

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 2019 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, 2019 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.

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



Sinem Arı Öz, SMMM
Partner

8 August 2019
İstanbul, Türkiye

INDEX	PAGE
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	1-2
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER.....	
COMPREHENSIVE INCOME	3
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	4
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	5
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	6-45
NOTE 1 ORGANISATION AND OPERATIONS OF THE GROUP	6
NOTE 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS.....	6-15
NOTE 3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	15-16
NOTE 4 SEGMENT REPORTING.....	17
NOTE 5 RELATED PARTY DISCLOSURES	17-19
NOTE 6 TRADE RECEIVABLES AND PAYABLES.....	19
NOTE 7 PREPAID EXPENSES AND PASSENGER FLIGHT LIABILITIES	20
NOTE 8 PROPERTY AND EQUIPMENT	21-22
NOTE 9 INTANGIBLE ASSETS	23
NOTE 10 RIGHT OF USE ASSETS.....	24
NOTE 11 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	25-27
NOTE 12 COMMITMENTS.....	27-29
NOTE 13 EXPENSES BY NATURE	30
NOTE 14 SHAREHOLDERS' EQUITY	30
NOTE 15 SALES AND COST OF SALES.....	31
NOTE 16 GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES	32
NOTE 17 OTHER OPERATING INCOME AND EXPENSES	33
NOTE 18 INCOME FROM INVESTING ACTIVITIES	33
NOTE 19 FINANCIAL INCOME AND EXPENSES.....	34
NOTE 20 EARNINGS / LOSS PER SHARE.....	34
NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS	35
NOTE 22 FINANCIAL INSTRUMENTS.....	35-36
NOTE 23 NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS	37-40
NOTE 24 FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES).....	41-44
NOTE 25 EVENTS AFTER REPORTING PERIOD.....	44
NOTE 26 EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW	44-45

(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 2019**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Reviewed) 30 June 2019	Prior period (Audited) 31 December 2018
ASSETS			
Current assets		5.843.199.698	4.412.080.391
Cash and cash equivalents	26	2.987.383.011	2.741.044.971
Trade receivables	6	821.580.331	235.514.142
<i>Trade receivables from related parties</i>		-	-
<i>Trade receivables from third parties</i>		821.580.331	235.514.142
Other receivables		275.328.813	479.758.270
<i>Other receivables from related parties</i>	5	-	1.580.011
<i>Other receivables from third parties</i>		275.328.813	478.178.259
Derivative financial instruments	21	-	3.134.337
Inventories		75.494.053	58.182.322
Prepaid expenses	7	1.664.015.285	847.933.762
Current income tax assets		8.011.506	5.954.024
Other current assets		11.386.699	40.558.563
Non-Current assets		12.921.299.367	9.252.807.145
Other receivables		65.034.131	72.613.409
<i>Other receivables from third parties</i>		65.034.131	72.613.409
Investments accounted by using the equity method	3	47.068.086	39.797.114
Property and equipment	8	9.675.231.434	8.248.203.635
Intangible assets	9	63.203.353	46.859.897
Right of use assets	10	2.596.143.618	-
Prepaid expenses	7	474.618.745	845.333.090
TOTAL ASSETS		18.764.499.065	13.664.887.536

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 2019**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Reviewed) 30 June 2019	Prior period (Audited) 31 December 2018
LIABILITIES			
Current liabilities		5.011.761.441	3.554.371.119
Short term financial liabilities	22	748.163.000	797.815.861
Short term portion of long term financial liabilities	22	1.432.886.768	659.409.925
Trade payables	6	832.099.439	583.526.242
<i>Trade payables to related parties</i>	5	2.704.692	1.158.564
<i>Trade payables to third parties</i>		829.394.747	582.367.678
Employee benefit obligations		64.419.316	25.641.632
Other payables		34.810.152	24.170.136
<i>Other payables to third parties</i>		34.810.152	24.170.136
Passenger flight liabilities	7	1.489.499.693	677.753.986
Derivative financial instruments	21	75.168.451	189.722.017
Deferred income		165.573.940	62.772.691
Short term provisions		160.776.805	508.251.575
<i>Short term provisions for employee benefits</i>		48.904.881	79.419.630
<i>Other short term provisions</i>		111.871.924	428.831.945
Other current liabilities		8.363.877	25.307.054
Non-Current liabilities		9.800.803.192	6.395.068.769
Long term financial liabilities	22	7.522.914.299	5.064.858.596
Derivative financial instruments	21	33.123.660	104.993.760
Deferred income		196.925.748	121.994.007
Long term provisions		1.572.254.660	624.090.226
<i>Long term provisions for employee benefits</i>		21.616.472	25.019.690
<i>Other long term provisions</i>		1.550.638.188	599.070.536
Deferred tax liabilities		475.584.825	479.132.180
SHAREHOLDERS' EQUITY		3.951.934.432	3.715.447.648
Equity attributable to shareholders' of the parent		3.994.461.891	3.753.058.255
Paid-in share capital	14	102.299.707	102.299.707
Share premiums on capital stock		455.687.025	455.687.025
Effects of business acquisition		31.729.006	31.729.006
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans		(2.132.417)	(2.132.417)
Currency translation differences		2.472.651.722	2.131.817.567
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		(109.756.809)	(89.760.549)
Hedge fund		(80.673.790)	(221.159.956)
Restricted profit reserves		5.114.985	5.016.306
Retained earnings		1.009.023.917	832.182.941
Net profit for the period		110.518.545	507.378.625
Non-controlling interest		(42.527.459)	(37.610.607)
TOTAL LIABILITIES AND EQUITY		18.764.499.065	13.664.887.536

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 2019

(Amounts are expressed in TL unless otherwise stated.)

