

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

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

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2018 TOGETHER WITH  
THE INDEPENDENT AUDITOR'S REPORT

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

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Pegasus Hava Taşımacılığı Anonim Şirketi**

### **A) Report on the Audit of the Consolidated Financial Statements**

#### **1) Opinion**

We have audited the consolidated financial statements of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards ("TFRS").

#### **2) Basis for Opinion**

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **3) Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
<b><i>Redelivery maintenance provision</i></b>	
<p>As explained in Note 15, as of December 31, 2018, the Group has allocated a provision of TL 1.018.228.937 for the delivery maintenance provision costs at the delivery date of the aircraft that are subject to operating lease.</p> <p>Regarding the aircraft held under operating lease agreements, during the hand-over of these aircraft, the Group is contractually committed to either comply with the conditions set forth in the contract or to compensate the lessor for the difference between the contractual hand-over conditions and the actual hand-over conditions of the airframe, engines and life-limited parts. A maintenance provision is made for this contractual obligation over the lease term, based on the present value of the estimated future cost calculated by reference to the number of hours flown and cycles operated during the year.</p> <p>In line with the accounting policies applied for airplanes that are obtained through operating lease agreements, the Group management calculates a maintenance provision over the present value of the estimated future cost and recognizes as maintenance expense on an monthly basis in the statement of profit or loss and other comprehensive income.</p> <p>Redelivery maintenance provision amounts are at significant levels in the consolidated financial statements and they are based on certain assumptions, such as; likely utilization rates of the aircraft, the expected cost and the time of the heavy maintenance, the condition of the aircraft and the lifespan of life-limited parts. The changes in the aforementioned assumptions may affect the consolidated financial statements significantly, hence, the matter is considered a key audit matter.</p>	<p>The following audit procedures are applied in order to be able to test the reasonable calculation of the redelivery maintenance provision:</p> <p>The design and implementation of controls to ensure the appropriateness of the calculation designed by management were examined. The assumptions used in the calculation of the redelivery maintenance provision are evaluated with the technical maintenance supports team performing the calculation, and the data used in these assumptions are compared with the costs used in the maintenance contracts made by the Group.</p> <p>The actual maintenance amounts for the delivered aircraft are compared with the amounts calculated in the previous periods for these aircrafts and an assessment is made to see if there is a significant difference. Furthermore, substantive procedures are applied to the maintenance payments made by the Group for the aircraft held under operating lease. The records of the maintenance costs incurred during the year are compared with the corresponding invoices.</p> <p>In addition, we have evaluated the adequacy of the disclosures in Note 2.6 and Note 15 in accordance with TAS 37 "Provisions, Contingent Liabilities and Contingent Assets".</p>

Key audit matter	How the matter was addressed in the audit
<p><b>Derivative financial instruments and hedge accounting</b></p>	
<p>As explained in Note 2.5 and 33, the Group has forward fuel option, forward fuel purchase, forward exchange and interest rate swap contracts and at some of these contracts hedge accounting is applied. These contracts are recorded at fair value amounts at balance sheet.</p> <p>According to the risk management policies of the Group, the change in the fair value of the forward fuel option and the forward fuel purchase contracts, made for hedging purposes, which qualify for hedge accounting according to TAS 39 'Financial Instruments: Recognition and Measurement' are recognized in other comprehensive income; while in the contrary case where the aforementioned contracts do not qualify for hedge accounting according to TAS 39, these are recognized in the statement of profit or loss.</p> <p>The fair value of derivative financial instruments is determined through the application of valuation techniques and the use of assumptions and estimates. Efficiency rate determination for hedge accounting also includes various assumptions and estimates. Because of the prevailing significance of derivative financial instruments and the uncertainty of the estimations used, the matter is considered as a key audit matter by us.</p>	<p>Our audit procedures involve obtaining written confirmations from the parties of the transaction and comparing the details of the related derivative transaction with confirmations. In addition, our procedures include the evaluation of the suitability of the methodology and valuation models used for valuation of derivative financial instruments and the evaluation of the tests and documentation made within the scope of hedge accounting. In order to evaluate the valuation of each derivative financial instrument and the tests and documentation carried out within the scope of hedge accounting, specialists have been included in the audit team.</p> <p>Besides, the conformity of the disclosures in the consolidated financial statements as to TFRS has been also evaluated.</p>

Key audit matter	How the matter was addressed in the audit
<p><b>Revenue recognition – complete and accurate recording of revenue and determination of passenger flight liability</b></p>	
<p>The Group generates its revenues from international and domestic flight operations. In order to perform the aforementioned operations, the Group uses information systems in which large volumes of data are processed. Due to the nature of operations, the ticket sales processes take place before the process of revenue recognition. The Group also earns ancillary income apart from the passenger transportation income and monitors this side income separately.</p> <p>Revenue recognition has been identified as key audit matter because; the amount of revenue is significant in the accompanying consolidated financial statements, the information systems, through processing large-volume of data, affects the period in which the revenue will be recorded, revenue recognition includes risks specific to the sector and transition to TFRS 15 "Revenue from Contracts with Customers" standard requires significant judgment.</p> <p>The accounting policy for the recognition of revenue of the Group is given in Note 2.5, transition notes to TFRS 15 is given in Note 2.2 and details regarding the revenue amount is given in Note 21.</p>	<p>The following procedures have been applied to ensure the accurate and complete recording of the revenue and to determine the passenger flight liability:</p> <p>The Group's revenue recognition process and the design and implementation of controls designed by management in the process have been examined and tested. Audit activities were conducted for the general controls of both operational and financial information system applications.</p> <p>Information Technology ("IT") experts of another entity that is a part of the same audit network have been included in the audit process for the audit of the revenue. The suitability and effectiveness of automated controls and IT systems established to record passenger revenues have been tested through the help of our IT specialists. In addition, the suitability and effectiveness of non-automated key controls have been also tested. Completion and accuracy check of data exchanges between the systems and verification of detection of data errors for ticketing and collection process are within the controls selected for testing.</p> <p>Substantive analytical tests have been applied for the amount of revenue. The data obtained from the accounting systems, traffic data and passenger flight reports were compared in order to test the accuracy of the revenue amount and accuracy of the data used in these tests.</p> <p>In addition, the conformity of the disclosures in the consolidated financial statements as to TFRS has been also evaluated.</p>

#### 4) Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group financial reporting process.

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

**5) Other matters**

The financial statements of the Group, prepaid in accordance with Turkish Financial Reporting Standards, as of December 31, 2017 were audited by another firm whose independent auditor's report thereon dated March 5, 2018 expressed an unqualified opinion.

**6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

In an independent audit, our responsibilities as the auditors are:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and InAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and InAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**B) Report on Other Legal and Regulatory Requirements**

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 4, 2019.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2018 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Sinem Arı Öz.

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



Sinem Arı Öz, SMMM  
Partner

March 4, 2019  
Istanbul, Turkey

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 31 December 2018	Prior period (Audited) 31 December 2017
<b>ASSETS</b>			
<b>Current assets</b>		<b>4.412.080.391</b>	<b>3.084.495.304</b>
Cash and cash equivalents	35	2.741.044.971	1.988.110.247
Trade receivables	6	235.514.142	187.401.375
<i>Trade receivables from related parties</i>		-	-
<i>Trade receivables from third parties</i>		235.514.142	187.401.375
Other receivables	7	479.758.270	109.210.842
<i>Other receivables from related parties</i>	5	1.580.011	1.733.767
<i>Other receivables from third parties</i>		478.178.259	107.477.075
Derivative financial instruments	30	3.134.337	31.979.841
Inventories	8	58.182.322	30.803.253
Prepaid expenses	9	847.933.762	713.095.000
Current income tax assets	27	5.954.024	9.418.493
Other current assets	19	40.558.563	14.476.253
<b>Non-Current assets</b>		<b>9.252.807.145</b>	<b>4.991.239.471</b>
Other receivables	7	72.613.409	19.154.041
<i>Other receivables from third parties</i>	7	72.613.409	19.154.041
Investments accounted by using the equity method	3	39.797.114	29.144.259
Property and equipment	10	8.248.203.635	4.662.521.058
Intangible assets	11	46.859.897	24.488.486
Prepaid expenses	9	845.333.090	255.931.627
<b>TOTAL ASSETS</b>		<b>13.664.887.536</b>	<b>8.075.734.775</b>

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 31 December 2018	Prior period (Audited) 31 December 2017
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>3.554.371.119</b>	<b>1.851.414.237</b>
Short term financial liabilities	31	797.815.861	541.267.652
Short term portion of long term financial liabilities	31	659.409.925	355.987.254
Trade payables	6	583.526.242	381.373.413
<i>Trade payables to related parties</i>	5	1.158.564	764.389
<i>Trade payables to third parties</i>		582.367.678	380.609.024
Employee benefit obligations	17	25.641.632	47.977.139
Other payables	7	24.170.136	44.161.520
<i>Other payables to third parties</i>	7	24.170.136	44.161.520
Derivative financial instruments	30	189.722.017	-
Deferred income	9	740.526.677	415.447.882
Short term provisions		508.251.575	63.993.481
<i>Short term provisions for employee benefits</i>	17	79.419.630	48.679.796
<i>Other short term provisions</i>	15	428.831.945	15.313.685
Other current liabilities	19	25.307.054	1.205.896
<b>Non-Current liabilities</b>		<b>6.395.068.769</b>	<b>3.739.682.332</b>
Long term financial liabilities	31	5.064.858.596	2.711.225.518
Derivative financial instruments	30	104.993.760	-
Deferred income	9	121.994.007	7.379.754
Long term provisions		624.090.226	626.518.465
<i>Long term provisions for employee benefits</i>	17	25.019.690	13.638.842
<i>Other long term provisions</i>	15	599.070.536	612.879.623
Deferred tax liabilities	27	479.132.180	394.558.595
<b>SHAREHOLDERS' EQUITY</b>		<b>3.715.447.648</b>	<b>2.484.638.206</b>
<b>Equity attributable to shareholders' of the parent</b>		<b>3.753.058.255</b>	<b>2.505.869.714</b>
Paid-in share capital	20	102.299.707	102.272.000
Share premiums on capital stock		455.687.025	455.687.025
Effects of business acquisition		31.729.006	29.504.957
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans	26	(2.132.417)	(3.305.232)
Currency translation differences	26	2.131.817.567	1.079.050.983
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		(89.760.549)	(43.927.223)
Hedge fund	26	(221.159.956)	23.761.279
Restricted profit reserves		5.016.306	5.016.306
Retained earnings		832.182.941	355.561.802
Net profit for the period		507.378.625	502.247.817
<b>Non-controlling interest</b>		<b>(37.610.607)</b>	<b>(21.231.508)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13.664.887.536</b>	<b>8.075.734.775</b>

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

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Audited) 1 January- 31 December 2018	Prior period (Audited) 1 January- 31 December 2017
<b>Profit or loss</b>	<b>Notes</b>		
Sales	21	8.296.736.033	5.348.573.409
Cost of sales (-)	21	(7.033.557.877)	(4.573.774.309)
<b>Gross profit</b>		<b>1.263.178.156</b>	<b>774.799.100</b>
General administrative expenses (-)	22	(220.112.714)	(182.705.706)
Marketing expenses (-)	22	(225.652.168)	(186.893.200)
Other operating income	23	39.751.010	58.750.773
Other operating expenses (-)	23	(65.442.710)	(2.208.765)
<b>Operating profit</b>		<b>791.721.574</b>	<b>461.742.202</b>
Income from investing activities	24	23.047.488	236.718.747
Expenses from investing activities (-)	24	-	(68.718.782)
Share of investments income accounted for using the equity method	3	8.445.804	4.111.990
<b>Operating profit before financial expense</b>		<b>823.214.866</b>	<b>633.854.157</b>
Financial income	25	123.684.898	87.427.780
Financial expense (-)	25	(404.633.918)	(118.014.156)
<b>Profit before tax</b>		<b>542.265.846</b>	<b>603.267.781</b>
<b>Tax expense</b>		<b>(40.148.831)</b>	<b>(102.204.683)</b>
Current tax expense	27	(24.579.806)	-
Deferred tax expense	27	(15.569.025)	(102.204.683)
<b>Profit for the period</b>		<b>502.117.015</b>	<b>501.063.098</b>
<b>Net profit attributable to:</b>			
Non-controlling interest		(5.261.610)	(1.184.719)
Shareholders' of the parent		507.378.625	502.247.817
		<b>502.117.015</b>	<b>501.063.098</b>
Profit per share (TL)	28	4,96	4,91
<b>Other comprehensive income</b>			
<b>Items not to be reclassified to profit or loss</b>			
Actuarial losses on defined benefit plans	26	1.466.019	-
Deferred tax effect	26	(293.204)	-
Currency translation differences		1.052.766.584	406.215.860
<b>Items to be reclassified to profit or loss</b>			
Currency translation differences		(54.726.766)	(10.705.806)
Cash flow hedge	26	(315.699.027)	29.336.786
Deferred tax effect	26	70.777.792	(5.867.357)
<b>Other comprehensive income</b>		<b>754.291.398</b>	<b>418.979.483</b>
<b>Total comprehensive income</b>		<b>1.256.408.413</b>	<b>920.042.581</b>
<b>Total comprehensive income attributable to:</b>			
Non-controlling interest		(14.155.050)	(2.422.431)
Shareholders' of the parent		1.270.563.463	922.465.012
		<b>1.256.408.413</b>	<b>920.042.581</b>

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

				Other comprehensive income items not to be reclassified to profit or loss		Other comprehensive income items to be reclassified to profit or loss			Retained earnings				
	Paid in share capital	Share premiums on capital stock	Effects of business acquisition	Actuarial gains/(losses) on defined benefit plans	Currency translation differences	Currency translation differences	Hedge reserve	Restricted profit reserves	Retained earnings	Net profit/(loss) for the year	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' equity
As at 1 January 2017	102.272.000	455.687.025	29.504.957	(3.305.232)	672.835.123	(34.459.129)	291.850	5.016.306	481.327.846	(133.730.835)	1.575.439.911	(6.118.566)	1.569.321.345
Effect of acquisition of additional shares in a subsidiary	-	-	-	-	-	-	-	-	7.964.791	-	7.964.791	(12.690.511)	(4.725.720)
Transfers	-	-	-	-	-	-	-	-	(133.730.835)	133.730.835	-	-	-
Total comprehensive income	-	-	-	-	406.215.860	(9.468.094)	23.469.429	-	-	502.247.817	922.465.012	(2.422.431)	920.042.581
As at 31 December 2017	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
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)	-	-	-	-	-	-	-	-	(25.626.678)	-	(25.626.678)	-	(25.626.678)
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	329.935.124	502.247.817	2.480.243.036	(21.231.508)	2.459.011.528
Merger effect	27.707	-	2.224.049	-	-	-	-	-	-	-	2.251.756	(2.224.049)	27.707
Transfers	-	-	-	-	-	-	-	-	502.247.817	(502.247.817)	-	-	-
Total comprehensive income	-	-	-	1.172.815	1.052.766.584	(45.833.326)	(244.921.235)	-	-	507.378.625	1.270.563.463	(14.155.050)	1.256.408.413
As at 31 December 2018	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

