Financial liabilities at amortized cost	Carrying amount (*)	Note
<b>Financial assets</b>						
Cash and cash equivalents	1.988.110.247	-	-	-	1.988.110.247	26
Trade receivables	187.401.375	-	-	-	187.401.375	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	187.401.375	-	-	-	187.401.375	6
Other receivables	128.364.883	-	-	-	128.364.883	
- <i>Related party</i>	1.733.767	-	-	-	1.733.767	5
- <i>Other</i>	126.631.116	-	-	-	126.631.116	
Pre-delivery payment for purchase of aircraft	593.663.631	-	-	-	593.663.631	7
Derivative financial assets	-	29.701.599	2.278.242	-	31.979.841	21
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	541.267.652	541.267.652	22
Obligations under financial leases	-	-	-	3.067.212.772	3.067.212.772	22
Trade payables	-	-	-	393.710.155	393.710.155	6
- <i>Related party</i>	-	-	-	764.389	764.389	5
- <i>Other</i>	-	-	-	392.945.766	392.945.766	
Passenger airport fees liability	-	-	-	87.660.301	87.660.301	7

(\*) The Group's management believes that carrying amount of financial instruments approximates their fair value.

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**NOTE 24 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)**

**Fair Value of Financial Instruments (cont'd)**

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of financial assets and liabilities are determined by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets / (Financial liabilities)	Fair value as at		Fair value hierarchy	Valuation technique	
	30 June 2018	31 December 2017			
Fuel purchase option contracts	80.477.589	25.666.669	Level 2	Discounted cash flow method	
Fuel purchase forward contracts	-	4.034.930	Level 2	Discounted cash flow method	
Currency forward contracts	1.521.066	204.227	Level 2	Discounted cash flow method	
Interest rate swap contracts	3.969.058	2.074.015	Level 2	Discounted cash flow method	
<b>30 June 2018</b>					
	<b>Fuel purchase forward contracts</b>	<b>Fuel purchase option contracts</b>	<b>Currency forward contracts</b>	<b>Interest rate swap contracts</b>	<b>Total</b>
<b>Fair value:</b>					
Opening	4.034.930	25.666.669	204.227	2.074.015	31.979.841
Fair value increase					
Recognized in equity	(4.034.930)	54.810.920	-	-	50.775.990
Recognized in profit or loss	-	-	1.316.839	1.895.043	3.211.882
<b>Closing</b>	<b>-</b>	<b>80.477.589</b>	<b>1.521.066</b>	<b>3.969.058</b>	<b>85.967.713</b>
Assets	-	80.477.589	-	3.969.058	84.446.647
Liabilities	-	-	1.521.066	-	1.521.066
<b>Total net assets and liabilities</b>	<b>-</b>	<b>80.477.589</b>	<b>1.521.066</b>	<b>3.969.058</b>	<b>85.967.713</b>

## PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

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#### NOTE 24 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

##### Fair Value of Financial Instruments (cont'd)

<b>31 December 2017</b>	<b>Fuel purchase forward contracts</b>	<b>Fuel purchase option contracts</b>	<b>Currency forward contracts</b>	<b>Interest rate swap contracts</b>	<b>Total</b>
<b>Fair value:</b>					
Opening	-	364.813	-	762.555	1.127.368
Fair value increase / (decrease)					
Recognized in equity	4.034.930	25.301.856	-	-	29.336.786
Recognized in profit or loss	-	-	204.227	1.311.460	1.515.687
<b>Closing</b>	<b>4.034.930</b>	<b>25.666.669</b>	<b>204.227</b>	<b>2.074.015</b>	<b>31.979.841</b>
Assets	4.034.930	25.666.669	204.227	2.074.015	31.979.841
<b>Total net assets and liabilities</b>	<b>4.034.930</b>	<b>25.666.669</b>	<b>204.227</b>	<b>2.074.015</b>	<b>31.979.841</b>

#### NOTE 25 - EVENTS AFTER THE REPORTING PERIOD

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. A provision for the total liability has been recognized in the accompanying consolidated financial statements.

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#### NOTE 26 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 30 June 2018 and 31 December 2017 are as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
Cash on hand	488.735	733.960
Cash at banks	2.080.920.575	1.987.376.287
- Demand deposits	216.321.489	57.522.636
- Time deposits	1.864.599.086	1.929.853.651
	<b>2.081.409.310</b>	<b>1.988.110.247</b>

The weighted average interest rates of time deposits are as presented below:

<b>30 June 2018</b>	<b>Weighted average interest rates</b>	<b>Total</b>
USD deposits	4,35%	1.558.482.337
EUR deposits	1,63%	256.556.929
TL deposits	18,00%	29.850.000
GBP deposits	1,00%	13.757.054
CHF deposits	0,20%	5.952.766
		<b>1.864.599.086</b>

<b>31 December 2017</b>	<b>Weighted average interest rates</b>	<b>Total</b>
USD deposits	3,98%	1.686.920.588
EUR deposits	1,73%	182.176.732
TL deposits	12,21%	49.349.207
GBP deposits	0,63%	9.094.206
CHF deposits	0,20%	2.312.918
		<b>1.929.853.651</b>

All of the time deposits as of 30 June 2018 and 31 December 2017 have maturities less than 90 days.