Profit or loss	Notes	Current period	Prior period	Current period	Prior period
		(Reviewed)	(Reviewed)	(Not Reviewed)	(Not Reviewed)
		1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Sales	15	4.396.346.375	2.892.399.732	2.630.441.893	1.697.654.435
Cost of sales (-)	15	(3.813.768.359)	(2.750.896.305)	(2.073.543.161)	(1.513.889.893)
Gross profit		582.578.016	141.503.427	556.898.732	183.764.542
General administrative expenses (-)	16	(128.637.008)	(109.504.175)	(56.237.313)	(51.823.155)
Marketing expenses (-)	16	(156.057.915)	(111.369.845)	(91.353.633)	(64.075.955)
Other operating income	17	58.200.741	121.493.066	40.372	106.160.040
Other operating expenses (-)	17	(6.708.439)	(22.633.410)	(4.377.014)	(22.367.222)
Operating profit		349.375.395	19.489.063	404.971.144	151.658.250
Income from investing activities	18	831.930	23.592.902	372.057	1.234.534
Share of investments income accounted for using the equity method	3	6.377.780	3.286.251	3.246.676	2.146.330
Operating profit before financial expense		356.585.105	46.368.216	408.589.877	155.039.114
Financial income	19	44.209.236	43.210.377	12.988.227	26.075.966
Financial expense (-)	19	(293.206.698)	(169.718.816)	(76.374.228)	(125.146.005)
Profit / (loss) before tax		107.587.643	(80.140.223)	345.203.876	55.969.075
Tax income / (expense)		1.542.802	(19.594.588)	(21.559.747)	(40.976.068)
Current tax expense		-	-	-	-
Deferred tax income / (expense)		1.542.802	(19.594.588)	(21.559.747)	(40.976.068)
Profit / (loss) for the period		109.130.445	(99.734.811)	323.644.129	14.993.007
Net profit / (loss) attributable to:					
Non-controlling interest		(1.388.100)	(2.497.235)	(727.694)	(706.362)
Shareholders' of the parent		110.518.545	(97.237.576)	324.371.823	15.699.369
		109.130.445	(99.734.811)	323.644.129	14.993.007
Profit / (loss) per share (TL)	20	1,08	(0,95)	3,17	0,15
Other comprehensive income					
Items not to be reclassified to profit or loss					
Currency translation differences		340.834.155	333.736.695	205.808.603	158.446.911
Items to be reclassified to profit or loss					
Currency translation differences		(23.525.012)	(32.712.255)	(5.992.839)	(22.228.517)
Cash flow hedge		181.672.501	50.775.990	(53.924.399)	46.662.984
Deferred tax effect		(41.186.335)	(11.764.750)	12.225.012	(10.942.149)
Other comprehensive income		457.795.309	340.035.680	158.116.377	171.939.229
Total comprehensive income		566.925.754	240.300.869	481.760.506	186.932.236
Total comprehensive income attributable to:					
Non-controlling interest		(4.916.852)	(6.572.303)	(1.626.620)	(3.915.467)
Shareholders' of the parent		571.842.606	246.873.172	483.387.126	190.847.703
		566.925.754	240.300.869	481.760.506	186.932.236

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 2019**

(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
As at 1 January 2018	102.272.000	455.687.025	29.504.957	(3.305.232)	1.079.050.983	(43.927.223)	23.761.279	5.016.306	355.561.802	502.247.817	2.505.869.714	(21.231.508)	2.484.638.206
Changes in accounting policy (Note 2)	-	-	-	-	-	-	-	-	(18.756.002)	-	(18.756.002)	-	(18.756.002)
Restated total equity as at 1 January 2018	102.272.000	455.687.025	29.504.957	(3.305.232)	1.079.050.983	(43.927.223)	23.761.279	5.016.306	336.805.800	502.247.817	2.487.113.712	(21.231.508)	2.465.882.204
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
As at 30 June 2018	102.272.000	455.687.025	29.504.957	(3.305.232)	1.412.787.678	(72.564.410)	62.772.519	5.016.306	839.053.617	(97.237.576)	2.733.986.884	(27.803.811)	2.706.183.073
As at 1 January 2019	102.299.707	455.687.025	31.729.006	(2.132.417)	2.131.817.567	(89.760.549)	(221.159.956)	5.016.306	832.182.941	507.378.625	3.753.058.255	(37.610.607)	3.715.447.648
Changes in accounting policy (Note 2)	-	-	-	-	-	-	-	-	(330.438.970)	-	(330.438.970)	-	(330.438.970)
Restated total equity as at 1 January 2019	102.299.707	455.687.025	31.729.006	(2.132.417)	2.131.817.567	(89.760.549)	(221.159.956)	5.016.306	501.743.971	507.378.625	3.422.619.285	(37.610.607)	3.385.008.678
Transfers	-	-	-	-	-	-	-	98.679	507.279.946	(507.378.625)	-	-	-
Total comprehensive income	-	-	-	-	340.834.155	(19.996.260)	140.486.166	-	-	110.518.545	571.842.606	(4.916.852)	566.925.754
As at 30 June 2019	102.299.707	455.687.025	31.729.006	(2.132.417)	2.472.651.722	(109.756.809)	(80.673.790)	5.114.985	1.009.023.917	110.518.545	3.994.461.891	(42.527.459)	3.951.934.432

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 CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Reviewed) 1 January- 30 June 2019	Prior period (Reviewed) 1 January- 30 June 2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) for the period		109.130.445	(99.734.811)
Adjustments to reconcile the profit / (loss)			
Depreciation and amortization	8-9-10	742.249.525	208.493.498
Adjustments related with impairments		3.083.322	65.679
<i>Provision for doubtful receivable</i>		3.083.322	65.679
Adjustments related with provisions		(276.383.983)	133.919.029
<i>Provision for employee benefits</i>		29.152.913	17.156.723
<i>Legal provision</i>		(823.197)	2.666.170
<i>Change in redelivery provision</i>		(304.713.699)	94.308.091
<i>Provision for tax restructuring expenses</i>		-	19.788.045
Interest and commission income	19	219.951.014	48.532.695
Gain on equity investments accounted for using the equity method	3	(6.377.780)	(3.286.251)
Current tax expense		(1.542.802)	19.594.588
Other provisions related with investing or financing activities		(1.616.828)	(25.547.334)
Changes in working capital			
Increase in trade receivables		(589.514.558)	(450.842.364)
Increase in other receivables, prepaid expenses and other current assets		(8.483.291)	(327.458.363)
Increase in inventories		(17.311.731)	(16.334.708)
Increase in trade payables		248.573.197	170.198.650
Increase in deferred income, other payables and other current liabilities		931.958.620	681.906.987
Net cash generated from operating activities		1.353.715.150	339.507.295
Payment for the employee benefits provisions		(64.027.551)	(30.733.058)
Payment for other provisions		(235.059)	(28.536)
		1.289.452.540	308.745.701
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of aircraft		-	88.849.440
Proceeds from sale of property, equipment and intangible assets		1.384.918	1.975.827
Cash outflows from purchase of property, equipment and intangible assets		(109.554.157)	(89.159.253)
Changes in cash advances and payables		(253.920.061)	(166.376.368)
		(362.089.300)	(164.710.354)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in borrowings		226.713.000	268.315.650
Repayment of borrowings		(307.226.950)	(405.913.250)
Repayment of principal in lease liabilities		(677.562.074)	(207.255.812)
Interest and commission paid		(199.033.449)	(87.481.875)
Interest received		42.308.318	39.913.159
		(914.801.155)	(392.422.128)
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)			
		12.562.085	(248.386.781)
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS			
		233.775.955	341.685.844
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)			
		246.338.040	93.299.063
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
AT THE BEGINNING OF THE PERIOD	26	2.741.044.971	1.988.110.247
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD (A+B+C+D+E)	26	2.987.383.011	2.081.409.310

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 2019

(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 2019 and 31 December 2018 are as follows:

	30 June 2019	31 December 2018
Esas Holding A.Ş. (“Esas Holding”)	62,92%	62,92%
Publicly held	34,51%	34,51%
Sabancı Family Members	2,57%	2,57%
Total	100,00%	100,00%

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 2019 is 6.037 (31 December 2018: 5.621). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

Approval of Financial Statements

Board of Directors has approved the condensed consolidated financial statements as of 30 June 2019 and delegated authority for publishing it on 8 August 2019.

