

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

**PEGASUS HAVA TAŞIMACILIĞI
ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE
THREE-MONTH INTERIM PERIOD ENDED
31 MARCH 2018

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 31 MARCH 2018**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 31 March 2018	Prior period (Audited) 31 December 2017
	Notes		
ASSETS			
Current assets		3.449.884.166	3.096.832.046
Cash and cash equivalents	26	2.053.879.874	1.988.110.247
Trade receivables	6	426.340.591	187.401.375
<i>Trade receivables from related parties</i>		-	-
<i>Trade receivables from third parties</i>		426.340.591	187.401.375
Other receivables		102.690.088	109.210.842
<i>Other receivables from related parties</i>	5	1.133.926	1.733.767
<i>Other receivables from third parties</i>		101.556.162	107.477.075
Derivative financial instruments	21	37.011.324	31.979.841
Inventories		36.253.204	30.803.253
Prepaid expenses	7	775.508.934	725.431.742
Current income tax assets		12.839.241	9.418.493
Other current assets		5.360.910	14.476.253
Non-Current assets		5.653.098.091	4.991.239.471
Other receivables		16.748.024	19.154.041
<i>Other receivables from related parties</i>		-	-
<i>Other receivables from third parties</i>		16.748.024	19.154.041
Investments accounted by using the equity method	3	30.794.829	29.144.259
Property and equipment	8	5.362.295.987	4.662.521.058
Intangible assets	9	24.483.319	24.488.486
Prepaid expenses	7	218.775.932	255.931.627
TOTAL ASSETS		9.102.982.257	8.088.071.517

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 31 MARCH 2018

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 31 March 2018	Prior period (Audited) 31 December 2017
LIABILITIES			
Current liabilities		2.353.085.765	1.863.750.979
Short term financial liabilities	22	700.929.749	541.267.652
Short term portion of long term financial liabilities	22	398.121.417	355.987.254
Trade payables	6	406.415.362	393.710.155
<i>Trade payables to related parties</i>	5	1.143.884	764.389
<i>Trade payables to third parties</i>		405.271.478	392.945.766
Employee benefit obligations		67.600.110	47.977.139
Other payables		34.047.238	44.161.520
<i>Other payables to third parties</i>		34.047.238	44.161.520
Derivative financial instruments	21	2.775.490	-
Deferred income	7	701.053.992	415.447.882
Short term provisions		40.851.646	63.993.481
<i>Short term provisions for employee benefits</i>		22.657.509	48.679.796
<i>Other short term provisions</i>		18.194.137	15.313.685
Other current liabilities		1.290.761	1.205.896
Non-Current liabilities		4.230.645.657	3.739.682.332
Long term financial liabilities	22	3.110.856.417	2.711.225.518
Deferred income		5.820.911	7.379.754
Long term provisions		711.387.271	626.518.465
<i>Long term provisions for employee benefits</i>		15.626.836	13.638.842
<i>Other long term provisions</i>		695.760.435	612.879.623
Deferred tax liabilities		402.581.058	394.558.595
SHAREHOLDERS' EQUITY		2.519.250.835	2.484.638.206
Equity attributable to shareholders' of the parent		2.543.139.179	2.505.869.714
Paid-in share capital	14	102.272.000	102.272.000
Share premiums on capital stock		455.687.025	455.687.025
Effects of business acquisition		29.504.957	29.504.957
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans		(3.305.232)	(3.305.232)
Currency translation differences		1.251.131.662	1.079.050.983
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		(50.335.893)	(43.927.223)
Hedge fund		27.051.684	23.761.279
Restricted profit reserves		5.016.306	5.016.306
Retained earnings		839.053.615	355.561.802
Net profit / (loss) for the period		(112.936.945)	502.247.817
Non-controlling interest		(23.888.344)	(21.231.508)
TOTAL LIABILITIES AND EQUITY		9.102.982.257	8.088.071.517