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 1 January- 31 December 2018	Prior period (Audited) 1 January- 31 December 2017
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period		502.117.015	501.063.098
<b>Adjustments to reconcile the profit</b>			
Depreciation and amortization	10-11	538.129.032	330.074.892
Adjustments related with impairments		988.606	(2.318.015)
<i>Provision for doubtful receivable</i>	6-7	988.606	(2.318.015)
Adjustments related with provisions		207.748.822	206.172.518
<i>Provision for employee benefits</i>	17	78.069.745	47.080.965
<i>Legal provision</i>	15	81.410	3.562.279
<i>Change in redelivery provision</i>	15	129.597.667	155.529.274
Interest and commission income	25	120.664.991	71.185.023
Gain on equity investments accounted for using the equity method	3	(8.445.804)	(4.111.990)
Current tax expense	27	40.148.831	102.204.683
Other provisions related with investing or financing activities	24-33	(14.473.197)	(217.166.679)
<b>Changes in working capital</b>			
(Increase ) / decrease in trade receivables		(54.276.197)	27.485.936
Increase in other receivables, prepaid expenses and other current assets		(723.433.149)	(144.563.830)
Increase in inventories		(27.379.069)	(6.441.531)
Increase in trade payables		202.152.829	75.832.412
Increase in deferred income, other payables and other current liabilities		330.990.848	149.849.262
<b>Net cash generated from operating activities</b>		<b>1.114.933.558</b>	<b>1.089.265.779</b>
Payment for employee, executive bonus plan and retirement benefits	17	(36.377.882)	(6.305.067)
Taxes paid	27	(30.533.830)	(9.418.493)
Payment for other provisions	15	(190.079)	(153.324)
		<b>1.047.831.767</b>	<b>1.073.388.895</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of subsidiary		-	(4.725.720)
Proceeds from sale of aircraft		88.849.440	988.176.978
Proceeds from sale of property, equipment and intangible assets		14.164.058	2.397.771
Cash outflows from purchase of property, equipment and intangible assets		(228.382.610)	(170.366.970)
Changes in cash advances and payables		(425.320.814)	(198.933.060)
		<b>(550.689.926)</b>	<b>616.548.999</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in borrowings		788.002.450	541.267.652
Repayment of borrowings		(729.414.500)	-
Repayment of principal in financial lease liabilities		(478.111.094)	(747.949.714)
Interest and commission paid		(239.646.948)	(111.118.289)
Interest received		123.352.402	40.360.674
		<b>(535.817.690)</b>	<b>(277.439.677)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)</b>			
		<b>(38.675.849)</b>	<b>1.412.498.217</b>
<b>D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS</b>			
		791.610.573	(116.658.595)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>			
		<b>752.934.724</b>	<b>1.295.839.622</b>
<b>E. CASH AND CASH EQUIVALENTS</b>			
<b>AT THE BEGINNING OF THE PERIOD</b>			
	35	1.988.110.247	692.270.625
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT THE END OF THE PERIOD (A+B+C+D+E)</b>			
	35	<b>2.741.044.971</b>	<b>1.988.110.247</b>

(\*) TL 1.894.337.487 of tangible and intangible assets acquisitions in total of TL 2.554.101.905 was financed through finance leases for the year ended 31 December 2018 (31 December 2017: TL 972.428.030 of tangible and intangible assets acquisitions in total of TL 1.183.243.632 was financed through finance leases).

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

Pegasus Hava Taşımacılığı A.Ş. (the “Company” or “Pegasus”) and its subsidiaries (together “the Group”) is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service. Group management focuses on providing high-frequency services on short- and medium-haul, point-to-point routes on its domestic and international transit network primarily from its main hub, Sabiha Gökçen Airport in İstanbul. The Group also operates scheduled flights from four other domestic hubs in Ankara, Adana, Antalya and İzmir. The Group operates with 82 aircraft (31 December 2017: 76) including 4 owned, 38 under finance lease and 40 under operating lease as of 31 December 2018.

The Group offers a number of services ancillary to the core air passenger services and generate revenue through the provision of these services. These ancillary services include, but not limited to, revenue related to in-flight sale of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees.

The Group also provides cargo services and provides various training services. These training services include crew training, type rating training (i.e., training to fly a certain aircraft type), dangerous goods training and crew resource management (CRM) training.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Esas Holding A.Ş. (“Esas Holding”)	62,91%	62,92%
Publicly held	34,53%	34,51%
Sabancı Family Members	2,56%	2,57%
<b>Total</b>	<b>100,00%</b>	<b>100,00%</b>

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

The Group’s total number of full time employees as of 31 December 2018 is 5.621 (31 December 2017: 5.337). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

### Subsidiaries

#### *IHY İzmir Havayolları A.Ş.*

IHY İzmir Havayolları A.Ş. (“İzair”), commenced its operations in 2006, had operated domestic and international flights from İzmir Adnan Menderes Airport. İzair operated as a capacity provider to Pegasus. Pegasus acquired a 72,57% share in İzair from its primary shareholder Esas Holding A.Ş. (“Esas Holding”) on 28 September 2010 for TL 18.668.069. The Group increased its ownership to 96,79% in June 2011 via capital increase, and in March 2012, further increased its ownership to 97,82%. During September 2012, Pegasus sold 46,82% of its interest in İzair to Air Berlin Finance GmbH (“AirBerlin”) as part of the “AirBerlin Turkey” agreement. As of that date, İzair had been accounted for using equity method. Following of the completion of the registration of the amendment to the articles of association and the capital increase approved by İzair’s shareholders on 27 March 2013, in which AirBerlin decided not to exercise its pre-emption rights; in consequence of all other shareholders had not exercised their pre-emption rights and all the capital increase has been performed by Pegasus, the percentage of the shares and votes helded in İzair has increased up to 69,12%.



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

##### Subsidiaries (cont'd)

###### *IHY İzmir Havayolları A.Ş. (cont'd)*

Pegasus further provided a call option to AirBerlin as part of the capital increase and amendments to the articles of association approved on 27 March 2013. The call option, exercisable within one year as of the date of Izair's scheduled AOC which is 14 November 2013, allows AirBerlin to restore its shareholding in Izair to the level prior to the capital increase dated 27 March 2013 by purchasing the necessary amount of shares from Pegasus. However, in accordance with the agreement between Pegasus and AirBerlin, AirBerlin did not give notice to Pegasus of its decision to exercise the call option by the expiration date of 14 August 2014.

The Company reached an agreement with Air Berlin plc ("Air Berlin") to buyout Air Berlin's 29,51% stake in subsidiary İzair, represented by a total of 1.755.683.263 Group (A), (B) and (C) shares for a consideration of Euro 1,2 million and the transfer of shares has been completed as of 15 June 2017. The share transfer resulted in the termination of the agreements between the Company and Air Berlin in respect of their shareholding in İzair and the "Air Berlin Turkey Project" details of which have been provided in the Company's Offering Circular dated April 26, 2013 and the increase of the Company's shareholding in İzair to 98,63%.

Therefore, the Group has consolidated İzair on a line by line basis as a subsidiary as of 1 April 2013.

Following the merger declaration dated 4 September 2018 and the approval by Capital Markets Board on 8 November 2018, the Group, acting as "transferee", is merged with Izair with a share capital of TL 59.500.000, in which the Group has and 98,63% shareholding ratio, under simplified method with all assets and liabilities.

###### Air Company "Air Manas" LLC

Air Company "Air Manas" LLC ("Air Manas") is a limited liability company established in Kyrgyz Republic on 27 October 2006. The Group acquired 49% of Air Manas in August 2012 and has the ability to control Air Manas. The remaining shares in Air Manas are held by individuals in the Kyrgyz Republic. The Company has the right to manage the operations of Air Manas with a share rate of 49% pursuant to its rights originating from Air Manas Articles of Incorporation, and therefore Air Manas has been consolidated on a line by line basis as a subsidiary as of 31 December 2018 and 2017. The Group operates domestic and international scheduled flights under the name of Air Manas in Kyrgyz Republic.

###### *Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.*

The Group, incorporated Pegasus Havacılık Teknolojileri ve Ticaret A.Ş. ("PHT") on 13 May 2016 in İstanbul for the operations of simulator technical support and maintenance. The Group owns 100% of the outstanding shares of PHT and consolidated on a line by line basis as a subsidiary.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

##### **Joint Ventures and Associates**

###### *Pegasus Uçuş Eğitim Merkezi A.Ş.*

The Group incorporated Pegasus Uçuş Eğitim Merkezi A.Ş. (“PUEM”) in October 2010 in Turkey, a joint venture flight training company, with SIM Industries B.V., a Dutch simulator manufacturing and marketing company. PUEM has a 737-800 “next generation” flight simulator and commenced its operations in İstanbul in January 2011. The Group owns 49,40% of the outstanding shares of PUEM and disclose as joint venture under investments accounted for using the equity method in the financial statements.

###### *Hitit Bilgisayar Hizmetleri A.Ş.*

Hitit Bilgisayar Hizmetleri A.Ş. (“Hitit Bilgisayar”) was established in 1994, and as of 31 December 2014 it was merged with its related company Hitit Yazılım A.Ş. The scope of operations of the entity is to develop software solutions for airlines and travel agencies as well as airports, and be engaged with the activities concerning service of the foregoing operations, services and sales thereof. The Group acquired 40% of Hitit Bilgisayar’s shares in March 2015 and started to disclose as joint venture under investments accounted for using the equity method in the financial statements.

The Group used its call option that is acquired during the share purchase agreement for additional Group (B) registered shares representing a further 10% of the share of Hitit Bilgisayar for a total consideration of US Dollar 1.500.000, by making the equivalent payment of TL 4.409.850 in 30 May 2016. The Group owns 50% of the outstanding shares of Hitit Bilgisayar Hizmetleri A.Ş. and disclose as joint venture under investments accounted for using the equity method in the financial statements.

##### **Approval of Financial Statements**

Board of Directors has approved the consolidated financial statements as of 31 December 2018 and delegated authority for publishing it on 4 March 2019. General shareholders’ meeting has the authority to modify the financial statements.

##### **Statement of Compliance with TAS**

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

The 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.1 Basis of Presentation**

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

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. Also, the financial statements and its notes are presented in accordance with the disclosure requirements as announced by the CMB's statement on 7 June 2013.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. The accompanying 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; 31 December 2018: 1 Euro (€) = TL 6,0280, 1 US Dollar (\$) = TL 5,2609 (31 December 2017: 1 Euro (€) = TL 4,5155, 1 US Dollar (\$) = TL 3,7719).
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions and translated from US Dollar to TL using the TCMB US Dollar average buying rates.

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

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 consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current period, the Group has made several reclassifications in the prior period consolidated financial statements in order to maintain consistency with current year consolidated financial statements. There is no effect of these reclassifications in the prior period equity and statement of profit or loss. The nature, amount and reasons for each of the reclassification is described below:

- In the financial statements the year end 31 December 2017, TL 12.336.742 that was previously presented under trade payables has been reported by netting of prepaid expenses.

##### Basis of Consolidation

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

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>31 December 2018</u>	<u>31 December 2017</u>	
Air Manas (*)	Air transportation	49%	49%	Kyrgyzstan
PHT	Simulator technical support and maintenance	100%	100%	Turkey
Izair (**)	Air transportation	-	99%	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 31 December 2018 and 2017.

(\*\*) The Company merged with Izair on 17 December 2018.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

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

**Basis of Consolidation (cont'd)**

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Changes in the Group's Ownership Interests in Existing Subsidiaries**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

##### Associates and Joint Ventures

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 31 December 2018 and 2017:

Name of the company	Principal activity	Participation rate		Country of registration and operation
		31 December 2018	31 December 2017	
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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or a joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.



# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.2 Significant Accounting Policies and Changes

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

The Group adopted TFRS 9 Financial Instruments and TFRS 15 Revenue from Contracts with Customers for the first time for the period beginning on 1 January 2018.

#### a) Impacts of TFRS 9 and TFRS 15 on the consolidated financial statements

The Group adopted the new standard on the required effective date using the modified retrospective method which requires the recognition of the cumulative effect of initially applying TFRS 15 and TFRS 9, as at January 1, 2018, to retained earnings and not restate prior years.

The impact of adoption of TFRS 9 and TFRS 15 on the consolidated financial statement position as at 31 December 2018 and consolidated statement of profit or loss for the year ended 31 December 2018 are stated as below. The adoptions of these standards do not have a significant impact on the consolidated other comprehensive income and consolidated statement of cash flows.

#### (i) Consolidated Statement of Financial Position

	31 December 2018	TFRS 9 Effects	TFRS 15 Effects	31 December 2018 (excluding effects)
	<b>4.412.080.391</b>	<b>(12.048.446)</b>	-	<b>4.424.128.837</b>
Cash and cash equivalents	2.741.044.971	(10.556.562)	-	2.751.601.533
Trade receivables	235.514.142	(1.491.884)	-	237.006.026
<i>Trade receivables from related parties</i>	-	-	-	-
<i>Trade receivables from third parties</i>	235.514.142	(1.491.884)	-	237.006.026
Other receivables	479.758.270	-	-	479.758.270
<i>Other receivables from related parties</i>	1.580.011	-	-	1.580.011
<i>Other receivables from third parties</i>	478.178.259	-	-	478.178.259
Derivative financial instruments	3.134.337	-	-	3.134.337
Inventories	58.182.322	-	-	58.182.322
Prepaid expenses	847.933.762	-	-	847.933.762
Current income tax assets	5.954.024	-	-	5.954.024
Other current assets	40.558.563	-	-	40.558.563
Non-current assets held for sale	-	-	-	-
<b>Non-Current assets</b>	<b>9.252.807.145</b>	-	-	<b>9.252.807.145</b>
Other receivables	72.613.409	-	-	72.613.409
<i>Other receivables from related parties</i>	-	-	-	-
<i>Other receivables from third parties</i>	72.613.409	-	-	72.613.409
Investments accounted by using the equity method	39.797.114	-	-	39.797.114
Property and equipment	8.248.203.635	-	-	8.248.203.635
Intangible assets	46.859.897	-	-	46.859.897
Prepaid expenses	845.333.090	-	-	845.333.090
<b>TOTAL ASSETS</b>	<b>13.664.887.536</b>	<b>(12.048.446)</b>	-	<b>13.676.935.982</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