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/IFRS”) 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 7 June 2019 by POA and the format and mandatory information recommended by CMB.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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 2019 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 2018.

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.

If the legal records are kept in a currency other than the functional currency, the financial statements are initially translated into the functional currency and then translated to the Group's presentation currency, Turkish Lira (“TL”). For the companies in Turkey that book legal records in TL, currency translation from TL to the functional currency Euro is made under the framework described below:

- Monetary assets and liabilities have been converted to the functional currency with the The Central Bank of Turkish Republic (CBRT) foreign exchange buying rate.
- Non-monetary items have been converted into the functional currency at the exchange rates prevailing at the transaction date.
- Profit or loss accounts have been converted into the functional currency using the exchange rates at the transaction date, except for depreciation expenses.
- The capital is followed according to historical costs.

The translation differences resulting from the above mentioned conversions are recorded under financial income / expenses in the statement of profit or loss.

Presentation currency of the Group’s financial statements is 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 balance sheet date; 30 June 2019: 1 Euro (€) = TL 6,5507, 1 US Dollar (\$) = TL 5,7551 (31 December 2018: 1 Euro (€) = TL 6,0280, 1 US Dollar (\$) = TL 5,2609).
- 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.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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)

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 order to comply with the Financial Statements Samples and Term Guidelines which has published on 7 June 2019, the Group has added the "Contract Liabilities" account in interim condensed consolidated financial statements and amounting to TL 677.753.986 previously presented in "Deferred income" is reclassified under to "Contract liabilities" as of June 30, 2019.

Basis of Consolidation

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 30 June 2019 and 31 December 2018:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2019</u>	<u>31 December 2018</u>	
Air Manas (*)	Air transportation	49%	49%	Kyrgyzstan
PHT	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 2019 and 31 December 2018.

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 2019 and 31 December 2018:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2019</u>	<u>31 December 2018</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 2018 and corresponding interim reporting period, except for the adoption of new accounting policies for transactions occurred during the six months beginning 1 January 2019.

The Group adopted TFRS 16 Leases for the first time for the period beginning on 1 January 2019.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(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) New standards and interpretations applied

(i) TFRS 16 Leases

Set out below are the new accounting policies of the Group upon adoption of TFRS 16:

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(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) New standards and interpretations applied (cont'd)

(i) TFRS 16 Leases (cont'd)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

b) First transition to TFRS 16 Leases standard:

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 16 as at January 1, 2019, to retained earnings and not restate prior years.

The Group applied this standard in the operational aircraft rental agreements, service buildings in the terminals that are used for aviation and ticket sales activities, lands, parking and filling areas, sheds used for storing luggage and cargo of the passengers it carried, office and warehouse rental agreements which it has previously defined as leasing by applying TAS 17 Leases.

The Group elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(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)

b) First transition to TFRS 16 Leases standard (cont'd):

Impacts of transition to TFRS 16 are as follows:

	1 January 2019
Operational lease commitments	3.333.435.370
- Short term and low value leases (-)	(1.185.154)
Total lease liability	3.332.250.216
Lease liability discounted with alternative borrowing rate (equivalent of TL)	2.880.011.717
- Short term lease liability	426.266.369
- Other short term provisions	145.042.883
- Long term lease liability	1.547.227.328
- Other long term provisions	761.475.137

The details of the right of use assets according to asset types are as follows:

	30 June 2019	1 January 2019
Aircraft	2.548.862.437	2.414.563.391
Field Rental	24.878.742	28.126.554
Building	21.101.976	22.391.742
Other	1.300.463	1.881.318
Net book value	2.596.143.618	2.466.963.005

The impact of adoption of TFRS 16 on retained earnings as of 1 January 2019 is stated as below:

	1 January 2019
Assets	
Right of use assets	2.466.963.005
Liabilities	
Lease liabilities	(1.982.268.284)
Redelivery provisions	(897.743.433)
Deferred tax liabilities	82.609.742
Total Liabilities	(2.797.401.975)
Equity	(330.438.970)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(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)

b) First transition to TFRS 16 Leases standard (cont'd):

	30 June 2019	TFRS 16 Effects	30 June 2019 (excluding effects)
Profit or loss			
Sales	4.396.346.375	-	4.396.346.375
Cost of sales (-)	(3.813.768.359)	156.734.875	(3.970.503.234)
Gross profit	582.578.016	156.734.875	425.843.141
General administrative expenses (-)	(128.637.008)	-	(128.637.008)
Marketing expenses (-)	(156.057.915)	-	(156.057.915)
Other operating income	58.200.741	-	58.200.741
Other operating expenses (-)	(6.708.439)	-	(6.708.439)
Operating profit	349.375.395	156.734.875	192.640.520
Income from investing activities	831.930	-	831.930
Share of investments income accounted for using the equity method	6.377.780	-	6.377.780
Operating profit before financial expense	356.585.105	156.734.875	199.850.230
Financial income	44.209.236	-	44.209.236
Financial expense (-)	(293.206.698)	(135.722.079)	(157.484.619)
Profit / (loss) before tax	107.587.643	21.012.796	86.574.847
Tax income / (expense)	1.542.802	5.939.029	(4.396.227)
Current tax expense	-	-	-
Deferred tax income / (expense)	1.542.802	5.939.029	(4.396.227)
Profit / (loss) for the period	109.130.445	26.951.825	82.178.620
Net profit / (loss) attributable to:			
Non-controlling interest	(1.388.100)	-	(1.388.100)
Shareholders' of the parent	110.518.545	26.951.825	83.566.720
	109.130.445	26.951.825	82.178.620
Profit / (loss) per share (TL)	1,08	0,26	0,82
Other comprehensive income			
Items not to be reclassified to profit or loss			
Currency translation differences	340.834.155	-	340.834.155
Items to be reclassified to profit or loss			
Currency translation differences	(23.525.012)	-	(23.525.012)
Cash flow hedge	181.672.501	-	181.672.501
Deferred tax effect	(41.186.335)	-	(41.186.335)
Other comprehensive income	457.795.309	-	457.795.309
Total comprehensive income	566.925.754	26.951.825	539.973.929
Total comprehensive income attributable to:			
Non-controlling interest	(4.916.852)	-	(4.916.852)
Shareholders' of the parent	571.842.606	26.951.825	544.890.781
	566.925.754	26.951.825	539.973.929

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019

(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 2018.