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 1 January- 31 March 2018	Prior period (Not Reviewed) 1 January- 31 March 2017
Profit or loss	Notes		
Sales	15	1.194.745.297	885.822.496
Cost of sales (-)	15	(1.237.006.412)	(1.030.456.890)
Gross loss		(42.261.115)	(144.634.394)
General administrative expenses (-)	16	(57.681.020)	(41.519.393)
Marketing expenses (-)	16	(47.293.890)	(35.609.758)
Other operating income	17	15.509.866	22.255.813
Other operating expenses (-)	17	(443.028)	(2.550.770)
Operating loss		(132.169.187)	(202.058.502)
Income from investing activities	18	22.358.368	645.180
Share of investments income accounted for using the equity method	3	1.139.921	1.095.217
Operating loss before financial expense		(108.670.898)	(200.318.105)
Financial income	19	19.586.715	4.722.295
Financial expense (-)	19	(47.025.115)	(31.564.095)
Loss before tax		(136.109.298)	(227.159.905)
Tax income		21.381.480	20.744.229
Current tax expense		-	-
Deferred tax income		21.381.480	20.744.229
Loss for the period		(114.727.818)	(206.415.676)
Net profit loss attributable to:			
Non-controlling interest		(1.790.873)	(3.174.996)
Shareholders' of the parent		(112.936.945)	(203.240.680)
		(114.727.818)	(206.415.676)
Loss per share (TL)	20	(1,10)	(1,99)
Other comprehensive income			
Items not to be reclassified to profit or loss			
Currency translation differences		171.214.716	91.509.383
Items to be reclassified to profit or loss			
Currency translation differences		(6.408.670)	(3.907.247)
Cash flow hedge		4.113.006	(10.373.608)
Deferred tax effect		(822.601)	2.074.722
Other comprehensive income		168.096.451	79.303.250
Total comprehensive income		53.368.633	(127.112.426)
Total comprehensive income attributable to:			
Non-controlling interest		(2.656.836)	(3.174.996)
Shareholders' of the parent		56.025.469	(123.937.430)
		53.368.633	(127.112.426)

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 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 fund	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
Transfers	-	-	-	-	-	-	-	-	(133.730.835)	133.730.835	-	-	-
Total comprehensive income	-	-	-	-	91.509.383	(3.907.247)	(8.298.886)	-	-	(203.240.680)	(123.937.430)	(3.236.043)	(127.173.473)
As at 31 March 2017	102.272.000	455.687.025	29.504.957	(3.305.232)	764.344.506	(38.366.376)	(8.007.036)	5.016.306	347.597.011	(203.240.680)	1.451.502.481	(9.354.609)	1.442.147.872
As at 1 January 2018	102.272.000	455.687.025	29.504.957	(3.305.232)	1.079.050.983	(43.927.223)	23.761.279	5.016.306	355.561.802	502.247.817	2.505.869.714	(21.231.508)	2.484.638.206
Changes in accounting policy (Note 2)	-	-	-	-	-	-	-	-	(18.756.004)	-	(18.756.004)	-	(18.756.004)
Restated total equity as at 1 January 2018	102.272.000	455.687.025	29.504.957	(3.305.232)	1.079.050.983	(43.927.223)	23.761.279	5.016.306	336.805.798	502.247.817	2.487.113.710	(21.231.508)	2.465.882.202
Transfers	-	-	-	-	-	-	-	-	502.247.817	(502.247.817)	-	-	-
Total comprehensive income	-	-	-	-	172.080.679	(6.408.670)	3.290.405	-	-	(112.936.945)	56.025.469	(2.656.836)	53.368.633
As at 31 March 2018	102.272.000	455.687.025	29.504.957	(3.305.232)	1.251.131.662	(50.335.893)	27.051.684	5.016.306	839.053.615	(112.936.945)	2.543.139.179	(23.888.344)	2.519.250.835