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

**a) Impacts of TFRS 9 and TFRS 15 on the consolidated financial statements (cont'd)**

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

	31 December 2018	TFRS 9 Effects	TFRS 15 Effects	31 December 2018 (excluding effects)
<b>Current liabilities</b>	<b>3.554.371.119</b>	-	-	<b>3.554.371.119</b>
Short term financial liabilities	797.815.861	-	-	797.815.861
Short term portion of long term financial liabilities	659.409.925	-	-	659.409.925
Trade payables	583.526.242	-	-	583.526.242
<i>Trade payables to related parties</i>	1.158.564	-	-	1.158.564
<i>Trade payables to third parties</i>	582.367.678	-	-	582.367.678
Employee benefit obligations	25.641.632	-	-	25.641.632
Other payables	24.170.136	-	-	24.170.136
<i>Other payables to related parties</i>	-	-	-	-
<i>Other payables to third parties</i>	24.170.136	-	-	24.170.136
Derivative financial instruments	189.722.017	-	-	189.722.017
Deferred income	740.526.677	-	-	740.526.677
Current income tax liabilities	-	-	-	-
Short term provisions	508.251.575	-	-	508.251.575
<i>Short term provisions for employee benefits</i>	79.419.630	-	-	79.419.630
<i>Other short term provisions</i>	428.831.945	-	-	428.831.945
Other current liabilities	25.307.054	-	-	25.307.054
<b>Non-Current liabilities</b>	<b>6.395.068.769</b>	<b>(2.409.689)</b>	-	<b>6.397.478.458</b>
Long term financial liabilities	5.064.858.596	-	-	5.064.858.596
Derivative financial instruments	104.993.760	-	-	104.993.760
Deferred income	121.994.007	-	-	121.994.007
Long term provisions	624.090.226	-	-	624.090.226
<i>Long term provisions for employee benefits</i>	25.019.690	-	-	25.019.690
<i>Other long term provisions</i>	599.070.536	-	-	599.070.536
Deferred tax liabilities	479.132.180	(2.409.689)	-	481.541.869
<b>SHAREHOLDERS' EQUITY</b>	<b>3.715.447.648</b>	<b>(9.638.757)</b>	-	<b>3.725.086.405</b>
<b>Equity attributable to shareholders' of the parent</b>	<b>3.753.058.255</b>	<b>(9.638.757)</b>	-	<b>3.762.697.012</b>
Paid-in share capital	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	2.131.817.567	-	-	2.131.817.567
Other comprehensive income/expense to be reclassified to profit or loss	-	-	-	-
Currency translation differences	(89.760.549)	-	-	(89.760.549)
Hedge fund	(221.159.956)	-	-	(221.159.956)
Restricted profit reserves	5.016.306	-	-	5.016.306
Retained earnings	832.182.941	(6.870.676)	(18.756.002)	857.809.619
Net profit for the period	507.378.625	(2.768.081)	18.756.002	491.390.704
<b>Non-controlling interest</b>	<b>(37.610.607)</b>	-	-	<b>(37.610.607)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13.664.887.536</b>	<b>(12.048.446)</b>	-	<b>13.676.935.982</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

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

**a) Impacts of TFRS 9 and TFRS 15 on the consolidated financial statements (cont'd)**

**(ii) Consolidated Statement of Profit or Loss and Other Comprehensive Income**

	<b>31 December 2018</b>	<b>TFRS 9 Effects</b>	<b>TFRS 15 Effects</b>	<b>31 December 2018 (excluding effects)</b>
<b>Profit or loss</b>				
Sales	8.296.736.033	-	24.046.157	8.272.689.876
Cost of sales (-)	(7.033.557.877)	-	-	(7.033.557.877)
<b>Gross profit</b>	<b>1.263.178.156</b>	<b>-</b>	<b>24.046.157</b>	<b>1.239.131.999</b>
General administrative expenses (-)	(220.112.714)	-	-	(220.112.714)
Marketing expenses (-)	(225.652.168)	-	-	(225.652.168)
Other operating income	39.751.010	-	-	39.751.010
Other operating expenses (-)	(65.442.710)	(3.460.101)	-	(61.982.609)
<b>Operating profit</b>	<b>791.721.574</b>	<b>(3.460.101)</b>	<b>24.046.157</b>	<b>771.135.518</b>
Income from investing activities	23.047.488	-	-	23.047.488
Expenses from investing activities (-)	-	-	-	-
Share of investments income accounted for using the equity method	8.445.804	-	-	8.445.804
<b>Operating profit before financial expense</b>	<b>823.214.866</b>	<b>(3.460.101)</b>	<b>24.046.157</b>	<b>802.628.810</b>
Financial income	123.684.898	-	-	123.684.898
Financial expense (-)	(404.633.918)	-	-	(404.633.918)
<b>Profit before tax</b>	<b>542.265.846</b>	<b>(3.460.101)</b>	<b>24.046.157</b>	<b>521.679.790</b>
<b>Tax expense</b>	<b>(40.148.831)</b>	<b>692.020</b>	<b>(5.290.155)</b>	<b>(34.858.676)</b>
Current tax expense	(24.579.806)	-	-	(24.579.806)
Deferred tax expense	(15.569.025)	692.020	(5.290.155)	(10.970.890)
<b>Profit for the period</b>	<b>502.117.015</b>	<b>(2.768.081)</b>	<b>18.756.002</b>	<b>486.821.114</b>
<b>Net profit attributable to:</b>				
Non-controlling interest	(5.261.610)	-	-	(5.261.610)
Shareholders' of the parent	507.378.625	(2.768.081)	18.756.002	491.390.704
	<b>502.117.015</b>	<b>(2.768.081)</b>	<b>18.756.002</b>	<b>486.129.094</b>
Profit per share (TL)	4,96	(0,03)	0,18	4,81
<b>Other comprehensive income</b>				
<b>Items not to be reclassified to profit or loss</b>				
Currency translation differences	1.052.766.584	-	-	1.052.766.584
<b>Items to be reclassified to profit or loss</b>				
Currency translation differences	(54.726.766)	-	-	(54.726.766)
Cash flow hedge	(315.699.027)	-	-	(315.699.027)
Deferred tax effect	70.777.792	-	-	70.777.792
<b>Other comprehensive income</b>	<b>754.291.398</b>	<b>-</b>	<b>-</b>	<b>754.291.398</b>
<b>Total comprehensive income</b>	<b>1.256.408.413</b>	<b>(2.768.081)</b>	<b>18.756.002</b>	<b>1.240.420.492</b>
<b>Total comprehensive income attributable to:</b>				
Non-controlling interest	(14.155.050)	-	-	(14.155.050)
Shareholders' of the parent	1.270.563.463	(2.768.081)	18.756.002	1.254.575.542
	<b>1.256.408.413</b>	<b>(2.768.081)</b>	<b>18.756.002</b>	<b>1.240.420.492</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

##### a) Impacts of TFRS 9 and TFRS 15 on the consolidated financial statements (cont'd)

##### (iii) TFRS 15 and TFRS 9 Financial Instruments – Impact of adoption on retained earnings

The impact of adoption of TFRS 9 on retained earnings as of 1 January 2018 is stated as below:

	<b>1 January 2018</b>
<b>Retained earnings – 1 January 2018 – (excluding TFRS 9 effects)</b>	355.561.802
Provision for impairment of cash and cash equivalents	(7.646.233)
Provision for impairment of credit card receivables	(942.113)
Deferred tax effect	1.717.669
<b>Adjustment to retained earnings from adoption of TFRS 9</b>	<b>(6.870.677)</b>
<b>Opening retained earnings 1 January 2018 - (including TFRS 9&amp;TFRS 15 effects)</b>	<b>329.935.123</b>

The impact of adoption of TFRS 15 on retained earnings as of 1 January 2018 is stated as below:

	<b>1 January 2018</b>
<b>Retained earnings – 1 January 2018 – (excluding TFRS 15 effects)</b>	355.561.802
Effect of services that are not considered as a different service from passenger transport	(24.046.156)
Deferred tax effect	5.290.154
<b>Adjustment to retained earnings from adoption of TFRS 15</b>	<b>(18.756.002)</b>
<b>Opening retained earnings 1 January 2018 - (including TFRS 9&amp;TFRS 15 effects)</b>	<b>329.935.123</b>

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

##### (i) TFRS 9 Financial Instruments

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 9 Financial Instruments, as at January 1, 2018, to retained earnings and not restate prior years.

The Group allocates provision for cash and cash equivalents and trade receivables according to expected credit losses model.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

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

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

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

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

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

#### 2.3 Changes in Accounting Estimates

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period. Significant errors identified by the Group in the accounting estimates are applied retrospectively and prior period financial statements are restated. The Group has not made any changes in accounting estimates in the current year.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2018 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, 2018. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

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

#### ***TFRS 9 Financial Instruments***

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

The Group adopted TFRS 9 using modified retrospective approach and disclosed the impact of the standard on financial position and performance of the Group in Note 2.2.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

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

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

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

**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.

**TFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)**

In December 2017, POA issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

**TFRIC 22 Foreign Currency Transactions and Advance Consideration**

The interpretation issued by POA on 19 December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is effective for annual periods beginning on or after 1 January 2018. The interpretation has been applied prospectively from 1 January 2018 and had an impact on the predelivery payments of the Group for the purchase of aircraft.

**TAS 40 Investment Property: Transfers of Investment Property (Amendments)**

In December 2017, POA issued amendments to TAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the 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.

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

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

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

#### **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.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

## PEGASUS HAVA TAŐIMACILIĐI A.Ő. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

###### IFRS 16 Leases (cont'd)

###### Transition to IFRS 16:

The Group is in the process of assessing the impact of the standard on the financial position and performance of the Group, the explanation of preliminary analysis is as follows:

The Group plans to implement IFRS 16 with a modified retrospective approach. The Group will prefer to apply this standard in the operational aircraft rental agreements which it has previously defined as leasing by applying TAS 17 Leases.

The Group plans to implement simplified retrospective approach for leases and low-value rentals that will expire within a period of 12 months or less as of the transition date. The Group considers office equipment leases (such as personel computers, photocopy machines, etc.), rentals at certain airports and office rents as low-value rentals.

With the transition to IFRS 16, a significant increase is expected in the Group's tangible fixed assets and leasing liabilities. In the statement of financial position dated 31 December 2018, it is expected that the assets will increase by approximately 12-14% and the liabilities will increase by approximately 13-15%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.5 Summary of Significant Accounting Policies**

**Related Parties**

Related parties comprise of any person or entity related to the entity preparing the financial statements (reporting entity).

a) Any individual or any one of the close family members of such individual are considered as being related with the reporting entity: In the event the subject matter individual,

- (i) is in possession of control or joint control over the reporting entity,
- (ii) is entitled to a crucial influence on the reporting entity,
- (iii) is a member of the key management staff of the reporting entity or one of the major shareholders of the reporting entity.

(b) In the event any of the following circumstances is present in existence, the entity is considered to be in relation with the reporting entity:

- (i) If the entity and the reporting entity are members of the same group (in other words, each major partnership, associated partnership and other associated partnership is related to the others).
- (ii) If the entity is an affiliate or business partnership of the other entity (or a member of the group that such other entity is also a member of).
- (iii) If both entities are business partnerships of the same third party.
- (iv) If one of the entities is a business partnership of any third entity and the other entity is an affiliate of the subject matter third entity.
- (v) If there are benefit plans for the post-retirement stage with respect to the employees of the entity, reporting entity or any other entity related to the reporting entity. In the event the reporting entity is itself in possession of such a plan, the sponsoring employers are likewise related to the reporting entity.
- (vi) If the entity is controlled by any individual identified under article (a) or under joint control.
- (vii) If any individual identified under item (i) of article (a) is in possession of a substantial influence on the entity or is a member of the key management personnel of the subject matter entity (or of the major shareholder of any such entity).

Consists of the transfer of sources, services or obligations between the related party and any party related to the reporting entity of the transaction performed, regardless of whether the same is in consideration for a charge or otherwise.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Revenue**

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

- Scheduled and charter flight revenues are recorded as revenue when the transportation service is provided. Tickets sold but not yet used are recorded as passenger flight liabilities.
- Ancillary revenues, cargo services and training services are recognized when services are provided.
- Ancillary revenue is recognized as revenue when the service is provided.
- The passenger service fee is a surcharge on the ticket price for the purpose of selling. Since the passenger service fee, which is recorded as revenue as the ticket sold before the TFRS 15 application, is not considered as a different performance obligation than the transportation service, it has started to be recorded as revenue as of 1 January 2018 when the related transportation service is performed.

The Group has evaluated itself as a surrogate in terms of the airport tax paid to the relevant state institutions and collected from the passengers at the ticket price and has not included the taxes in the revenue amount. The most important factor in this evaluation is the fact that the addressee of the tax is not the Company but the passenger

If the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

The Group also receives interest income, which is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

**Pegasus Card and Pegasus Plus Loyalty Program**

The holders of Pegasus Card and Pegasus Plus earn and accumulate flight points for both ticket and non-ticket purchases each time they use the Pegasus Card.

If the points are earned by ticket purchases, the flight points are provided by Pegasus and recognized as a separately identifiable component of the sales transaction and measured at fair value. They are recorded as “flight liability from flight points” initially and recognized as revenue when the flight points are used. The nominal amount of the points earned approximates the fair value of the points, because 50 Flight Points = TL 1. Flight points can be redeemed at the purchase of flight tickets at minimum TL 10 (500 Flight Points).

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### Pegasus Card and Pegasus Plus Loyalty Program (cont'd)

If the points are earned through non-ticket purchases, the bank funds the cost of the points through a payment to the Group. The Group defers this revenue, which it records as “flight liability from flight points” and recognizes the revenue when the points are used by the customer. Award points are valid for at least two years and expire at the last day of the second calendar year. Unused points are recognized as income based on historic usage.

###### Inventories

Inventories are composed of consumables, spare parts, catering stocks and other stocks and they are valued at the lower of cost or net realizable value.

###### Tangible Assets

Tangible assets are carried at historical costs less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised over their estimated useful lives, less their residual values using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Group allocates the cost of an acquired aircraft to its service potential reflecting the maintenance condition of its engines and airframe. This cost, which can equate to a substantial element of the total aircraft cost, is depreciated over the shorter of the period to the next maintenance check or the remaining life of the aircraft. The costs of subsequent major airframe and engine maintenance checks are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

All significant components and repairable spare parts are accounted separately and depreciated over their estimated useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Intangible Assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Acquired trademark, brands and licenses are shown at historical cost. Trademarks, brands and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives. The acquired software has a 5 year useful life.

**Provisions, Contingent Assets and Contingent Liabilities**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Impairment of Non-financial Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its aircraft to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At the end of each reporting period, non-financial assets are reviewed for possible reversal of the impairment.

The fleet has been determined as the lowest level cash generating unit and analysed for impairment accordingly. For determination of recoverable amounts the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used. Net selling price for the aircraft is determined according to second hand prices in international price guides.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There are no qualifying assets during the years ended 31 December 2018, and 2017. Therefore, no borrowing costs were capitalized during the years ended 31 December 2018, and 2017. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

**Maintenance and Repair Costs and Maintenance Reserve Contribution Receivables**

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned and financial leased aircraft is described in the accounting policy for tangible assets.

For aircraft held under operating lease agreements, the Group pays monthly supplemental amount called "Maintenance Reserve Contribution" to operating lease companies with respect to heavy maintenance expenditures. This reserve contribution is calculated based on the actual flight hours or the actual number of landings of the aircraft. These maintenance reserve payments are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term. However, when the Group incurs such heavy maintenance expenditures on behalf of the operating lease company, it claims these costs back and recognise an agreed maintenance reserve contribution receivable until it is collected. All other maintenance and repair costs are expensed as incurred.

**Redelivery Provision**

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year.

The Group has entered into operating lease agreements with operating lease companies where the Group has transferred its right to buy the new aircraft and it is liable to perform the heavy maintenance expenditures after the end of the lease term (8 years). The total maintenance reserve has been calculated based on the present value of the estimated future cost by Group management in line with the accounting policies used in the aircraft held under operating lease agreements and they are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.5 Summary of Significant Accounting Policies (cont'd)

##### Taxation and Deferred Income Taxes

Turkish Tax Legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### Current Tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Taxation and Deferred Income Taxes (cont'd)**

*Current and Deferred Tax for the Period*

Taxes are recognised as an expense or income in profit or loss, except when they related to transactions that are recognised in equity. Otherwise, taxes are also recognized in equity with other related transactions.

**Government Grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. As a financing instrument, government grants, rather than to be recognized in profit or loss to offset the expenses they are financing, are to be recognized in the balance sheet as deferred income and be recognized in profit or loss on a systematic basis over the economical life of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

*Investment Incentives*

The Turkish Government has an Investment Incentive Program which became effective upon the issuance of the Council of Ministers' resolution "Government Assistance for Investments" No:2009/15199 ("Incentive Program") on 14 July 2009.