2.4 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the condensed interim consolidated financial statements as at June 30, 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows:

TFRS 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Group has applied this standard with a modified retrospective approach and disclosed the impact on its financial position and performance in Note 2.2.

TMS 28 (Amendments)	Investments in Associates and Joint Ventures
TFRYK 23	Uncertainties Regarding Income Tax Applications
2015–2017 Period Annual Improvements	TFRS 3 Business Combinations, TFRS 11 Joint
Agreements TMS 12 Income Tax, TMS 23	Borrowing Costs
TMS 19 (Amendments)	Amendments to the Plan, Downsizing or Fulfillment
TFRS 9 (Amendments)	Negative Compensation Early Payment Features

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the interim consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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

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

ii) Standards issued but not yet effective and not early adopted (cont'd)

TFRS 17 - The new Standard for insurance contracts

The PAO issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Definition of a Business (Amendments to TFRS 3)

In May 2019, the PAO issued amendments to the definition of a business in TFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to TFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Definition of Material (Amendments to TAS 1 and TAS 8)

In June 2019, the PAO issued amendments to TAS 1 Presentation of Financial Statements and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to TAS 1 and TAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

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

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 increased as of 30 June 2019 compared to last year-end.

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	30 June 2019	31 December 2018
Joint ventures		
Hitit Bilgisayar	35.563.395	29.695.050
PUEM	11.504.691	10.102.064
	47.068.086	39.797.114

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

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Hitit Bilgisayar	5.868.346	2.575.814	3.041.097	1.847.072
PUEM	509.434	710.437	205.579	299.258
Net profit	6.377.780	3.286.251	3.246.676	2.146.330

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

PUEM

	30 June 2019	31 December 2018
Current assets	881.357	310.426
Non-current assets	23.781.437	23.292.609
Current liabilities	(919.107)	(2.648.532)
Non-current liabilities	(454.839)	(504.980)
Net assets of joint venture	23.288.848	20.449.523
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	11.504.691	10.102.064

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

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

PUEM (cont'd)

	1 January- 30 June 2019	1 January- 30 June 2018
Revenue	4.678.078	4.541.061
Depreciation&amortisation expense	(1.207.067)	(838.788)
Interest income/(expense), net	(234.323)	(441.133)
Profit for the year	1.031.243	1.438.132
Group's ownership interest	49,40%	49,40%
Group's share in the net profit of the joint venture	509.434	710.437

Hitit Bilgisayar

	30 June 2019	31 December 2018
Current assets	32.367.559	28.644.555
Non-current assets	51.887.857	39.786.447
Current liabilities	(10.811.663)	(10.063.146)
Non-current liabilities	(4.101.987)	(762.780)
Net assets of joint venture	69.341.766	57.605.076
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
Group's share in the net assets of the joint venture	35.563.395	29.695.050

	1 January- 30 June 2019	1 January- 30 June 2018
Revenue	42.620.529	23.720.947
Depreciation&amortisation expense	(2.884.575)	(1.909.142)
Interest income/(expense), net	305.826	107.676
Profit for the year	11.736.692	5.151.628
Group's weighted average ownership interest	50%	50%
Group's share in the net profit of the joint venture	5.868.346	2.575.814

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

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.

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 2019	31 December 2018
Balances with joint ventures and subsidiaries:		
PUEM	-	1.580.011
	-	1.580.011

b) Trade payables to related parties

	30 June 2019	31 December 2018
Balances with joint ventures and subsidiaries:		
Hitit Bilgisayar	2.055.735	1.012.372
PUEM	461.879	-
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	187.078	146.192
	2.704.692	1.158.564

(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 revenue 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.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

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

a) Sale of services

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Transactions with joint ventures and subsidiaries:				
PUEM	602.997	955.089	303.208	535.234
	602.997	955.089	303.208	535.234

b) Purchases of goods or services

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Transactions with joint ventures and subsidiaries:				
Hitit Bilgisayar	10.295.683	6.719.912	5.560.980	3.115.545
PUEM	4.678.078	4.541.061	2.378.039	2.315.854
Transactions with other related parties:				
Esasburda	1.240.330	998.188	1.043.514	467.325
Other	31.200	24.488	9.000	11.500
	16.245.291	12.283.649	8.991.533	5.910.224

c) Rent expenses

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Esasburda	4.229.693	3.529.348	2.115.249	1.805.130
	4.229.693	3.529.348	2.115.249	1.805.130

d) Surety commission expenses

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Esas Holding (Note 19)	5.879.730	4.304.543	3.007.246	2.065.578
	5.879.730	4.304.543	3.007.246	2.065.578

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,080% of the 115% of the amount guaranteed.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

(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 2019 and 2018 are as follows:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Salaries and other short term benefits	16.198.013	6.552.428	2.474.330	2.453.869
Other long term benefits	2.114.002	810.479	-	-
	18.312.015	7.362.907	2.474.330	2.453.869

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

Short term trade receivables

The details of short term trade receivables as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019	31 December 2018
Trade receivables	361.770.047	183.818.051
Credit card receivables	457.739.861	60.138.676
Income accruals	16.227.131	2.163.918
	835.737.039	246.120.645
Less: Allowance for doubtful receivables	(14.156.708)	(10.606.503)
	821.580.331	235.514.142

The average collection period of trade receivables is approximately 27 days (31 December 2018: 20 days).

Short term trade payables

The details of short term trade payables as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019	31 December 2018
Trade payables	375.117.434	404.564.278
Accrued direct operational costs	389.644.210	125.651.810
Other accrued expenses	64.633.103	52.151.590
Due to related parties (Note 5)	2.704.692	1.158.564
	832.099.439	583.526.242

The average credit period of trade payables is approximately 33 days (31 December 2018: 25 days).

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 7 - PREPAID EXPENSES AND PASSENGER FLIGHT LIABILITIES

The details of prepaid expenses as of 30 June 2019 and 31 December 2018 are as follows:

Short term prepaid expenses

	30 June 2019	31 December 2018
Advances on aircraft purchases	1.258.321.467	404.326.349
Advances to suppliers	349.195.108	344.837.476
Prepaid aircraft operating lease expenses	-	46.506.839
Prepaid insurance expenses	20.037.563	26.967.518
Prepaid advertising expenses	423.915	450.732
Other prepaid expenses	36.037.232	24.844.848
	1.664.015.285	847.933.762

Long term prepaid expenses

	30 June 2019	31 December 2018
Advances on aircraft purchases	164.284.678	663.541.132
Other prepaid expenses	310.334.067	181.791.958
	474.618.745	845.333.090

The details of contract liabilities as of 30 June 2019 and 31 December 2018 are as follows:

Passenger flight liabilities:

The details of passenger flight liabilities as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019	31 December 2018
Flight liability from ticket sales	1.201.442.060	496.132.705
Passenger airport fees received from customers	242.551.913	138.844.563
Flight liability from flight points	45.505.720	42.776.718
	1.489.499.693	677.753.986