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 1 January- 31 March 2018	Prior period (Not Reviewed) 1 January- 31 March 2017
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period		(114.727.818)	(206.415.676)
Adjustments to reconcile the loss			
Depreciation and amortization	8-9	95.380.152	82.707.240
Adjustments related with impairments		(400.074)	2.166.728
Provision for doubtful receivable		(400.074)	2.166.728
Adjustments related with provisions		51.239.288	48.089.142
Provision for employee benefits		4.200.209	2.748.697
Legal provision		3.562.279	1.158.159
Change in redelivery provision		43.476.800	44.182.286
Interest and commission income	19	20.205.038	17.434.596
Gain on equity investments accounted for using the equity method	3	(1.139.921)	(1.095.217)
Current tax expense		(21.381.480)	(20.744.229)
Other provisions related with investing or financing activities		(20.478.439)	22.274
Changes in working capital			
Increase in trade receivables		(238.011.011)	(252.481.466)
(Increase)/decrease in other receivables, prepaid expenses and other current assets		(38.589.569)	47.131.573
Increase in inventories		(5.449.951)	(1.508.150)
Increase/(decrease) in trade payables		12.705.207	(39.493.149)
Increase in deferred income, other payables and other current liabilities		284.411.949	219.561.181
Net cash generated from operating activities		23.763.371	(104.625.153)
Payment for employee, executive bonus plan and retirement benefits		(28.786.957)	(2.393.821)
Payment for other provisions		(153.324)	(4.625)
		(5.176.910)	(107.023.599)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of aircraft		88.849.440	-
Proceeds from sale of property, equipment and intangible assets		22.916	908.178
Cash outflows from purchase of property, equipment and intangible assets		(46.578.836)	(11.324.995)
Changes in cash advances and payables		(22.727.620)	(123.984.687)
		19.565.900	(134.401.504)
C. CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in borrowings		195.649.400	51.271.865
Repayment of principal in financial lease liabilities		(74.074.441)	(240.282.093)
Interest and commission paid		(39.304.378)	(21.948.239)
Interest received		17.367.818	5.132.440
		99.638.399	(205.826.027)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)		114.027.389	(447.251.130)
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		(48.257.762)	(738.841)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		65.769.627	(447.989.971)
E. CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD	26	1.988.110.247	692.270.625
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD (A+B+C+D+E)	26	2.053.879.874	244.280.654

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2018

(Amounts are expressed in TL unless otherwise stated.)

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

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

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

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

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

The Group’s total number of full time employees as of 31 March 2018 is 5.438 (31 December 2017: 5.337). The address of its principal executive office is Aeropark Yenışehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

Approval of Financial Statements

Board of Directors has approved the condensed consolidated financial statements as of 31 March 2018 and delegated authority for publishing it on 10 May 2018. General shareholders’ meeting has the authority to modify the financial statements.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance with TAS

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 MARCH 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)

Statement of Compliance with TAS (cont'd)

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

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

Functional and Presentation Currency

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

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

- Assets and liabilities are translated using the Central Bank of the Republic of Turkey (“TCMB”) Euro buying rate prevailing at the balance sheet date; 31 March 2018: 1 Euro (€) = TL 4,8673, 1 US Dollar (\$) = TL 3,9489 (31 December 2017: 1 Euro (€) = TL 4,5155, 1 US Dollar (\$) = TL 3,7719).
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions and translated from US Dollar to TL using the TCMB US Dollar average buying rates.

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

Comparative Information and Reclassification of Prior Period Financial Statements

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2018

(Amounts are expressed in TL unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation

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

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

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

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

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

2.2 Significant Accounting Policies and Changes

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 MARCH 2018**

(Amounts are expressed in TL unless otherwise stated.)