The Incentive Program aims to provide support to companies which make investments by providing a credit against taxable income related to those investments. The amount of credit is determined based on a "contribution rate" in the Incentive Program. An entity must obtain an investment certificate related to the associated incentives.

The Group obtained incentive certificates from the Undersecretariat of Treasury for 38 aircraft. According to the incentive certificate of 27 aircraft, the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 11% instead of 22%) taxable income attributable to the operation of these aircraft. According to the incentive certificate of 11 aircraft, the Company will use 50% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2,2% instead of 22%) taxable income attributable to the operation of these aircraft. As the Group has taxable profits during the year ended 31 December 2018, it has recognized the benefit in the financial statements associated with the Incentive Program (Note 13). As the Group did not have taxable profits during the year ended 31 December 2017, it had not recognized any benefits in the financial statements.

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

#### 2.5 Summary of Significant Accounting Policies (cont'd)

##### **Employee Benefits**

###### *Termination Benefits*

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation. The calculated actuarial gains and losses are accounted under the other comprehensive income when material.

###### *Employee Bonus Plan*

The Group recognizes a liability and an expense for employee bonus, based on current year performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

###### *Executive Bonus Plan*

The Group recognizes a liability and an expense for executive bonus plan, based on a formula that takes into consideration the budget compared to actual performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

##### **Foreign Currency Transactions**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Based on the nature of the Group's business, there are various transactions entered into that are in currencies other than the functional currency. In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognized either as finance income or finance costs in the period in which they arise.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Leasing - the Company as Lessee**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also charged to statement of profit or loss on a straight-line basis over the lease term.

**Financial Assets**

Recognition and Measurement

Group classifies its financial assets in three categories of financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase. The Group classifies its financial assets at the date of the purchase. TFRS 9 eliminates the categories of available-for-sale financial assets, loans and receivables and available-for-sale financial assets included in the existing TAS 39 standard.

“Financial assets measured at amortized cost”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortized cost comprise “cash and cash equivalents”, “trade receivables” and “financial investments”. Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the consolidated statement of income.

“Financial assets measured at fair value through other comprehensive income”, are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.5 Summary of Significant Accounting Policies (cont'd)

##### Financial Assets (cont'd)

##### Recognition and Measurement (cont'd)

In derecognition of financial assets, the valuation differences which is classified under the other comprehensive income are recognized in retained earnings.

Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under consolidated statement of income.

“Financial assets measured at fair value through profit or loss”, are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

The changes in the classification of financial assets and financial liabilities in accordance with TFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

	<b>Classification under TAS-39</b>	<b>Classification under TFRS-9</b>
<b>Financial Assets</b>		
Cash and cash equivalents	Loans and receivables	Amortised cost
Financial investments	Held-to-maturity financial assets	Amortised cost
Financial investments	Available for sale financial assets	Fair value through other comprehensive income
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Trade receivables	Loans and receivables	Amortised cost
Other receivables	Loans and receivables	Amortised cost
<b>Financial Liabilities</b>		
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Other payables	Amortised cost	Amortised cost

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Financial Assets (cont'd)**

Derecognition

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognized as a separate asset or liability.

Impairment

Impairment of the financial and contractual assets measured by using “Expected credit loss model” (ECL). The impairment model applies for amortized financial and contractual assets.

Provision for loss measured as below ;

12- Month ECL: results from default events that are possible within 12 months after reporting date.  
Lifetime ECL: results from all possible default events over the expected life of financial instrument

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since 12 month ECL measurement if it has not.

The group may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement (simplified approach) always apply for trade receivables and contract assets without a significant financing.

Trade receivables

Trade receivables that are created by way of providing services directly to a debtor are measured at amortized cost, using the effective interest rate method, Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

Group has preferred to apply “simplified approach” defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to “lifetime expected credit losses” except incurred credit losses in which trade receivables are already impaired for a specific reason.



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### Financial Assets (cont'd)

###### Trade receivables (cont'd)

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other operating income.

Unearned finance income/expense due to commercial transactions are accounted for under "Other Operating Income/Expenses" in the consolidated statement of income or loss.

###### Cash and Cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank deposits with original maturities of more than three months and shorter than 1 year are classified under short-term financial investments.

###### Financial Liabilities

The Group's financial liabilities and equity instruments are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The contract representing the right in the assets of the Group after deducting all debts of the Group which is an equity-based financial instrument. The accounting policies applied for certain financial liabilities and equity instruments are as follows.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Financial Liabilities (cont'd)**

Other financial liabilities

Other financial liabilities are initially recognized at fair value as a net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis

The effective interest method calculates the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

In case of fulfilling the contractual obligations of other financial liabilities, canceling the contract or expiring, the Group offsets this liability. The carrying amount of the off-balance sheet and the difference between the book value of the financial liability and the new financial liability arising are recognized in the statement of profit or loss.

**Derivative Financial Instruments and Hedge Accounting**

Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the statement of profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group is exposed to foreign exchange risk through the impact of currency rate changes on translation into the Euro of its foreign currency denominated assets and liabilities and non-Euro denominated currency transactions. To monitor the risk, the Group enters into forward transactions where the Group is liable to pay a certain amount of Euro and receive a certain amount of foreign currency (mainly US Dollars) at a specified date. The change in the fair value of the derivative financial assets that qualify for hedge accounting according to TAS 39 (Financial Instruments) are recognized in other comprehensive income and the change in the fair value of the derivative financial assets that do not qualify for hedge accounting according to TAS 39 are recognized in statement of profit or loss. The Group, has not preferred to apply TFRS 9 for derivative financial instruments.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Derivative Financial Instruments and Hedge Accounting (cont'd)**

Inherently, the Group is exposed to financial risks related to interest rate fluctuations. The most significant source of the interest rate risk is the financial lease liabilities. The policy of the Group is to transform a part of its floating rate financial liabilities into fixed rate financial liabilities by using derivative financial instruments. Derivative financial instruments procured for this purpose do not qualify for hedge accounting and the change in the fair value of these derivative financial assets are recognized immediately in profit or loss.

Fuel costs which are predominantly determined in US Dollars constitute a substantial portion of the Group's cost base. The Group enters into forward and option forward transactions with financial institutions based on acquisition of jet fuel or Brent oil on specified prices. These commodity forward transactions qualify for hedge accounting and they are accounted as cash flow hedges under equity as at 31 December 2018 and 2017.

Brent within framework of hedge transactions against cash flow risk is a substitute product of Jet Fuel, whereas the correlation between the two commodities is set forth in terms of past statistics. The correlation rate of 96% between Brent and Jet Fuel between years 2010-2018 is used at the same time as the effectiveness rate. The effectiveness rate of forward contracts that the Group entered into in respect of the Jet Fuel used as its direct physical requirement is considered as 100%. The excessive amount over the effective rate is accounted in profit or loss in the related period when the amount has material effect in the financial statements.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as using the basis of recent market transactions on arm's length terms, using the fair value of similar financial instruments and using discounted cash flow analysis (Note 33).

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Business Combinations**

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Business Combinations (cont'd)**

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

**2.5 Summary of Significant Accounting Policies (cont'd)**

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Events After Reporting Period**

Events after reporting period comprise any events between the reporting period and the date of authorization of the financial statements, even if the event after balance sheet date occurred subsequent to an announcement on the Group's profit or following any financial information that are released.

In the case of events requiring adjustments, the Group adjusts the amounts recognized in its financial statements to reflect the events. For non-adjusting events, disclosure is made in the notes to the financial statements.

**Contingent Liabilities and Contingent Assets**

Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group's contingent liabilities are probable but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes to the financial statements.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### **Earnings per Share**

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to shareholders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

###### **Cash Flow Statement**

Cash flows for the period are classified and presented as operating, investing and financing activities in the cash flow statement.

Cash flows from operating activities present cash generated from the Group's airline operations.

Cash flows from investing activities present cash used in, generated from investing activities (capital investments and financial investments) of the Group.

Cash flows from financing activities present the funds used in financing operations and repayment regarding these operations.

Cash and cash equivalents are short term investments that are cash on hand, demand deposits, time deposits of with maturities not exceeding three months from purchase date and free of detoration of value with high liquidity.

###### **Capital and Dividends**

Common shares are classified as equity. Dividends distributed over common shares are accounted by deduction from retained earnings in the period decision for dividend payment is undertaken.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.6 Critical Accounting Estimates and Assumptions**

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. The Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations. Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are given below:

*Useful Lives and Residual Values of Tangible Assets and Aircraft*

The Group has allocated depreciation over tangible assets by taking into consideration the useful lives and residual values which were explained in Note 10. While determining estimated useful lives and residual values, the Group makes estimations and assumptions by taking past experience and business plans into consideration.

*Income Taxes*

The Group recognizes deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. Based on the available evidence, it is the Group's belief that sufficient taxable profit will be available to utilize these deferred tax assets as at 31 December 2018.

The Group estimates to utilize reduce corporate tax advantages arising from acquisition of aircrafts. With this respect, the Group recognized deferred tax assets for only foreseeable future due to uncertainty of the timing on realization of total tax advantages earned.

*Redelivery Provision*

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year. The provision also incorporates management expectation on the cost of the maintenance and component compensation at the time of the redelivery. The group considers the estimated maintenance costs and estimated flight times and number of flights as significant assumptions.



# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.6 Critical Accounting Estimates and Assumptions (cont'd)

##### Litigation Provision

The Group, within its normal course of business, is party to various lawsuits, fines and claims that have been filed against it. These lawsuits and fines have been evaluated by the Group's management and provisions are provided where necessary. The Group has provided a provision at an amount of TL 9.673.544 as of 31 December 2018 (31 December 2017: TL 9.782.213) (Note 15).

##### Fair Value of Derivatives and Other Financial Instruments

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date.

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

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

	31 December 2018	31 December 2017
<b>Joint ventures</b>		
Hitit Bilgisayar	29.695.050	22.796.541
PUEM	10.102.064	6.347.718
	<b>39.797.114</b>	<b>29.144.259</b>

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

	1 January- 31 December 2018	1 January- 31 December 2017
Hitit Bilgisayar	6.910.913	3.401.325
PUEM	1.534.891	710.665
<b>Net profit</b>	<b>8.445.804</b>	<b>4.111.990</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)**

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

**PUEM**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Current assets	310.426	513.286
Non-current assets	23.292.609	21.333.742
Current liabilities	(2.648.532)	(5.982.733)
Non-current liabilities	(504.980)	(3.014.663)
<b>Net assets of joint venture</b>	<b>20.449.523</b>	<b>12.849.632</b>
Group's ownership interest in the joint venture	49,40%	49,40%
<b>Group's share in the net assets of the joint venture</b>	<b>10.102.064</b>	<b>6.347.718</b>
	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Revenue	9.492.705	6.393.132
Depreciation&amortisation expense	(2.099.172)	(1.921.990)
Interest income/(expense), net	(1.069.940)	(762.006)
Profit for the year	3.107.067	1.438.593
Group's ownership interest	49,40%	49,40%
<b>Group's share in the net profit of the joint venture</b>	<b>1.534.891</b>	<b>710.665</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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

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

Hitit Bilgisayar

	31 December 2018	31 December 2017
Current assets	28.644.555	19.039.061
Non-current assets	39.786.447	30.083.777
Current liabilities	(10.063.146)	(4.857.939)
Non-current liabilities	(762.780)	(456.841)
<b>Net assets of joint venture</b>	<b>57.605.076</b>	<b>43.808.058</b>
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
<b>Group's share in the net assets of the joint venture</b>	<b>29.695.050</b>	<b>22.796.541</b>
	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Revenue	60.006.658	41.038.198
Depreciation&amortisation expense	(4.263.287)	(3.061.800)
Interest income/(expense), net	203.285	164.158
Profit for the year	13.821.826	6.802.650
Group's weighted average ownership interest	50%	40%
<b>Group's share in the net profit of the joint venture</b>	<b>6.910.913</b>	<b>3.401.325</b>

NOTE 4 - SEGMENT REPORTING

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 5 - RELATED PARTY TRANSACTIONS

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

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

**a) Other receivables from related parties**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Balances with joint ventures and subsidiaries:</b>		
PUEM	1.580.011	1.702.020
<b>Balances with other related parties:</b>		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	-	31.747
	<b>1.580.011</b>	<b>1.733.767</b>

**b) Trade payables to related parties**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Balances with joint ventures and subsidiaries:</b>		
Hitit Bilgisayar	1.012.372	764.389
<b>Balances with other related parties:</b>		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	146.192	-
	<b>1.158.564</b>	<b>764.389</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

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

The Group receives simulator training services from PUEM for their pilots and generates 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.

#### a) Sale of services

	1 January- 31 December 2018	1 January- 31 December 2017
<b>Transactions with joint ventures and subsidiaries:</b>		
PUEM	2.348.471	1.432.266
<b>Transactions with other related parties:</b>		
Air Berlin Plc&Co Luftverkehrs Kg (*)	-	889.222
	<b>2.348.471</b>	<b>2.321.488</b>

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

#### b) Purchases of goods or services

	1 January- 31 December 2018	1 January- 31 December 2017
<b>Transactions with joint ventures and subsidiaries:</b>		
Hitit Bilgisayar	13.899.544	13.064.401
PUEM	9.492.705	6.393.132
<b>Transactions with other related parties:</b>		
Esasburda	2.256.348	2.117.785
Other	27.527	32.820
	<b>25.676.124</b>	<b>21.608.138</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)**

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

**c) Rent expenses**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Esasburda	7.744.350	6.575.117
	<b>7.744.350</b>	<b>6.575.117</b>

**d) Surety commission expenses**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Esas Holding (Note 25)	9.425.198	11.933.266
	<b>9.425.198</b>	<b>11.933.266</b>

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

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

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the period ended 31 December 2018 and 2017 are as follows:

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Salaries and other short term benefits	12.960.751	7.738.798
Other long term benefits	810.479	985.195
	<b>13.771.230</b>	<b>8.723.993</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 6 - TRADE RECEIVABLES AND PAYABLES

#### Short term trade receivables

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

	31 December 2018	31 December 2017
Trade receivables	183.818.051	144.962.630
Credit card receivables	60.138.676	49.128.679
Income accruals	2.163.918	289.997
	<b>246.120.645</b>	<b>194.381.306</b>
Less: Allowance for doubtful receivables	(10.606.503)	(6.979.931)
	<b>235.514.142</b>	<b>187.401.375</b>

The average collection period of trade receivables is approximately 20 days (31 December 2017: 22 days).

The movement of provision for doubtful receivables for the years ended 31 December 2018 and 2017 are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
<b>1 January</b>	6.979.931	8.998.147
The effect of change in accounting policy (Note 2.2)	942.112	-
Charge for the year	1.043.644	306.350
Collections and written off allowances	(55.038)	(2.624.365)
Currency translation differences	1.695.854	299.799
<b>31 December</b>	<b>10.606.503</b>	<b>6.979.931</b>

The nature and level of risks related to trade receivables is disclosed in Note 32.