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 8 - PROPERTY AND EQUIPMENT

30 June 2019	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in progress	Total
Cost:								
Opening	107.827.347	100.683.168	151.141.325	79.369.370	1.007.485.389	8.977.788.704	3.713.862	10.428.009.165
Additions	53.454.438	33.290	4.099.015	4.140.450	130.451.346	814.147.942	171.614	1.006.498.095
Disposals	-	(1.380.233)	(163.451)	-	-	-	-	(1.543.684)
Transfers	-	-	-	-	-	-	-	-
Currency translation differences	11.232.144	8.695.421	13.241.109	7.025.669	91.803.280	815.156.905	327.840	947.482.368
Closing	172.513.929	108.031.646	168.317.998	90.535.489	1.229.740.015	10.607.093.551	4.213.316	12.380.445.944
Accumulated depreciation:								
Opening	(21.043.895)	(23.059.619)	(97.346.345)	(65.504.421)	(204.998.522)	(1.767.852.728)	-	(2.179.805.530)
Depreciation for the year	(5.328.494)	(5.305.644)	(7.854.076)	(3.970.133)	(19.919.503)	(279.770.506)	-	(322.148.356)
Disposals	-	896.429	94.267	-	-	-	-	990.696
Currency translation differences	(2.006.508)	(2.142.817)	(8.704.442)	(5.815.852)	(18.449.398)	(167.132.303)	-	(204.251.320)
Closing	(28.378.897)	(29.611.651)	(113.810.596)	(75.290.406)	(243.367.423)	(2.214.755.537)	-	(2.705.214.510)
Net book value	144.135.032	78.419.995	54.507.402	15.245.083	986.372.592	8.392.338.014	4.213.316	9.675.231.434

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 8 - PROPERTY AND EQUIPMENT (cont'd)

30 June 2018	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in progress	Total
Cost:								
Opening	72.526.512	75.261.821	101.564.014	58.525.763	499.675.611	5.106.452.248	3.510.816	5.917.516.785
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
Closing	87.943.467	87.086.171	121.211.561	69.900.118	675.029.179	7.096.927.203	5.592.566	8.143.690.265
Accumulated depreciation:								
Opening	(10.771.676)	(12.180.327)	(62.382.916)	(43.069.275)	(111.270.901)	(1.015.320.632)	-	(1.254.995.727)
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)
Closing	(15.699.316)	(17.028.728)	(79.282.600)	(54.226.316)	(155.400.840)	(1.259.324.199)	-	(1.580.961.999)
Net book value	72.244.151	70.057.443	41.928.961	15.673.802	519.628.339	5.837.603.004	5.592.566	6.562.728.266

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

NOTE 9 - INTANGIBLE ASSETS

30 June 2019	Brand	Software	Total
Cost:			
Opening	4.249.742	116.056.170	120.305.912
Additions	-	22.248.928	22.248.928
Disposals	(4.249.742)	-	(4.249.742)
Currency translation differences	-	10.793.901	10.793.901
Closing	-	149.098.999	149.098.999
Accumulated amortization:			
Opening	(2.461.308)	(70.984.707)	(73.446.015)
Amortization for the year	-	(8.494.236)	(8.494.236)
Disposals	2.461.308	-	2.461.308
Currency translation differences	-	(6.416.703)	(6.416.703)
Closing	-	(85.895.646)	(85.895.646)
Net book value	-	63.203.353	63.203.353
30 June 2018	Brand	Software	Total
Cost:			
Opening	3.183.429	66.414.193	69.597.622
Additions	-	3.447.918	3.447.918
Currency translation differences	559.559	11.939.623	12.499.182
Closing	3.742.988	81.801.734	85.544.722
Accumulated amortization:			
Opening	(1.684.564)	(43.424.572)	(45.109.136)
Amortization for the year	(87.123)	(4.772.167)	(4.859.290)
Currency translation differences	(302.551)	(7.998.981)	(8.301.532)
Closing	(2.074.238)	(56.195.720)	(58.269.958)
Net book value	1.668.750	25.606.014	27.274.764

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 10 – RIGHT OF USE ASSETS

30 June 2019	Field Rental	Building	Aircraft	Other	Total
Cost:					
TFRS 16 opening effects	28.126.554	22.391.742	6.049.119.922	1.881.318	6.101.519.536
Additions	-	-	344.196.118	-	344.196.118
Disposals	-	-	(743.379.804)	-	(743.379.804)
Currency translation differences	2.367.077	1.884.446	486.840.256	158.328	491.250.107
Closing	30.493.631	24.276.188	6.136.776.492	2.039.646	6.193.585.957
Accumulated depreciation:					
TFRS 16 opening effects	-	-	(3.634.556.531)	-	(3.634.556.531)
Depreciation for the period	(5.538.845)	(3.118.907)	(402.241.995)	(707.186)	(411.606.933)
Disposals	-	-	743.379.804	-	743.379.804
Currency translation differences	(76.044)	(55.305)	(294.495.333)	(31.997)	(294.658.679)
Closing	(5.614.889)	(3.174.212)	(3.587.914.055)	(739.183)	(3.597.442.339)
Net book value	24.878.742	21.101.976	2.548.862.437	1.300.463	2.596.143.618

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

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 27.095.742 as of 30 June 2019 (31 December 2018: TL 26.092.242). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 8.615.289 (31 December 2018: TL 9.673.544) 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 2019 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, The decision was appealed by the Tax Office and the decision of the first instance court was approved as a result of the appeal. The Tax Office has applied for the correction of the decision and our response to this application has been submitted to the file. The decision is pending.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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. The decision was appealed by the Tax Office and the decision of the first instance court was approved as a result of the appeal. The Tax Office has applied for the correction of the decision and our response to this application has been submitted to the file. The decision is pending.

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 2019

(Amounts are expressed in TL unless otherwise stated.)

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

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.

NOTE 12 - COMMITMENTS

Purchase Commitments

	30 June 2019	31 December 2018
Commitments to purchase aircraft	57.830.852.505	54.525.144.416
Other purchase commitments	26.970.863	7.750.884
	57.857.823.368	54.532.895.300

As of 30 June 2019, the Group holds firm orders for 75 aircraft. In accordance to with agreement the expected deliveries are 4 aircraft in 2019, 20 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 1.422.606.145 (31 December 2018: TL 1.067.867.481) and TL 1.258. 321.467 of this amount is reclassified under short term, TL 164.284.678 of this amount is reclassified under long term prepaid expenses (31 December 2018: TL 404.326.349 of this amount is reclassified under short term, TL 663.541.132 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 2019	1 January- 30 June 2018
Minimum lease payments	-	290.847.871
	-	290.847.871

The non-cancellable operating lease liabilities as of 30 June 2019 is none because of transition to TFRS 16 (31 December 2018:TL 2.986.350.463)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(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 2019 is as follows:

30 June 2019	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
- <i>Collateral</i>	1.804.368.305	301.278.352	7.737.381	13.865.215	5.930.785
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
	1.804.368.305	301.278.352	7.737.381	13.865.215	5.930.785

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 2019.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(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 2018 is as follows:

31 December 2018	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
- <i>Collateral</i>	1.627.549.630	295.367.519	6.974.381	12.131.918	19.477.163
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
	1.627.549.630	295.367.519	6.974.381	12.131.918	19.477.163

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 2018.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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 2019 and 2018 are as follows:

	1 January - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Jet fuel expenses	1.450.952.790	1.033.543.967	814.312.646	594.707.622
Depreciation and amortisation expenses	742.249.525	208.493.498	386.538.483	113.113.346
Personnel expenses	632.201.714	369.206.318	304.590.267	193.513.135
Handling and station fees	321.848.706	223.153.256	178.982.529	125.621.233
Navigation expenses	271.010.340	193.706.100	152.651.414	108.119.005
Maintenance expenses	178.997.154	255.627.207	94.260.188	135.465.728
Landing expenses	145.429.284	96.213.938	83.543.399	54.281.641
Commission expenses	69.031.484	60.373.221	42.108.838	34.985.502
Advertising expenses	52.173.896	27.211.746	34.386.136	17.329.566
Passenger service and catering expenses	42.104.162	31.431.794	22.184.400	16.928.509
Operating lease expenses	-	290.847.871	-	148.901.252
Other expenses	192.464.227	181.961.409	107.575.807	86.822.464
	4.098.463.282	2.971.770.325	2.221.134.107	1.629.789.003

NOTE 14 - SHAREHOLDERS' EQUITY

The Company's shareholding structure as of 30 June 2019 and 31 December 2018 is as follows:

Shareholders:	30 June 2019		31 December 2018	
	(%)	TL	(%)	TL
Esas Holding	62,91	64.353.570	62,91	64.353.570
Publicly held	34,51	35.321.707	34,51	35.321.707
Emine Kamışlı	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
TL historic capital	100,00	102.299.707	100,00	102.299.707

The Company's share capital consists of 102.299.707 shares of par value TL 1 each (31 December 2018: 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
AS OF 30 JUNE 2019**

(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 2019 and 2018 are as follows:

Sales:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Scheduled flight and service revenue	4.281.889.257	2.740.347.629	2.540.570.390	1.590.874.473
<i>International flight revenue</i>	2.129.225.778	1.239.610.145	1.331.456.864	728.964.198
<i>Domestic flight revenue</i>	892.594.591	734.682.767	514.210.604	432.666.754
<i>Service revenue</i>	1.260.068.888	766.054.717	694.902.922	429.243.521
Charter flight and service revenue	85.401.878	105.130.988	78.341.493	84.796.000
<i>Charter flight revenue</i>	85.241.871	104.478.686	78.266.587	84.595.865
<i>Service revenue</i>	160.007	652.302	74.906	200.135
Other revenue	29.055.240	46.921.115	11.530.010	21.983.962
	4.396.346.375	2.892.399.732	2.630.441.893	1.697.654.435

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

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Europe	1.479.551.385	904.213.498	948.010.714	535.474.890
Domestic	892.594.591	734.682.767	514.210.604	432.666.754
Other	649.674.393	335.396.647	383.446.150	193.489.308
	3.021.820.369	1.974.292.912	1.845.667.468	1.161.630.952

Cost of sales:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Jet fuel expenses	1.450.952.790	1.033.543.967	814.312.646	594.707.622
Depreciation and amortisation expenses	712.767.933	187.360.656	370.538.722	102.006.670
Personnel expenses	551.678.573	318.229.913	277.252.325	171.009.354
Handling and station fees	321.848.706	223.153.256	178.982.529	125.621.233
Navigation expenses	271.010.340	193.706.100	152.651.414	108.119.005
Maintenance expenses	178.997.154	255.627.207	94.260.188	135.465.728
Landing expenses	145.429.284	96.213.938	83.543.399	54.281.641
Passenger service and catering expenses	42.104.162	31.431.794	22.184.400	16.928.509
Operating lease expenses	-	290.847.871	-	148.901.252
Other expenses	138.979.417	120.781.603	79.817.538	56.848.879
	3.813.768.359	2.750.896.305	2.073.543.161	1.513.889.893

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Marketing expenses	156.057.915	111.369.845	91.353.633	64.075.955
General administrative expenses	128.637.008	109.504.175	56.237.313	51.823.155
	284.694.923	220.874.020	147.590.946	115.899.110

The details of general administrative expenses and marketing expenses for the years ended 30 June 2019 and 2018 are as follows (there are no research & development expenses in the periods ended in respective dates):

General administrative expenses:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Personnel expenses	61.919.365	39.496.481	21.019.910	17.145.178
Depreciation and amortisation expenses	23.625.426	17.108.396	12.821.268	8.991.545
IT expenses	22.137.348	20.080.242	12.040.421	9.433.885
Consultancy expenses	4.869.428	6.407.864	2.269.049	2.560.721
Legal and notary expenses	2.400.002	2.834.887	1.350.289	1.231.641
Office utility expenses	1.869.111	1.443.238	897.999	680.156
Communication expenses	1.505.971	1.032.741	747.182	561.545
Training expenses	664.117	930.593	498.961	708.142
Travel expenses	2.285.594	1.457.398	2.219.435	25.986
Other expenses	7.360.646	18.712.335	2.372.799	10.484.356
	128.637.008	109.504.175	56.237.313	51.823.155

Marketing expenses:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Commission expenses	69.031.484	60.373.221	42.108.838	34.985.502
Advertising expenses	52.173.896	27.211.746	34.386.136	17.329.566
Personnel expenses	18.603.776	11.479.924	6.318.032	5.358.603
Call center expenses	8.135.846	6.128.110	3.984.243	3.163.736
Depreciation and amortisation expenses	5.856.166	4.024.446	3.178.493	2.115.131
Other expenses	2.256.747	2.152.398	1.377.891	1.123.417
	156.057.915	111.369.845	91.353.633	64.075.955

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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 2019 and 2018 are as follows:

Other operating income:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Foreign exchange gain from operating activities	58.099.465	120.844.326	(60.904)	105.736.049
Other income	101.276	648.740	101.276	423.991
	58.200.741	121.493.066	40.372	106.160.040

Other operating expenses:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Doubtful receivable allowance expense	3.083.322	65.679	1.185.869	242.519
Penalty expense	1.485.574	1.858.220	-	1.858.220
Cash and cash equivalents allowance expense	961.640	-	2.550.128	-
Tax restructuring expense (Note 11)	-	19.788.045	-	19.788.045
Other expense	1.177.903	921.466	641.017	478.438
	6.708.439	22.633.410	4.377.014	22.367.222