#### Short term trade payables

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

	31 December 2018	31 December 2017
Trade payables	404.564.278	267.954.443
Accrued direct operational costs	125.651.810	82.205.807
Other accrued expenses	52.151.590	30.448.774
Due to related parties (Note 5)	1.158.564	764.389
	<b>583.526.242</b>	<b>381.373.413</b>

The average credit period of trade payables is approximately 25 days (31 December 2017: 28 days).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - OTHER RECEIVABLES AND PAYABLES**

**Short Term Other Receivables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Deposits and guarantees given(*)	274.430.087	8.958.264
Maintenance reserve		
contribution receivables	182.991.588	99.057.904
Due from related parties (Note 5)	1.580.011	1.733.767
Other receivables	23.308.120	1.290.279
Less: Allowance for doubtful receivables	(2.551.536)	(1.829.372)
	<b>479.758.270</b>	<b>109.210.842</b>

(\*)The amount of TL 258.353.069 in deposits and guarantees given, consists of guarantee deposits given to banks related to valuation of derivative contracts.

The movement of provision for doubtful other receivables for the years ended 31 December 2018 and 2017 are as follows:

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
<b>1 January</b>	1.829.372	1.706.812
Currency translation differences	722.164	122.560
<b>31 December</b>	<b>2.551.536</b>	<b>1.829.372</b>

**Long Term Other Receivables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Deposits given	72.613.409	19.154.041
	<b>72.613.409</b>	<b>19.154.041</b>

**Short Term Other Payables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Taxes payables	21.644.255	29.214.603
Deposits received	2.525.881	14.946.917
	<b>24.170.136</b>	<b>44.161.520</b>



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 8 - INVENTORIES

The details of inventories as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Consumables and spare parts	51.157.643	24.001.300
Operational and other inventories	6.966.919	6.705.154
Catering inventories	57.760	96.799
	<b>58.182.322</b>	<b>30.803.253</b>

#### NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

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

##### Short term prepaid expenses

	31 December 2018	31 December 2017
Advances on aircraft purchases	404.326.349	395.375.762
Advances to suppliers	344.837.476	247.896.894
Prepaid aircraft operating lease expenses	46.506.839	40.087.072
Prepaid insurance expenses	26.967.518	10.166.538
Prepaid advertising expenses	450.732	426.651
Other prepaid expenses	24.844.848	19.142.083
	<b>847.933.762</b>	<b>713.095.000</b>

##### Long term prepaid expenses

	31 December 2018	31 December 2017
Advances on aircraft purchases	663.541.132	198.287.869
Other prepaid expenses	181.791.958	57.643.758
	<b>845.333.090</b>	<b>255.931.627</b>

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

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

**NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME (cont'd)**

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

**Short term deferred income**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Passenger flight liabilities	677.753.986	380.715.038
Advances received from customers	40.009.174	21.770.670
Other deferred income	22.763.517	12.962.174
	<b>740.526.677</b>	<b>415.447.882</b>

**Long term deferred income**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Income relating to future periods	121.994.007	7.379.754
	<b>121.994.007</b>	<b>7.379.754</b>

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Flight liability from ticket sales	496.132.705	268.933.251
Passenger airport fees received from customers	138.844.563	87.660.301
Flight liability from flight points	42.776.718	24.121.486
	<b>677.753.986</b>	<b>380.715.038</b>

The movement of flight liability from ticket sales as of the year ended 31 December 2018 is as follows:

	<b>2018</b>
<b>Opening ( 1 January)</b>	268.933.251
Flown in the period	(7.134.899.490)
Sold in the period	7.362.098.944
<b>Closing (31 December)</b>	<b>496.132.705</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 10 - PROPERTY AND EQUIPMENT**

<b>31 December 2018</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	<b>72.526.512</b>	<b>75.261.821</b>	<b>101.564.014</b>	<b>58.525.763</b>	<b>499.675.611</b>	<b>5.106.452.248</b>	<b>3.510.816</b>	<b>5.917.516.785</b>
Additions	10.071.644	2.005.740	14.571.329	42.369	341.023.929	2.159.107.104	8.594.138	2.535.416.253
Disposals	-	(1.874.846)	(1.142.572)	-	(13.035.026)	(144.286.346)	-	(160.338.790)
Transfers	-	-	1.227.172	1.109.028	-	-	(9.511.349)	(7.175.149)
Currency translation differences	25.229.191	25.290.453	34.921.382	19.692.210	179.820.875	1.856.515.698	1.120.257	2.142.590.066
<b>Closing</b>	<b>107.827.347</b>	<b>100.683.168</b>	<b>151.141.325</b>	<b>79.369.370</b>	<b>1.007.485.389</b>	<b>8.977.788.704</b>	<b>3.713.862</b>	<b>10.428.009.165</b>
<b>Accumulated depreciation:</b>								
Opening	<b>(10.771.676)</b>	<b>(12.180.327)</b>	<b>(62.382.916)</b>	<b>(43.069.275)</b>	<b>(111.270.901)</b>	<b>(1.015.320.632)</b>	-	<b>(1.254.995.727)</b>
Depreciation for the year	(6.258.824)	(7.461.096)	(14.126.384)	(7.541.334)	(58.901.840)	(431.221.392)	-	(525.510.870)
Disposals	-	1.071.498	869.465	-	659.460	77.772.358	-	80.372.781
Currency translation differences	(4.013.395)	(4.489.694)	(21.706.510)	(14.893.812)	(35.485.241)	(399.083.062)	-	(479.671.714)
<b>Closing</b>	<b>(21.043.895)</b>	<b>(23.059.619)</b>	<b>(97.346.345)</b>	<b>(65.504.421)</b>	<b>(204.998.522)</b>	<b>(1.767.852.728)</b>	-	<b>(2.179.805.530)</b>
<b>Net book value</b>	<b>86.783.452</b>	<b>77.623.549</b>	<b>53.794.980</b>	<b>13.864.949</b>	<b>802.486.867</b>	<b>7.209.935.976</b>	<b>3.713.862</b>	<b>8.248.203.635</b>

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**NOTE 10 - PROPERTY AND EQUIPMENT (cont'd)**

<b>31 December 2017</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	<b>58.446.618</b>	<b>54.947.225</b>	<b>73.778.851</b>	<b>47.936.130</b>	<b>325.933.190</b>	<b>4.510.753.029</b>	<b>415.109</b>	<b>5.072.210.152</b>
Additions	1.682.182	8.819.122	10.735.385	68.933	86.466.331	1.027.950.660	3.720.474	1.139.443.087
Disposals	(108.495)	(1.000.342)	(909)	-	(1.300.751)	(1.303.495.341)	-	(1.305.905.838)
Transfers	-	-	-	126.511	(19.802.804)	19.802.804	(982.676)	(856.165)
Currency translation differences	12.506.207	12.495.816	17.050.687	10.394.189	108.379.645	851.441.096	357.909	1.012.625.549
<b>Closing</b>	<b>72.526.512</b>	<b>75.261.821</b>	<b>101.564.014</b>	<b>58.525.763</b>	<b>499.675.611</b>	<b>5.106.452.248</b>	<b>3.510.816</b>	<b>5.917.516.785</b>
<b>Accumulated depreciation:</b>								
Opening	<b>(5.064.340)</b>	<b>(6.463.246)</b>	<b>(42.584.799)</b>	<b>(28.876.246)</b>	<b>(61.786.906)</b>	<b>(1.078.819.212)</b>	-	<b>(1.223.594.749)</b>
Depreciation for the year	(4.278.756)	(4.612.192)	(9.619.487)	(7.230.416)	(33.019.888)	(263.001.906)	-	(321.762.645)
Disposals	35.740	653.976	41	-	166.091	530.969.355	-	531.825.203
Currency translation differences	(1.464.320)	(1.758.865)	(10.178.671)	(6.962.613)	(16.630.198)	(204.468.869)	-	(241.463.536)
<b>Closing</b>	<b>(10.771.676)</b>	<b>(12.180.327)</b>	<b>(62.382.916)</b>	<b>(43.069.275)</b>	<b>(111.270.901)</b>	<b>(1.015.320.632)</b>	-	<b>(1.254.995.727)</b>
<b>Net book value</b>	<b>61.754.836</b>	<b>63.081.494</b>	<b>39.181.098</b>	<b>15.456.488</b>	<b>388.404.710</b>	<b>4.091.131.616</b>	<b>3.510.816</b>	<b>4.662.521.058</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 10 - PROPERTY AND EQUIPMENT (cont'd)**

The useful lives of the depreciable assets are as follows:

	<u>Useful life</u>
Aircraft	23 years
Engine and Engine LLP's	8 years
Airframe and maintenance	7-8 years
Repairables and components	3-7 years
Machinery and equipment	7 years
Furniture and fixtures	7 years
Motor vehicles	5 years
Simulator	7 years
Leasehold improvements	5 years or lease term

The Group has determined the residual value of the aircraft as 15% of market value of a new aircraft in the same model.

Depreciation and amortisation expense charged to cost of sales, general administrative expenses, and marketing expenses is summarized below:

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Current year depreciation	525.510.870	321.762.645
Current year amortization (Note 11)	12.618.162	8.312.247
	<b>538.129.032</b>	<b>330.074.892</b>
	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Cost of sales (Note 21)	493.290.892	294.891.927
General administrative expenses (Note 22)	35.547.864	28.489.255
Marketing expenses (Note 22)	9.290.276	6.693.710
	<b>538.129.032</b>	<b>330.074.892</b>

The Group leases various property, plant and equipment under non-cancellable finance lease agreements. The net carrying amount of each class of asset is as follows:

Net carrying amounts of leased assets	<b>31 December 2018</b>	<b>31 December 2017</b>
Aircraft	6.838.665.753	3.911.809.587
Handling equipment	86.759.244	69.515.301
Simulator	33.972.011	26.875.003
	<b>6.959.397.008</b>	<b>4.008.199.891</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11 - INTANGIBLE ASSETS

<b>31 December 2018</b>	<b>Brand</b>	<b>Software</b>	<b>Total</b>
<b>Cost:</b>			
Opening	<b>3.183.429</b>	<b>66.414.193</b>	<b>69.597.622</b>
Additions	-	18.685.652	18.685.652
Transfers	-	7.175.149	7.175.149
Currency translation differences	1.066.313	23.781.176	24.847.489
<b>Closing</b>	<b>4.249.742</b>	<b>116.056.170</b>	<b>120.305.912</b>
<b>Accumulated amortization:</b>			
Opening	<b>(1.684.564)</b>	<b>(43.424.572)</b>	<b>(45.109.136)</b>
Amortization for the year	(200.318)	(12.417.844)	(12.618.162)
Currency translation differences	(576.426)	(15.142.291)	(15.718.717)
<b>Closing</b>	<b>(2.461.308)</b>	<b>(70.984.707)</b>	<b>(73.446.015)</b>
<b>Net book value</b>	<b>1.788.434</b>	<b>45.071.463</b>	<b>46.859.897</b>

<b>31 December 2017</b>	<b>Brand</b>	<b>Software</b>	<b>Total</b>
<b>Cost:</b>			
Opening	<b>2.385.298</b>	<b>47.464.326</b>	<b>49.849.624</b>
Additions	-	7.072.387	7.072.387
Transfers	-	856.165	856.165
Currency translation differences	798.131	11.021.315	11.819.446
<b>Closing</b>	<b>3.183.429</b>	<b>66.414.193</b>	<b>69.597.622</b>
<b>Accumulated amortization:</b>			
Opening	<b>(1.142.954)</b>	<b>(28.348.941)</b>	<b>(29.491.895)</b>
Amortization for the year	(144.991)	(8.167.256)	(8.312.247)
Currency translation differences	(396.619)	(6.908.375)	(7.304.994)
<b>Closing</b>	<b>(1.684.564)</b>	<b>(43.424.572)</b>	<b>(45.109.136)</b>
<b>Net book value</b>	<b>1.498.865</b>	<b>22.989.621</b>	<b>24.488.486</b>

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

NOTE 12 - LEASING TRANSACTIONS

Details related to leasing transactions are disclosed in Note 31.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 13 - GOVERNMENT GRANTS AND INCENTIVES

The Group obtained incentive certificates from the Undersecretariat of Treasury for 38 aircraft. According to the incentive certificate of 27 aircraft, the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 11% instead of 22%) taxable income attributable to the operation of these aircraft. According to the new incentive certificate of 11 aircraft bought in 2018 the Company will use 50% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2,2% instead of 22%) taxable income attributable to the operation of these aircraft.

#### NOTE 14 - BORROWING COSTS

For the years ended 31 December 2018 and 2017, as there are no qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs for the respective periods are not capitalized. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

#### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

##### Short term provisions

	31 December 2018	31 December 2017
Provision for litigation claims	9.673.544	9.782.213
Redelivery provision	419.158.401	5.337.738
Other provision for penalty and compensation	-	193.734
	<b>428.831.945</b>	<b>15.313.685</b>

##### Long term provisions

	31 December 2018	31 December 2017
Redelivery provision	599.070.536	612.879.623
	<b>599.070.536</b>	<b>612.879.623</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

##### Redelivery Provision

The detail of redelivery provision is as follows:

	31 December 2018	31 December 2017
Short term	419.158.401	5.337.738
Long term	599.070.536	612.879.623
	<b>1.018.228.937</b>	<b>618.217.361</b>

The movement of redelivery provision as of the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	618.217.361	426.541.191
Charge for the year	298.939.091	160.538.163
Disposals	(169.341.424)	(5.008.889)
Currency translation differences	270.413.909	36.146.896
<b>31 December</b>	<b>1.018.228.937</b>	<b>618.217.361</b>

##### Litigation

The movement of litigation provision is as follows:

	2018	2017
1 January	9.782.213	6.373.258
Charge for the year	371.828	3.906.874
Payments	(190.079)	(153.324)
Reversal of provision	(290.418)	(344.595)
<b>31 December</b>	<b>9.673.544</b>	<b>9.782.213</b>

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 26.092.242 as of 31 December 2018 (31 December 2017: TL 21.077.892). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 9.673.544 (31 December 2017: TL 9.782.213) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 15- PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

##### 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 31 December 2018 the appellate review of both lawsuits have been finalized in the Group's favor, whereby the court decision turning down the Group's request for the cancellation of the monetary fines has been overturned and the court decision cancelling the liquidation of the letter of credit by the administration has been upheld. The Group management believes that significant cash outflow is not probable and has not provided any provision for this fine.

##### Tax Inspection

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

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

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

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

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

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

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

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

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

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

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

Related to the restructuring of Taxes and Other Receivables Numbered 7143 and Amendments to Certain Laws related to tax loss penalty amounting to TL 58.406.932,94 with a total amount of 38.937.955,29 TL against the Company with the assessment of income tax and withholding tax, an application was made for the benefit of the provisions of the law. In this scope, the aforementioned disputes were terminated by prepayment of the total liability amounting to TL 19.780.894,17 including the interest in the Domestic Producers' Price Index.

##### Tax and Regulatory Environment in Kyrgyzstan

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 16 - COMMITMENTS

##### Purchase Commitments

	31 December 2018	31 December 2017
Commitments to purchase aircraft	54.525.144.416	43.557.045.242
Other purchase commitments	7.750.884	-
	<b>54.532.895.300</b>	<b>43.557.045.242</b>

As of 31 December 2018, the Group holds firm orders for 78 aircraft. In accordance to with agreement the expected deliveries are 14 aircraft in 2019, 13 aircraft in 2020, 19 aircraft in 2021, 12 aircraft in 2022, 10 aircraft in 2023, 10 aircraft in 2024 . The purchase commitments for these aircraft were calculated based on their list prices and actual prices would be typically lower than the list prices.