NOTE 18 - INCOME FROM INVESTING ACTIVITIES

The details of income from investing activities for the years ended 30 June 2019 and 2018 are as follows:

Income from investing activities:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Income from sale of aircraft	-	22.335.452	-	-
Other income	831.930	1.257.450	372.057	1.234.534
	831.930	23.592.902	372.057	1.234.534

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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 2019 and 2018 are as follows:

Financial income:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Interest income	41.708.067	40.229.860	17.479.134	20.643.145
Gain on derivative contracts	2.501.169	2.980.517	(4.490.907)	5.432.821
	44.209.236	43.210.377	12.988.227	26.075.966

Financial expenses:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Interest expense on leases	187.103.290	43.956.926	93.339.753	23.932.360
Other commission expenses	58.356.304	33.949.677	32.782.051	19.823.729
Foreign exchange loss	31.547.617	80.956.261	(57.720.514)	76.175.203
Interest expense on bank loans	10.319.757	6.551.409	4.965.692	3.149.135
Surety commission expenses	5.879.730	4.304.543	3.007.246	2.065.578
	293.206.698	169.718.816	76.374.228	125.146.005

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 2019 and 2018 are as follows:

	1 January- 30 June 2019	1 January- 30 June 2018	1 April - 30 June 2019	1 April - 30 June 2018
Profit / (loss) attributable to the shareholders of the parent	110.518.545	(97.237.576)	324.371.823	15.699.369
Weighted average number of shares issued in the year	102.299.707	102.272.000	102.299.707	102.272.000
Profit / (loss) per share	1,08	(0,95)	3,17	0,15

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 21 - DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments

	30 June 2019		31 December 2018	
	Asset	Liability	Asset	Liability
Short term	-	75.168.451	3.134.337	189.722.017
Long term	-	33.123.660	-	104.993.760
	-	108.292.111	3.134.337	294.715.777

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 2019 and 31 December 2018 are as follows:

Short term financial liabilities	30 June 2019	31 December 2018
Short term bank borrowings	748.163.000	797.815.861
Lease liabilities	1.432.886.768	659.409.925
<i>Short term portion of long term operating lease obligations</i>	618.268.703	-
<i>Short term portion of long term financial lease obligations</i>	814.618.065	659.409.925
	2.181.049.768	1.457.225.786

Long term financial liabilities	30 June 2019	31 December 2018
Lease liabilities	7.522.914.299	5.064.858.596
Long term operating lease obligations	1.533.903.809	-
Long term financial lease obligations	5.989.010.490	5.064.858.596
	7.522.914.299	5.064.858.596

a) **Bank Borrowings**

The effective interest rates, original currency and TL equivalents of the short term bank borrowings as of 30 June 2019 and 31 December 2018 are as follows :

30 June 2019	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	3,36%	US Dollar	130.000.000	748.163.000
				748.163.000

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 22 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Bank Borrowings (cont'd)

31 December 2018	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	3,29%	US Dollar	149.500.000	786.504.550
Short term bank borrowings	0,00%	TL	11.311.311	11.311.311
				797.815.861

c) Financial and Operating Lease Liabilities

The details of financial and operating lease liabilities as of 30 June 2019 and 2018 are as follows:

	30 June 2019	31 December 2018
Less than 1 year	1.753.820.775	814.748.155
Between 1 - 5 years	5.475.994.882	3.038.571.214
Over 5 years	3.448.098.697	2.774.021.245
	10.677.914.354	6.627.340.614
Less: Future interest expenses	(1.722.113.287)	(903.072.093)
	8.955.801.067	5.724.268.521

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

	30 June 2019	31 December 2018
Less than 1 year	1.432.886.768	659.409.925
Between 1 - 5 years	4.926.489.696	2.567.916.804
Over 5 years	2.596.424.603	2.496.941.792
	8.955.801.067	5.724.268.521

The Group purchases certain of its handling equipment and aircraft through financial and operating lease arrangements. The average lease term is 4,79 years. For the period ended 30 June 2019, the floating interest rate applicable to Euro-denominated lease obligations, amounting to TL3.723.779.752, is 1,96% (31 December 2018: 1,93%) and the floating rate applicable to US Dollar-denominated lease obligations, amounting to TL 5.232.021.315, is 5,28% (31 December 2018: 5,11%).

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(Amounts are expressed in TL unless otherwise stated.)

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 period ended 30 June 2019 and 31 December 2018 are as follows:

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

30 June 2019	TL Total	USD	TL	GBP	Other
1. Trade receivables	762.709.922	22.307.058	505.551.988	1.474.815	118.033.820
2a. Monetary financial assets	2.131.074.001	316.300.927	83.954.716	25.552.753	40.611.238
2b. Non monetary financial assets	-	-	-	-	-
3. Other	440.962.828	70.619.992	27.828.521	-	6.709.191
4. CURRENT ASSETS	3.334.746.751	409.227.977	617.335.225	27.027.568	165.354.249
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	63.609.537	10.242.591	325.690	1.000	4.329.426
8. NON CURRENT ASSETS	63.609.537	10.242.591	325.690	1.000	4.329.426
9. TOTAL ASSETS	3.398.356.288	419.470.568	617.660.915	27.028.568	169.683.675
10. Trade payables	360.839.353	38.703.212	125.747.912	396.703	9.460.406
11. Financial liabilities	1.593.269.457	276.844.791	-	-	-
12a. Other liabilities, monetary	150.375.172	9.647.140	93.519.024	43.390	1.019.775
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	2.104.483.982	325.195.143	219.266.936	440.093	10.480.181
14. Trade payables	-	-	-	-	-
15. Financial liabilities	3.638.751.858	632.265.618	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	3.638.751.858	632.265.618	-	-	-
18. TOTAL LIABILITIES	5.743.235.840	957.460.761	219.266.936	440.093	10.480.181
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	(2.344.879.552)	(537.990.193)	398.393.979	26.588.475	159.203.494
21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a)	(2.344.879.552)	(537.990.193)	398.393.979	26.588.475	159.203.494