The Group has provided advances on aircraft purchases amounting TL 871.276.327 (31 December 2017: TL 593.663.631) and TL 310.660.952 of this amount is reclassified under short term, TL 560.615.375 of this amount is reclassified under long term prepaid expenses (31 December 2017: TL 395.375.762 of this amount is reclassified under short term, TL 198.287.869 of this amount is reclassified under long term prepaid expenses).

##### The Company as Lessee

###### Operating Lease Agreements:

Payments recognised as expense:

	1 January- 31 December 2018	1 January- 31 December 2017
Minimum lease payments	694.224.083	572.402.539
	<b>694.224.083</b>	<b>572.402.539</b>

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

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

	31 December 2018	31 December 2017
Less than 1 year	714.643.267	560.853.156
Between 1 - 5 years	1.775.109.843	1.378.861.599
Over 5 years	496.597.353	164.687.976
	<b>2.986.350.463</b>	<b>2.104.402.731</b>

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

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

**NOTE 16 - COMMITMENTS (cont'd)**

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

The details of the CPMs given by the Group as of 31 December 2018 is as follows:

<b>31 December 2018</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on behalf of its own legal entity					
- <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>	-	-	-	-	-
	<b>1.627.549.630</b>	<b>295.367.519</b>	<b>6.974.381</b>	<b>12.131.918</b>	<b>19.477.163</b>

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 CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in TL unless otherwise stated.)

**NOTE 16 - COMMITMENTS (cont'd)**

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

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

<b>31 December 2017</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on behalf of its own legal entity					
- <i>Collateral</i>	1.183.021.114	299.287.196	6.871.650	12.116.667	10.994.137
- <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>	56.034.566	10.087.000	-	17.987.411	-
- <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>	3.544.150	939.619	-	-	-
- <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>	-	-	-	-	-
	<b>1.242.599.830</b>	<b>310.313.815</b>	<b>6.871.650</b>	<b>30.104.078</b>	<b>10.994.137</b>

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

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

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#### NOTE 17 - EMPLOYEE BENEFITS

##### Employee benefit obligations

The details of employee benefit obligations as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Social security premiums payable	12.201.220	23.589.766
Accrual of employee wages	13.440.412	24.387.373
	<b>25.641.632</b>	<b>47.977.139</b>

##### Short term provisions for employee benefits

The details of short term provisions for employee benefits as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Unused vacation accrual	14.888.136	12.101.696
Executive bonus plan	5.331.494	2.141.264
Employee bonus plan	59.200.000	34.436.836
	<b>79.419.630</b>	<b>48.679.796</b>

##### Long term provisions for employee benefits

The details of long term provisions for employee benefits as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Employment termination benefits	9.796.278	8.689.109
Executive bonus plan	15.223.412	4.949.733
	<b>25.019.690</b>	<b>13.638.842</b>

##### Unused Vacation Accrual

The movement of unused vacation accrual as of the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	12.101.696	10.757.021
Charge for the year	5.090.182	3.125.420
Payment during the year	(2.303.742)	(1.780.745)
<b>31 December</b>	<b>14.888.136</b>	<b>12.101.696</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 17 - EMPLOYEE BENEFITS (cont'd)

##### Executive Bonus Plan

The composition of executive bonus plan provision is as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Short term	5.331.494	2.141.264
Long term	15.223.412	4.949.733
	<b>20.554.906</b>	<b>7.090.997</b>

The movement of executive bonus plan as of the years ended 31 December 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
1 January	7.090.997	2.815.725
Charge for the year	13.583.333	5.554.065
Payment during the year	(2.014.262)	(1.780.176)
Currency translation differences	1.894.838	501.383
<b>31 December</b>	<b>20.554.906</b>	<b>7.090.997</b>

##### Employee Bonus Plan

The movement of employee bonus plan as of the years ended 31 December 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
1 January	34.436.836	-
Charge for the year	59.200.000	34.436.836
Payment during the year	(27.768.738)	-
Reversal of provision	(6.668.098)	-
<b>31 December</b>	<b>59.200.000</b>	<b>34.436.836</b>

##### Employee Termination Benefits

The Group, according to Turkish Labor Law, has an obligation to pay legal termination benefits for every employee who has completed at least one year service and retired after completion of 25 years working life (for females 58 years, for males 60 years), fired from job, called up to military service or died.

The amount payable consists of one month's salary limited to a maximum of TL 5.434,42 for each period of service at 31 December 2018 (31 December 2017: TL 4.732,48).



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 17 - EMPLOYEE BENEFITS (cont'd)

##### Employee Termination Benefits (cont'd)

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 9,00% (2017: 7,00%) and a discount rate of 14,60% (2017: 11,78%), resulting in a real discount rate of approximately 5,14% (2017: 4,47%). Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 13,60% (2017: 13,95%) for employees with 0-15 years of service, and 0% for those with 16 or more years of service. As the maximum liability is revised annually, the maximum amount of TL 6.017,60 effective from 1 January 2018 has been taken into consideration in calculation of provision from employee termination benefits.

The movement of employee termination benefits as of the years ended 31 December 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
1 January	8.689.109	7.468.611
Actuarial gain	(1.466.019)	-
Service cost	6.369.719	3.716.317
Interest cost	494.609	248.327
Retirement benefits paid	(4.291.140)	(2.744.146)
<b>31 December</b>	<b>9.796.278</b>	<b>8.689.109</b>

Service cost and interest expenses are recognized in payroll expenses. Calculated actuarial gains and losses are accounted under other comprehensive income as of 31 December 2018 and 2017.

Significant assumptions used in the calculation of employee termination benefits are the discount rate and anticipated turnover rate.

- If the discount rate had been 1% lower, provision for employee termination benefits would increase by TL 1.076.736 (2017: TL 1.008.581); if the rate had been 1% higher, it would decrease by TL 910.846 (2017: TL 854.357).
- If the anticipated turnover rate had been 1% higher while all other variables were held constant, provision for employee termination benefits would decrease by TL 180.069 (2017: TL 149.460); if the rate had been 1% lower, it would increase by TL 203.771 (2017: TL 171.991).

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 18 - EXPENSES BY NATURE

The details of expenses by nature for the years ended 31 December 2018 and 2017 are as follows:

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Jet fuel expenses	2.729.667.414	1.516.097.738
Personnel expenses	883.175.422	712.653.223
Operating lease expenses	694.224.083	572.402.539
Maintenance expenses	684.038.611	419.206.306
Handling and station fees	560.584.961	386.919.947
Depreciation and amortisation expenses	538.129.032	330.074.892
Navigation expenses	479.772.475	328.011.538
Landing expenses	249.581.102	163.074.503
Commission expenses	128.899.210	99.994.561
Passenger service and catering expenses	78.275.293	54.970.424
Advertising expenses	46.101.968	45.243.170
Other expenses	406.873.188	314.724.374
	<b>7.479.322.759</b>	<b>4.943.373.215</b>

#### NOTE 19 - OTHER ASSETS AND LIABILITIES

##### Other current assets

The details of other current assets as of 31 December 2018 and 2017 are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
VAT receivables	40.316.037	14.217.897
Other	242.526	258.356
	<b>40.558.563</b>	<b>14.476.253</b>

##### Other short term liabilities

The details of other short term liabilities as of 31 December 2018 and 2017 are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Other short term liabilities	25.307.054	1.205.896
	<b>25.307.054</b>	<b>1.205.896</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 20 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS

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

Shareholders:	31 December 2018		31 December 2017	
	(%)	TL	(%)	TL
Esas Holding	62,91	64.353.570	62,92	64.353.570
Publicly held	34,53	35.321.707	34,51	35.294.000
Emine Kamışlı	0,85	874.810	0,86	874.810
Ali İsmail Sabancı	0,85	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
<b>TL historic capital</b>	<b>100,00</b>	<b>102.299.707</b>	<b>100,00</b>	<b>102.272.000</b>

The Company's share capital consists of 102.299.707 shares of par value TL 1 each (31 December 2017: 102.272.000 shares). All issued shares are fully paid in cash.

#### Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of associations.

#### *Resources Available for Profit Distribution:*

The Company have distributable equity in statutory accounts TL 365.829.433,55 as of balance sheet date (31 December 2017: None).

#### Currency translation differences

For the purpose of preparation of the consolidated financial statements and disclosures, according to TAS 21, balance sheet items except shareholders' equity in financial statements are translated to TL using balance sheet date EUR exchange rates; equity items, income/expenses and cash flow are translated to TL by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under shareholders' equity.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 20 - SHAREHOLDERS' EQUITY (cont'd)

##### **Gain/losses from cash flow hedges**

Hedge gain/losses against cash flow risk arise from the accounting of the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows under equity. Total of deferred gain/loss arising from hedging against financial risk are accounted in profit or loss when the effect of the hedged item has effect on profit or loss.

##### **Share premiums on capital stock**

The surplus of sales price over nominal value amounted to TL 455.687.025 during the initial public offering on 18-19 April 2013 was accounted as share premium.

##### **Effects of business acquisitions**

As the acquisition of İzair's majority shares by the Group on 28 September 2010 had no effect over Esas Holding A.Ş. being the ultimately controlling shareholder which had ultimate control over both subsidiaries pre and post the acquisition, it is defined as business combination under common control.

##### **Non-controlling interests**

Non-controlling shareholders' shares on subsidiaries' net assets and operational outcomes are disclosed as non-controlling interests in the consolidated balance sheet and in the consolidated statement of profit or loss and other comprehensive income.

##### **Actuarial gain/losses on defined benefit plans**

The effects of the change in actuarial valuations that is calculated with respect to TAS 19 "Employee Benefits" is presented in actuarial gains/losses on defined benefit plans.

##### **Restricted profit reserves**

In the statutory accounts, profit restricted from retained earnings and not subject to distribution is presented in the restricted profit reserves.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 21 - SALES AND COST OF SALES**

The details of sales and cost of sales for the years ended 31 December 2018 and 2017 are as follows:

**Sales:**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Scheduled flight and service revenue	7.807.585.856	5.003.364.437
<i>International flight revenue</i>	4.007.365.026	2.446.458.965
<i>Domestic flight revenue</i>	1.784.092.543	1.402.326.326
<i>Service revenue</i>	2.016.128.287	1.154.579.146
Charter flight and service revenue	353.221.645	168.948.460
<i>Charter flight revenue</i>	352.540.634	168.113.077
<i>Service revenue</i>	681.011	835.383
Wetlease revenue	-	74.665.272
Other revenue	135.928.532	101.595.240
	<b>8.296.736.033</b>	<b>5.348.573.409</b>

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

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Europe	2.908.245.535	1.848.971.089
Domestic	1.784.092.543	1.402.326.326
Other	1.099.119.491	597.487.876
	<b>5.791.457.569</b>	<b>3.848.785.291</b>

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

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Europe	249.769.222	119.105.341
Middle East	70.424.662	33.582.814
Other	32.346.750	15.424.922
	<b>352.540.634</b>	<b>168.113.077</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2018**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 21 - SALES AND COST OF SALES (cont'd)**

**Cost of sales:**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Jet fuel expenses	2.729.667.414	1.516.097.738
Personnel expenses	788.828.099	630.489.348
Operating lease expenses	694.224.083	572.402.539
Maintenance expenses	684.038.611	419.206.306
Handling and station fees	560.584.961	386.919.947
Depreciation and amortisation expenses	493.290.892	294.891.927
Navigation expenses	479.772.475	328.011.538
Landing expenses	249.581.102	163.074.503
Passenger service and catering expenses	78.275.293	54.970.424
Other expenses	275.294.947	207.710.039
	<b>7.033.557.877</b>	<b>4.573.774.309</b>

**NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Marketing expenses	225.652.168	186.893.200
General administrative expenses	220.112.714	182.705.706
	<b>445.764.882</b>	<b>369.598.906</b>

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

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

**NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES  
(cont'd)**

The details of general administrative expenses and marketing expenses for the years ended 31 December 2018 and 2017 are as follows (there are no research & development expenses in the periods ended in respective dates):

**General administrative expenses:**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Personnel expenses	70.539.324	62.481.414
IT expenses	45.801.497	30.438.345
Depreciation and amortisation expenses	35.547.864	28.489.255
Rent expenses	23.885.116	18.717.680
Consultancy expenses	9.872.219	13.777.575
Legal and notary expenses	7.275.756	4.943.073
Office utility expenses	3.121.472	2.685.727
Communication expenses	2.880.870	1.906.435
Training expenses	2.753.398	2.226.646
Travel expenses	1.774.699	3.752.433
Other expenses	16.660.499	13.287.123
	<b>220.112.714</b>	<b>182.705.706</b>

**Marketing expenses:**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Commission expenses	128.899.210	99.994.561
Advertising expenses	46.101.968	45.243.170
Personnel expenses	23.807.999	19.682.461
Call center expenses	13.040.064	10.301.340
Depreciation and amortisation expenses	9.290.276	6.693.710
Other expenses	4.512.651	4.977.958
	<b>225.652.168</b>	<b>186.893.200</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 23 - OTHER OPERATING INCOME AND EXPENSES

The details of other operating income and expenses for the years ended 31 December 2018 and 2017 are as follows:

##### Other operating income:

	1 January- 31 December 2018	1 January- 31 December 2017
Foreign exchange gain from operating activities	38.688.312	52.614.474
Reversal of doubtful provision	-	2.318.015
Other income	1.062.698	3.818.284
	<b>39.751.010</b>	<b>58.750.773</b>

##### Other operating expenses:

	1 January- 31 December 2018	1 January- 31 December 2017
Tax restructuring expense (*)	54.476.875	-
Impairment of cash and cash equivalents	2.910.330	-
Penalty and compensation expenses	1.858.220	-
Doubtful receivable allowance expense	988.606	306.350
Other expense	5.208.679	1.902.415
	<b>65.442.710</b>	<b>2.208.765</b>

(\*)It is related with the application made in order to benefit from the provisions of the law No.7143 regarding the Restructuring of Taxes and Other Receivables and Amendments of Tax and Certain Other Laws.

#### NOTE 24 - INCOME FROM INVESTING ACTIVITIES

The details of income from investing activities for the years ended 31 December 2018 and 2017 are as follows:

##### Income from investing activities:

	1 January- 31 December 2018	1 January- 31 December 2017
Income from sale of aircraft (**)	22.335.451	215.650.992
Income from sale of subsidiary (***)	-	20.224.633
Other income	712.037	843.122
	<b>23.047.488</b>	<b>236.718.747</b>

(\*\*)Income from aircraft sales consists of sale of 1 Boeing 737-800 type aircraft realized in 2018 ( Income from aircraft sales consists of sale of 12 Boeing 737-800 type aircraft realized in 2017 ).