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

**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 2018	TL Total	USD	TL	GBP	Other
1. Trade receivables	203.609.379	6.214.073	104.613.930	1.001.390	59.641.785
2a. Monetary financial assets	2.275.444.728	408.574.864	87.220.749	3.558.802	15.076.479
2b. Non monetary financial assets	-	-	-	-	-
3. Other	747.506.237	133.909.710	36.206.482	-	6.814.162
4. CURRENT ASSETS	3.226.560.344	548.698.647	228.041.161	4.560.192	81.532.426
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	71.519.443	12.951.365	305.815	1.000	3.071.139
8. NON CURRENT ASSETS	71.519.443	12.951.365	305.815	1.000	3.071.139
9. TOTAL ASSETS	3.298.079.787	561.650.012	228.346.976	4.561.192	84.603.565
10. Trade payables	334.471.293	45.345.308	82.165.847	448.588	10.763.949
11. Financial liabilities	997.519.160	187.459.912	11.311.309	-	-
12a. Other liabilities, monetary	110.037.979	8.327.733	63.498.647	38.323	2.473.006
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	1.442.028.432	241.132.953	156.975.803	486.911	13.236.955
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.653.110.816	314.225.858	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	1.653.110.816	314.225.858	-	-	-
18. TOTAL LIABILITIES	3.095.139.248	555.358.811	156.975.803	486.911	13.236.955
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	202.940.539	6.291.201	71.371.173	4.074.281	71.366.610
21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a)	202.940.539	6.291.201	71.371.173	4.074.281	71.366.610

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

**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 2019 and 31 December 2018 are as follows:

30 June 2019	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)	(309.618.736)	309.618.736	-	-
Part of hedged from USD risk	-	-	-	-
USD net effect	(309.618.736)	309.618.736	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	39.839.398	(39.839.398)	403.260.822	(403.260.822)
Part of hedged from TL risk	-	-	-	-
TL net effect	39.839.398	(39.839.398)	403.260.822	(403.260.822)
31 December 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)	3.309.738	(3.309.738)	-	-
Part of hedged from USD risk	-	-	-	-
USD net effect	3.309.738	(3.309.738)	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	7.137.117	(7.137.117)	393.660.760	(393.660.760)
Part of hedged from TL risk	-	-	-	-
TL net effect	7.137.117	(7.137.117)	393.660.760	(393.660.760)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments

30 June 2019	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
Financial assets						
Cash and cash equivalents	2.987.383.011	-	-	-	2.987.383.011	26
Trade receivables	821.580.331	-	-	-	821.580.331	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	821.580.331	-	-	-	821.580.331	6
Other receivables	340.362.944	-	-	-	340.362.944	
- <i>Related party</i>	-	-	-	-	-	5
- <i>Other</i>	340.362.944	-	-	-	340.362.944	
Financial liabilities						
Bank borrowings	-	-	-	8.271.077.299	8.271.077.299	22
Obligations under financial leases	-	-	-	8.955.801.067	8.955.801.067	22
Trade payables	-	-	-	832.099.439	832.099.439	6
- <i>Related party</i>	-	-	-	2.704.692	2.704.692	5
- <i>Other</i>	-	-	-	829.394.747	829.394.747	
Employee benefit obligations	-	-	-	64.419.316	64.419.316	
Other payables	-	-	-	34.810.152	34.810.152	
Derivative financial liabilities	-	107.505.169	786.942	-	108.292.111	21

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments (cont'd)

31 December 2018	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
Financial assets						
Cash and cash equivalents	2.741.044.971	-	-	-	2.741.044.971	26
Trade receivables	235.514.142	-	-	-	235.514.142	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	235.514.142	-	-	-	235.514.142	6
Other receivables	552.371.679	-	-	-	552.371.679	
- <i>Related party</i>	1.580.011	-	-	-	1.580.011	5
- <i>Other</i>	550.791.668	-	-	-	550.791.668	
Derivative financial assets	-	-	3.134.337	-	3.134.337	21
Financial liabilities						
Bank borrowings	-	-	-	797.815.861	797.815.861	22
Obligations under financial leases	-	-	-	5.724.268.521	5.724.268.521	22
Trade payables	-	-	-	583.526.242	583.526.242	6
- <i>Related party</i>	-	-	-	1.158.564	1.158.564	5
- <i>Other</i>	-	-	-	582.367.678	582.367.678	
Employee benefit obligations	-	-	-	25.641.632	25.641.632	
Other payables	-	-	-	24.170.136	24.170.136	
Derivative financial liabilities	-	294.715.777	-	-	294.715.777	21

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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 2019	31 December 2018		
Fuel purchase option contracts	(93.029.060)	(218.102.353)	Level 2	Discounted cash flow method
Fuel purchase forward contracts	(14.476.109)	(76.613.424)	Level 2	Discounted cash flow method
Interest rate swap contracts	(786.942)	3.134.337	Level 2	Discounted cash flow method
	Fuel purchase forward contracts	Fuel purchase option contracts	Interest rate swap contracts	Total
30 June 2019				
Fair value:				
Opening	(76.613.424)	(218.102.353)	3.134.337	(291.581.440)
Fair value increase				
Recognized in equity	62.137.315	119.535.186	-	181.672.501
Recognized in profit or loss	-	5.538.107	(3.921.279)	1.616.828
Closing	(14.476.109)	(93.029.060)	(786.942)	(108.292.111)
Liabilities	(14.476.109)	(93.029.060)	(786.942)	(108.292.111)
Total net assets and liabilities	(14.476.109)	(93.029.060)	(786.942)	(108.292.111)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments (cont'd)

31 December 2018	Fuel purchase forward contracts	Fuel purchase option contracts	Currency forward contracts	Interest rate swap contracts	Total
Fair value:					
Opening	4.034.930	25.666.669	204.227	2.074.015	31.979.841
Fair value increase / (decrease)					
Recognized in equity	(80.648.354)	(235.050.673)	-	-	(315.699.027)
Recognized in profit or loss	-	(8.718.349)	(204.227)	1.060.322	(7.862.254)
Closing	(76.613.424)	(218.102.353)	-	3.134.337	(291.581.440)
Assets	-	-	-	3.134.337	3.134.337
Liabilities	(76.613.424)	(218.102.353)	-	-	(294.715.777)
Total net assets and liabilities	(76.613.424)	(218.102.353)	-	3.134.337	(291.581.440)

NOTE 25 - EVENTS AFTER BALANCE SHEET DATE

None.

NOTE 26 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019	31 December 2018
Cash on hand	853.185	956.297
Cash at banks	2.998.048.028	2.750.645.236
- Demand deposits	126.860.854	46.167.431
- Time deposits	2.871.187.174	2.704.477.805
Less: Allowance for impairment under TFRS 9	(11.518.202)	(10.556.562)
	2.987.383.011	2.741.044.971

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2019**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 26 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW (cont'd)

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

30 June 2019	Weighted average interest rates	Total
USD deposits	%3,34	1.821.856.278
EUR deposits	%0,54	809.451.560
GBP deposits	%0,89	180.211.170
TL deposits	%22,74	56.710.895
CHF deposits	%0,20	2.957.271
		2.871.187.174

31 December 2018	Weighted average interest rates	Total
USD deposits	4,42%	2.151.033.661
EUR deposits	0,48%	445.814.851
TL deposits	22,84%	83.070.553
GBP deposits	0,72%	21.104.259
CHF deposits	0,20%	3.454.481
		2.704.477.805

All of the time deposits as of 30 June 2019 and 31 December 2018 have maturities less than 90 days.