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



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 24 - INCOME FROM INVESTING ACTIVITIES (cont'd)**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Foreign exchange loss from investing activities	-	68.718.782
	-	<b>68.718.782</b>

**NOTE 25 - FINANCIAL INCOME AND EXPENSES**

The details of financial income and expenses for the years ended 31 December 2018 and 2017 are as follows:

**Financial income:**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Interest income	123.684.898	42.999.564
Foreign exchange gain	-	44.428.216
	<b>123.684.898</b>	<b>87.427.780</b>

**Financial expenses:**

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Foreign exchange loss	156.254.768	-
Interest expense on financial lease	133.502.605	52.681.317
Other commission expenses	87.361.360	43.313.744
Interest expense on bank loans	14.060.726	6.256.260
Surety commission expenses	9.425.198	11.933.266
Losses from derivative contracts	4.029.261	3.829.569
	<b>404.633.918</b>	<b>118.014.156</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 26 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS**

**Currency Translation Differences**

	<b>2018</b>	<b>2017</b>
1 January	1.035.123.760	638.375.994
Exchange differences arising on translating the non-monetary items of the the parent	1.052.766.584	375.150.388
Exchange differences arising on translating the non-monetary items of the domestic subsidiaries	-	31.065.472
Exchange differences arising on translating the non-monetary items of the subsidiaries abroad	(45.833.326)	(9.468.094)
<b>31 December</b>	<b>2.042.057.018</b>	<b>1.035.123.760</b>

**Hedge Fund**

	<b>2018</b>	<b>2017</b>
1 January	23.761.279	291.850
Gain/(loss) from the accounting of cash flow hedges against financial risk	(315.699.027)	29.336.786
Deferred tax related with the accounting of cash flow hedges against financial risk	70.777.792	(5.867.357)
<b>31 December</b>	<b>(221.159.956)</b>	<b>23.761.279</b>

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

**Actuarial gains/(losses) on defined benefit plans**

	<b>2018</b>	<b>2017</b>
1 January	(3.305.232)	(3.305.232)
Actuarial gains on defined benefit plans	1.466.019	-
Deferred tax effect of actuarial gains on defined benefit plans	(293.204)	-
<b>31 December</b>	<b>(2.132.417)</b>	<b>(3.305.232)</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2018	31 December 2017
Current corporate tax provision	24.579.806	-
Less: Prepaid taxes and funds	(30.533.830)	(9.418.493)
<b>Current tax assets (*)</b>	<b>(5.954.024)</b>	<b>(9.418.493)</b>

(\*) The exceeding portion of the prepaid taxes over current corporate tax provision is reported in current tax assets.

	1 January- 31 December 2018	1 January- 31 December 2017
Income tax expense		
- Current tax expense	(24.579.806)	-
- Deferred tax expense	(15.569.025)	(102.204.683)
<b>Total tax (expense) / income</b>	<b>(40.148.831)</b>	<b>(102.204.683)</b>

#### *Corporate Tax*

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate in Turkey is 22% (2017: 20%).

#### *Deferred Tax*

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

For the calculation of deferred tax assets and liabilities, the rate 22% was used for the temporary differences expected to be reversed in 2019 and 2020 and 20% was used for the ones expected to be reversed in 2021 and later.

In Turkey, companies cannot declare a consolidated tax return, therefore their deferred tax balances are not netted off and are disclosed separately.

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**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd))**

*Deferred Tax (cont'd)*

The consolidated deferred tax liability position as of 31 December 2018 is as follows:

	<b>1 January - 31 December 2018</b>				
	<u>31 December 2018</u>	<u>Currency translation effect</u>	<u>Other comprehensive income tax effect</u>	<u>Deferred tax charge for the year</u>	<u>1 January 2018</u>
Difference between tax base and carrying value of tangible assets and intangible assets	(1.041.864.141)	(222.330.382)	-	(195.176.401)	(624.357.358)
Carry forward tax losses	55.966.305	11.417.292	-	(39.340.697)	83.889.710
Government grants and incentives	199.132.473	22.647.865	-	132.988.644	43.495.964
Provision for employee termination benefits	1.959.256	317.305	(293.203)	197.332	1.737.822
Provision for litigation claims	2.128.180	627.631	-	(455.894)	1.956.443
Unused vacation and bonus plans provision	20.821.469	1.694.759	-	16.706.371	2.420.339
Deferred revenue from flight points	9.410.878	1.910.767	-	2.193.384	5.306.727
Relivery provisions for the leased aircraft	213.828.077	44.414.421	-	45.770.184	123.643.472
Change in fair value of derivative contracts	64.147.917	(157.277)	70.777.791	(76.629)	(6.395.968)
Other	51.303.711	(31.529)	-	37.867.445	13.467.795
<b>Deferred tax provision</b>	<b>(55.966.305)</b>	<b>-</b>	<b>-</b>	<b>(16.242.764)</b>	<b>(39.723.541)</b>
<b>Deferred tax liability</b>	<b>(479.132.180)</b>	<b>(139.489.148)</b>	<b>70.484.588</b>	<b>(15.569.025)</b>	<b>(394.558.595)</b>

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

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**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd))**

*Deferred Tax (cont'd)*

The consolidated deferred tax asset position as of 31 December 2017 is as follows:

	<b>1 January - 31 December 2017</b>				
	<u>31 December 2017</u>	<u>Currency translation effect</u>	<u>Other comprehensive income tax effect</u>	<u>Deferred tax charge for the year</u>	<u>1 January 2017</u>
Difference between tax base and carrying value of tangible assets and intangible assets	(624.357.358)	(103.875.879)	-	(86.309.504)	(434.171.975)
Carry forward tax losses	83.889.710	15.703.018	-	(73.783.904)	141.970.596
Government grants and incentives	43.495.964	3.875.103	-	39.620.861	-
Provision for employee termination benefits	1.737.822	(306.251)	-	90.336	1.953.737
Provision for litigation claims	1.956.443	312.869	-	368.920	1.274.654
Unused vacation and bonus plans provision	2.420.339	679.577	-	(268.651)	2.009.413
Deferred revenue from flight points	5.306.727	1.006.563	-	(609.914)	4.910.078
Relivery provisions for the leased aircraft	123.643.472	20.289.526	-	18.045.709	85.308.237
Change in fair value of derivative contracts	(6.395.968)	(57.175)	(5.867.357)	(245.963)	(225.473)
Other	13.467.795	2.812.954	-	6.891.940	3.762.901
<b>Deferred tax provision</b>	<b>(39.723.541)</b>	<b>-</b>	<b>-</b>	<b>(6.004.513)</b>	<b>(33.719.029)</b>
<b>Deferred tax liability</b>	<b>(394.558.595)</b>	<b>(59.559.695)</b>	<b>(5.867.357)</b>	<b>(102.204.683)</b>	<b>(226.926.861)</b>

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**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd))**

*Deferred Tax (cont'd)*

The Group's carryforward tax losses subject to recognition of deferred tax asset as of 31 December 2018 and 2017 are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
2018	-	26.246.007
2019	68.383.477	49.028.805
2020	135.358.575	97.047.845
2021	10.121.624	7.256.887
2021 and after	40.528.619	19.038.161
	<b>254.392.295</b>	<b>198.617.705</b>

Tax effects related to other comprehensive income as of 31 December 2018 and 2017 are as follows:

	<b>1 January - 31 December 2018</b>		
	Amount before tax	Tax expense	Amount after tax
Change in foreign currency translation	1.052.766.584	-	1.052.766.584
Actuarial gains/(losses) on defined benefit plans	1.466.019	(293.204)	1.172.815
Change in cash flow hedge reserve	(315.699.027)	70.777.792	(244.921.235)
Other comprehensive income	<b>738.533.576</b>	<b>70.484.588</b>	<b>809.018.164</b>

	<b>1 January - 31 December 2017</b>		
	Amount before tax	Tax income	Amount after tax
Change in foreign currency translation	404.978.148	-	404.978.148
Actuarial gains/(losses) on defined benefit plans	-	-	-
Change in cash flow hedge reserve	29.336.786	(5.867.357)	23.469.429
Other comprehensive income	<b>434.314.934</b>	<b>(5.867.357)</b>	<b>428.447.577</b>

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**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd))**

*Deferred Tax (cont'd)*

Reconciliation of tax expense in consolidated statement of profit or loss for the years 31 December 2018 and 2017 is as follows:

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
<b>Profit before tax</b>	<b>542.265.846</b>	<b>603.267.781</b>
Enacted local tax rate	22%	20%
Tax calculated at the enacted tax rate	(119.298.486)	(120.653.556)
Tax effect of disallowable expenses	(9.615.165)	(1.743.737)
Income from investment incentives	132.988.644	39.620.861
Tax-exempt revenue	6.024.991	3.751.800
Tax losses over which deferred tax asset was not recognized	(4.729.634)	(177.074)
Subsidiary effect that have different tax rate	(3.941.362)	(212.489)
Translation effect and other	(41.577.819)	(22.790.488)
<b>Taxation expense</b>	<b>(40.148.831)</b>	<b>(102.204.683)</b>

**NOTE 28 - 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 31 December 2018 and 2017 are as follows:

	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Profit attributable to the shareholders of the parent	507.378.625	502.247.817
Weighted average number of shares issued in the year	102.299.707	102.272.000
<b>Earnings per share</b>	<b>4,96</b>	<b>4,91</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

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### NOTE 29- EFFECTS OF EXCHANGE RATE CHANGES

Details related to effects of exchange rate changes are disclosed at foreign currency risk management in Note 32.

### NOTE 30 - DERIVATIVE INSTRUMENTS

#### Fair Value of Derivative Instruments

	31 December 2018		31 December 2017	
	Asset	Liability	Asset	Liability
Short term	3.134.337	189.722.017	31.979.841	-
Long term	-	104.993.760	-	-
	<b>3.134.337</b>	<b>294.715.777</b>	<b>31.979.841</b>	<b>-</b>

Explanations related to derivative instruments are disclosed in Note 33.

### NOTE 31 - FINANCIAL INSTRUMENTS

#### Financial Liabilities

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

Short term financial liabilities	31 December 2018	31 December 2017
Short term bank borrowings	797.815.861	541.267.652
Short term portion of long term financial lease obligations	659.409.925	355.987.254
	<b>1.457.225.786</b>	<b>897.254.906</b>
Long term financial liabilities	31 December 2018	31 December 2017
Long term financial lease obligations	5.064.858.596	2.711.225.518
	<b>5.064.858.596</b>	<b>2.711.225.518</b>

#### a) Bank Borrowings

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

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
				<b>797.815.861</b>



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**NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)**

**Financial Liabilities (cont'd)**

<b>31 December 2017</b>	<b>Weighted average interest rate (%)</b>	<b>Currency</b>	<b>Original amount</b>	<b>TL equivalent</b>
Short term bank borrowings	2,21%	US Dollar	143.500.000	541.267.652
				<b>541.267.652</b>

b) Financial Lease Liabilities

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Less than 1 year	814.748.155	444.735.353
Between 1 - 5 years	3.038.571.214	1.695.330.708
Over 5 years	2.774.021.245	1.511.332.834
	6.627.340.614	3.651.398.895
Less: Future interest expenses	(903.072.093)	(584.186.123)
	<b>5.724.268.521</b>	<b>3.067.212.772</b>

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Less than 1 year	659.409.925	355.987.254
Between 1 - 5 years	2.567.916.804	1.387.401.998
Over 5 years	2.496.941.792	1.323.823.520
	<b>5.724.268.521</b>	<b>3.067.212.772</b>

The Group purchases certain of its aircraft and handling equipment through financial lease arrangements. The average lease term is 6,58 years. For the year ended 31 December 2018, the floating interest rate applicable to Euro-denominated lease obligations, amounting to TL 3.340.442.490, is 1,93% (31 December 2017: 1,64%) and the floating rate applicable to US Dollar-denominated lease obligations, amounting to TL 1.718.443.866, is 5,11% (31 December 2017: 5,54%).

Net carrying amounts of leased assets as of the balance sheet date is TL 6.959.397.008 (31 December 2017: TL 4.008.199.891)

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#### NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)

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

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

The Group's obligations under finance leases of aircraft are guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank").

The aircraft manufacturer, the Group, the lender, Ex-Im Bank, Special Purpose Vehicle Company ("SPV") and orphan trust which managed the SPV and a security trustee with whom the orphan trusts securities are pledged enter into a Participation Agreement to structure the financing deal. The Lender enters into a commitment with the Group and loan documentation with a SPV as borrower, owner and lessor. The SPV draws down the loan from lender and purchases the aircraft from Boeing on the delivery date. The equity interests in the SPV are indirectly beneficially owned by an unrelated orphan trust which in turn its shares are pledged to a security trustee in favor of Ex-Im Bank.

The Group indemnifies the SPV against all of their obligations under the finance lease, with Esas Holding providing a guarantee for the full obligation.

All Ex-Im Bank supported credit facilities also contain cross-default and cross-collateralization provisions. These provisions provide for mandatory pre-payment of Ex-Im Bank guaranteed loans (without penalties, but with applicable breakage costs) in the event of total loss or seizure of any of the Group's aircraft in the event of default which had not been cured or equivalent events affecting the aircraft, including the sale or disposal of such aircraft before the pay down of the debt to lender and extinguishment of US Ex-Im Bank guarantee. The termination of Esas Holding's ownership of the Group may also result in the acceleration of the finance leases. Additionally, Ex-Im Bank documentation governing these guaranteed loans also imposes restrictive covenants on the SPV in respect of their liabilities and the nature of their business and a restriction on other pledges of interests on the aircraft and other assets of the SPV, and imposes on the Group a restriction on mergers, consolidations and sale of substantially all of the Group's assets.

In respect of the aircraft purchased by the Group in December 2013 through financial lease without using US Ex-Im guarantee, the same method of finance is used as in under US Ex-Im structure only to the extent that all rights on SPV as the proprietor of the aircraft are pledged by the bank providing the financing. There are no guarantees provided by Esas Holding in connection with the subject matter aircraft.

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#### NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)

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

##### c) Reconciliation of obligations arising from financing activities

The changes in the Group's liabilities arising from financing activities are given in the following table.

	1 January 2018	Utilized bank loans and repayments	Finance lease obtained and repayment of principals, (net)	Foreign exchange valuations	31 December 2018
Bank loans	541.267.652	58.587.950	-	197.960.259	797.815.861
Finance lease payables	3.067.212.772	-	1.416.226.393	1.240.829.356	5.724.268.521
	<b>3.608.480.424</b>	<b>58.587.950</b>	<b>1.416.226.393</b>	<b>1.438.789.615</b>	<b>6.522.084.382</b>

  

	1 January 2017	Utilized bank loans and repayments	Finance lease obtained and repayment of principals, (net)	Foreign exchange valuations	31 December 2017
Bank loans	-	515.623.600	-	25.644.052	541.267.652
Finance lease payables	2.676.565.590	-	224.478.316	166.168.866	3.067.212.772
	<b>2.676.565.590</b>	<b>515.623.600</b>	<b>224.478.316</b>	<b>191.812.918</b>	<b>3.608.480.424</b>

#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

##### Capital Risk Management

The Group manages its capital with the goal of ensuring that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the financial liabilities and obligations under finance leases disclosed in Note 31, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings, respectively. The Group meets working capital requirement with the cash generated from its operations and through credit lines from Turkish and foreign banks, if needed.

The Group's management reviews the cost of capital together with the risk associated with each class in the capital structure. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital and obtains approval from Board of Directors in the form of a resolution. Based on evaluations of management and Board of Directors, the Group balances its overall capital structure from time to time through capital increases as well as the issue of new debt or the redemption of existing debt. The Group's overall capital risk management strategy remains unchanged from prior periods.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

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#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

##### Capital Risk Management (cont.'d)

The debt-capital ratio that is calculated as net debt (total borrowings less cash and cash equivalents) divided by total capital as of 31 December 2018 and 2017 are as follows.

	31 December 2018	31 December 2017
Financial Liabilities	6.522.084.382	3.608.480.424
Less: Cash and Cash Equivalents	(2.741.044.971)	(1.988.110.247)
Net Debt	3.781.039.411	1.620.370.177
Total Equity	3.715.447.648	2.484.638.206
Total Capital	7.496.487.059	4.105.008.383
Net Debt/Total Capital Ratio	0,5	0,4

##### Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management plan focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

##### Credit risk management

The Group applied the simplified approach in TFRS 9 to calculate the expected credit loss provision for trade receivables. This approach allows for the expected credit loss provision for all trade receivables. In order to measure expected credit losses, the Group grouped its trade receivables considering the maturity and credit risk characteristics. The expected credit loss ratio for each class of trade receivables, which is grouped using past loan loss experiences and prospective macroeconomic indicators, is calculated and the expected credit loss provision has been calculated by multiplying the determined rate and trade receivable sums.

	Not Overdue	0-1 Months Overdue	1-3 Months Overdue	More than 3 Months Overdue	Total
Period end balance	223.166.454	87.044.818	-	-	310.211.272
Loan loss rate (%)	0,5%	0,5%	2%	50%	
Expected credit losses	1.073.263	418.620	-	-	1.491.884

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**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

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

***Credit risk management (cont'd)***

31 December 2018	Receivables				Bank Deposits	Derivative Instruments
	Trade Receivables		Other Receivables			
	Related Party	Other	Related Party	Other		
<b>Maximum exposed credit risk as of reporting date (A+B+C+D) (*)</b>	-	<b>235.514.142</b>	<b>1.580.011</b>	<b>550.791.668</b>	<b>2.750.645.236</b>	<b>3.134.337</b>
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	46.465.732	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	223.166.454	1.580.011	550.791.668	2.750.645.236	3.134.337
B. Net book value of financial assets that are past due but not impaired	-	12.347.688	-	-	-	-
-The part under guarantee with collateral etc.	-	6.220.454	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	9.114.619	-	2.551.536	-	-
- Impairment(-)	-	(9.114.619)	-	(2.551.536)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	1.491.884	-	-	10.556.562	-
- Impairment(-)	-	(1.491.884)	-	-	(10.556.562)	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

(\*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(\*\*) Guarantees consist of the letters of guarantee obtained from the customers

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**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

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

***Credit risk management (cont'd)***

31 December 2017	Receivables				Bank Deposits	Derivative Instruments
	Trade Receivables		Other Receivables			
	Related Party	Other	Related Party	Other		
<b>Maximum exposed credit risk as of reporting date (A+B+C+D) (*)</b>	-	<b>187.401.375</b>	<b>1.733.767</b>	<b>126.631.116</b>	<b>1.987.376.287</b>	<b>31.979.841</b>
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	23.817.479	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	169.552.084	1.733.767	126.631.116	1.987.376.287	31.979.841
B. Net book value of financial assets that are past due but not impaired	-	17.849.291	-	-	-	-
-The part under guarantee with collateral etc.	-	5.072.589	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	6.979.931	-	1.829.372	-	-
- Impairment(-)	-	(6.979.931)	-	(1.829.372)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	-	-	-	-	-
- Impairment(-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

(\*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(\*\*) Guarantees consist of the letters of guarantee obtained from the customers

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NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS  
(cont'd)

Financial Risk Factors (cont'd)

*Credit risk management (cont'd)*

Aging of the past due receivables is as follows:

<b>31 December 2018</b>	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Bank deposits</b>	<b>Total</b>
1-30 days past due	4.123.670	-	-	4.123.670
1-3 months past due	11.908.787	-	-	11.908.787
3-12 months past due	1.971.081	-	-	1.971.081
1-5 years past due	4.950.653	2.551.536	-	7.502.189
Receivables secured by guarantees	(6.220.454)	-	-	(6.220.454)
	<b>16.733.737</b>	<b>2.551.536</b>	<b>-</b>	<b>19.285.273</b>

<b>31 December 2017</b>	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Bank deposits</b>	<b>Total</b>
1-30 days past due	1.389.682	-	-	1.389.682
1-3 months past due	10.849.608	-	-	10.849.608
3-12 months past due	663.033	-	-	663.033
1-5 years past due	11.926.899	1.829.372	-	13.756.271
Receivables secured by guarantees	(5.072.589)	-	-	(5.072.589)
	<b>19.756.633</b>	<b>1.829.372</b>	<b>-</b>	<b>21.586.005</b>

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**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS  
(cont'd)**

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

*Liquidity risk management*

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables show the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

<b>31 December 2018</b>						
<b>Due date on the contract</b>	<b>Carrying value</b>	<b>Contractual cash-flows (I+II+III+IV)</b>	<b>Up to 3 months (I)</b>	<b>3 months- 12 months (II)</b>	<b>1 year- 5 years (III)</b>	<b>More than 5 years (IV)</b>
<b>Non-derivative financial liabilities</b>						
Short term bank borrowings	797.815.861	797.815.861	319.073.961	478.741.900	-	-
Obligations under financial leases	5.724.268.521	6.627.340.614	218.406.723	596.341.433	3.038.571.214	2.774.021.244
Trade payables	583.526.242	583.526.242	583.526.242	-	-	-
Passenger airport fees liability	138.844.563	138.844.563	323.439	138.521.124	-	-
	<b>7.244.455.187</b>	<b>8.147.527.280</b>	<b>1.121.330.365</b>	<b>1.213.604.457</b>	<b>3.038.571.214</b>	<b>2.774.021.244</b>
<b>Due date on the contract</b>	<b>Carrying value</b>	<b>Contractual cash-flows (I+II+III+IV)</b>	<b>Up to 3 months (I)</b>	<b>3 months- 12 months (II)</b>	<b>1 year- 5 years (III)</b>	<b>More than 5 years (IV)</b>
<b>Derivative financial liabilities</b>						
Derivative cash inflows outflows, net	(291.581.440)	(299.642.766)	(45.795.312)	(146.228.418)	(107.619.036)	-
<b>31 December 2017</b>						
<b>Due date on the contract</b>	<b>Carrying value</b>	<b>Contractual cash-flows (I+II+III+IV)</b>	<b>Up to 3 months (I)</b>	<b>3 months- 12 months (II)</b>	<b>1 year- 5 years (III)</b>	<b>More than 5 years (IV)</b>
<b>Non-derivative financial liabilities</b>						
Short term bank borrowings	541.267.652	541.267.652	69.780.150	471.487.502	-	-
Obligations under financial leases	3.067.212.772	3.651.398.895	110.156.055	334.579.298	1.695.330.708	1.511.332.834
Trade payables	393.710.155	393.710.155	393.710.155	-	-	-
Passenger airport fees liability	87.660.301	87.660.301	68.493.603	19.166.698	-	-
	<b>4.089.850.880</b>	<b>4.674.037.003</b>	<b>642.139.963</b>	<b>825.233.498</b>	<b>1.695.330.708</b>	<b>1.511.332.834</b>
<b>Due date on the contract</b>	<b>Carrying value</b>	<b>Contractual cash-flows (I+II+III+IV)</b>	<b>Up to 3 months (I)</b>	<b>3 months- 12 months (II)</b>	<b>1 year- 5 years (III)</b>	<b>More than 5 years (IV)</b>
<b>Derivative financial liabilities</b>						
Derivative cash inflows outflows, net	31.979.841	32.586.614	9.573.394	23.013.220	-	-



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

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#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

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

##### *Market risk*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, fuel price and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency, fuel price and interest rate risk.

##### *Foreign currency risk management*

The Group has significant transactions in non-Euro currencies including, but not limited to, Turkish Lira revenues, non-Euro borrowings and US Dollar fuel purchases. These non-Euro denominated transactions expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

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

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**NOTE 32 - 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
<b>4. CURRENT ASSETS</b>	<b>3.226.560.344</b>	<b>548.698.647</b>	<b>228.041.161</b>	<b>4.560.192</b>	<b>81.532.426</b>
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
<b>8. NON CURRENT ASSETS</b>	<b>71.519.443</b>	<b>12.951.365</b>	<b>305.815</b>	<b>1.000</b>	<b>3.071.139</b>
<b>9. TOTAL ASSETS</b>	<b>3.298.079.787</b>	<b>561.650.012</b>	<b>228.346.976</b>	<b>4.561.192</b>	<b>84.603.565</b>
10. Trade payables	370.983.081	45.345.308	82.165.847	448.588	47.275.737
11. Financial liabilities	997.519.160	187.459.912	11.311.309	-	-
12a. Other liabilities, monetary	574.317.654	96.578.731	63.498.647	38.323	2.473.006
12b. Other liabilities, non monetary	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>1.942.819.895</b>	<b>329.383.951</b>	<b>156.975.803</b>	<b>486.911</b>	<b>49.748.743</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.653.110.816	314.225.858	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>1.653.110.816</b>	<b>314.225.858</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>3.595.930.711</b>	<b>643.609.809</b>	<b>156.975.803</b>	<b>486.911</b>	<b>49.748.743</b>
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	(297.850.924)	(81.959.797)	71.371.173	4.074.281	34.854.822
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(369.370.367)	(94.911.162)	71.065.358	4.073.281	31.783.683

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**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS  
(cont'd)**

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

*Foreign currency risk management (cont'd)*

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

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**NOTE 32 - 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 31 December 2018 and 2017 are as follows:

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)	(49.931.813)	49.931.813	-	-
Part of hedged from USD risk	-	-	-	-
<b>USD net effect</b>	<b>(49.931.813)</b>	<b>49.931.813</b>	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	7.106.536	(7.106.536)	393.660.760	(393.660.760)
Part of hedged from TL risk	-	-	-	-
<b>TL net effect</b>	<b>7.106.536</b>	<b>(7.106.536)</b>	<b>393.660.760</b>	<b>(393.660.760)</b>
<b>31 December 2017</b>	<b>Profit/(Loss)</b>		<b>Shareholders' equity</b>	
	<b>If foreign currency appreciated 10%</b>	<b>If foreign currency depreciated 10%</b>	<b>If foreign currency appreciated 10%</b>	<b>If foreign currency depreciated 10%</b>
Effect of 10% change in USD rate				
USD net asset / (liability)	(24.160.589)	24.160.589	-	-
Part of hedged from USD risk	6.116.815	(6.116.815)	-	-
<b>USD net effect</b>	<b>(18.043.774)</b>	<b>18.043.774</b>	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	(3.432.111)	3.432.111	246.087.693	(246.087.693)
Part of hedged from TL risk	-	-	-	-
<b>TL net effect</b>	<b>(3.432.111)</b>	<b>3.432.111</b>	<b>246.087.693</b>	<b>(246.087.693)</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

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

##### *Interest rate risk management*

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate borrowings, by the use of interest rate swap contracts based on the approved policies.

##### Foreign currency sensitivity

The Group's distribution of interest rate-sensitive financial instruments is as follows:

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Floating rate</b>	<b>Fixed rate</b>	<b>Floating rate</b>	<b>Fixed rate</b>
Bank loans	-	797.815.861	-	541.267.652
Finance leases	5.023.848.172	700.420.349	2.495.276.312	571.936.460
Interest swap agreements not subject to hedge accounting (net)	3.134.337	-	2.074.015	-

For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0,5% lower/higher during the reporting period keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 22.322.257 (2017: TL 9.883.769). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

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

##### *Price risk management*

##### Fuel price risk management

The Group is exposed to commodity risk due to the significant of fuel purchases to its business. Fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on the cost of sales, and results of operations of the Group.

The Group manages its risk to fuel prices through the use of derivative financial instruments. The Group's policy since 2011 includes a primary non-discretionary program for the first 50% of anticipated fuel consumption and a supplemental discretionary program for an additional 20% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

##### Fuel price sensitivity

The Group entered into fuel purchase and option forward contracts in order to manage the cash flow risks arising from fuel purchases. Due to forward fuel purchase and option forward contracts subject to hedge accounting, as a result of a 1% increase in fuel prices, the shareholders' equity of the Group will increase by TL 17.403.705 (2017: TL 5.244.424) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 17.403.705 (2017: TL 5.244.424) excluding deferred tax effect.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)**

**Fair Value of Financial Instruments**

<b>31 December 2018</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	2.741.044.971	-	-	-	2.741.044.971	35
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	30
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	797.815.861	797.815.861	31
Obligations under financial leases	-	-	-	5.724.268.521	5.724.268.521	31
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	
Passenger airport fees liability	-	-	-	138.844.563	138.844.563	9
Derivative financial liabilities	-	294.715.777	-	-	294.715.777	30

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

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**NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)**

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

<b>31 December 2017</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	1.988.110.247	-	-	-	1.988.110.247	35
Trade receivables	187.401.375	-	-	-	187.401.375	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	187.401.375	-	-	-	187.401.375	6
Other receivables	128.364.883	-	-	-	128.364.883	
- <i>Related party</i>	1.733.767	-	-	-	1.733.767	5
- <i>Other</i>	126.631.116	-	-	-	126.631.116	
Pre-delivery payment for purchase of aircraft	593.663.631	-	-	-	593.663.631	9
Derivative financial assets	-	29.701.599	2.278.242	-	31.979.841	30
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	541.267.652	541.267.652	31
Obligations under financial leases	-	-	-	3.067.212.772	3.067.212.772	31
Trade payables	-	-	-	381.373.413	381.373.413	6
- <i>Related party</i>	-	-	-	764.389	764.389	5
- <i>Other</i>	-	-	-	380.609.024	380.609.024	
Passenger airport fees liability	-	-	-	87.660.301	87.660.301	9

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



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**NOTE 33 - 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	
	31 December 2018	31 December 2017			
Fuel purchase option contracts	(218.102.353)	25.666.669	Level 2	Discounted cash flow method	
Fuel purchase forward contracts	(76.613.424)	4.034.930	Level 2	Discounted cash flow method	
Currency forward contracts	-	204.227	Level 2	Discounted cash flow method	
Interest rate swap contracts	3.134.337	2.074.015	Level 2	Discounted cash flow method	
	<b>Fuel purchase forward contracts</b>	<b>Fuel purchase option contracts</b>	<b>Currency forward contracts</b>	<b>Interest rate swap contracts</b>	<b>Total</b>
<b>31 December 2018</b>					
<b>Fair value:</b>					
Opening	4.034.930	25.666.669	204.227	2.074.015	31.979.841
Fair value increase					
Recognized in equity	(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)
<b>Closing</b>	<b>(76.613.424)</b>	<b>(218.102.353)</b>	<b>-</b>	<b>3.134.337</b>	<b>(291.581.440)</b>
Assets	-	-	-	3.134.337	3.134.337
Liabilities	(76.613.424)	(218.102.353)	-	-	(294.715.777)
<b>Total net assets and liabilities</b>	<b>(76.613.424)</b>	<b>(218.102.353)</b>	<b>-</b>	<b>3.134.337</b>	<b>(291.581.440)</b>

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**NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)**

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

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

As of 31 December 2018, the Group has fuel purchase forward contracts subject to hedge accounting on the purpose of covering 59% (2017: 30%) of the expected total fuel consumption for the upcoming one-year period. Weighted average price of these contracts is US Dollars 615,7 (2017: US Dollars 547,4).

**NOTE 34 - EVENTS AFTER BALANCE SHEET DATE**

None.

**NOTE 35 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW**

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash on hand	956.297	733.960
Cash at banks	2.750.645.236	1.987.376.287
- Demand deposits	46.167.431	57.522.636
- Time deposits	2.704.477.805	1.929.853.651
Less: Allowance for impairment under TFRS 9	(10.556.562)	-
	<b>2.741.044.971</b>	<b>1.988.110.247</b>

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**NOTE 35 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW (cont'd)**

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

<b>31 December 2018</b>	<b>Weighted average interest rates</b>	<b>Total</b>
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
		<b>2.704.477.805</b>

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