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

2.2 Significant Accounting Policies and Changes (cont'd)

a) Impact on the condensed consolidated interim financial statements

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

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

(i) Condensed Consolidated Balance Sheet

	31 March 2018	TFRS 15 Effects	31 March 2018 (excluding effects)
	3.449.884.166	-	3.449.884.166
Cash and cash equivalents	2.053.879.874	-	2.053.879.874
Trade receivables	426.340.591	-	426.340.591
<i>Trade receivables from related parties</i>	-	-	-
<i>Trade receivables from third parties</i>	426.340.591	-	426.340.591
Other receivables	102.690.088	-	102.690.088
<i>Other receivables from related parties</i>	1.133.926	-	1.133.926
<i>Other receivables from third parties</i>	101.556.162	-	101.556.162
Derivative financial instruments	37.011.324	-	37.011.324
Inventories	36.253.204	-	36.253.204
Prepaid expenses	775.508.934	-	775.508.934
Current income tax assets	12.839.241	-	12.839.241
Other current assets	5.360.910	-	5.360.910
Non-Current assets	5.653.098.091	-	5.653.098.091
Other receivables	16.748.024	-	16.748.024
<i>Other receivables from related parties</i>	-	-	-
<i>Other receivables from third parties</i>	16.748.024	-	16.748.024
Investments accounted by using the equity method	30.794.829	-	30.794.829
Property and equipment	5.362.295.987	-	5.362.295.987
Intangible assets	24.483.319	-	24.483.319
Prepaid expenses	218.775.932	-	218.775.932
TOTAL ASSETS	9.102.982.257	-	9.102.982.257

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 MARCH 2018

(Amounts are expressed in TL unless otherwise stated.)

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

2.2 Significant Accounting Policies and Changes (cont'd)

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

(i) Condensed Consolidated Balance Sheet (cont'd)

	31 March 2018	TFRS 15 Effects	31 March 2018 excluding effects)
Current liabilities	2.353.085.765	36.526.254	2.316.559.511
Short term financial liabilities	700.929.749	-	700.929.749
Short term portion of long term financial liabilities	398.121.417	-	398.121.417
Trade payables	406.415.362	-	406.415.362
<i>Trade payables to related parties</i>	<i>1.143.884</i>	<i>-</i>	<i>1.143.884</i>
<i>Trade payables to third parties</i>	<i>405.271.478</i>	<i>-</i>	<i>405.271.478</i>
Employee benefit obligations	67.600.110	-	67.600.110
Other payables	34.047.238	-	34.047.238
<i>Other payables to related parties</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Other payables to third parties</i>	<i>34.047.238</i>	<i>-</i>	<i>34.047.238</i>
Derivative financial instruments	2.775.490	-	2.775.490
Deferred income	701.053.992	36.526.254	664.527.738
Current income tax liabilities	-	-	-
Short term provisions	40.851.646	-	40.851.646
<i>Short term provisions for employee benefits</i>	<i>22.657.509</i>	<i>-</i>	<i>22.657.509</i>
<i>Other short term provisions</i>	<i>18.194.137</i>	<i>-</i>	<i>18.194.137</i>
Other current liabilities	1.290.761	-	1.290.761
Non-Current liabilities	4.230.645.657	(8.035.776)	4.238.681.433
Long term financial liabilities	3.110.856.417	-	3.110.856.417
Derivative financial instruments	-	-	-
Deferred income	5.820.911	-	5.820.911
Long term provisions	711.387.271	-	711.387.271
<i>Long term provisions for employee benefits</i>	<i>15.626.836</i>	<i>-</i>	<i>15.626.836</i>
<i>Other long term provisions</i>	<i>695.760.435</i>	<i>-</i>	<i>695.760.435</i>
Deferred tax liabilities	402.581.058	(8.035.776)	410.616.834
SHAREHOLDERS' EQUITY	2.519.250.835	(28.490.478)	2.547.741.313
Equity attributable to shareholders' of the parent	2.543.139.179	(28.490.478)	2.571.629.657
Paid-in share capital	102.272.000	-	102.272.000
Share premiums on capital stock	455.687.025	-	455.687.025
Effects of business acquisition	29.504.957	-	29.504.957
Other comprehensive income/expense			
not to be reclassified to profit or loss			-
Actuarial losses on defined benefit plans	(3.305.232)	-	(3.305.232)
Currency translation differences	1.251.131.662	-	1.251.131.662
Other comprehensive income/expense			
to be reclassified to profit or loss			-
Currency translation differences	(50.335.893)	-	(50.335.893)
Hedge fund	27.051.684	-	27.051.684
Restricted profit reserves	5.016.306	-	5.016.306
Retained earnings	839.053.615	(18.756.004)	857.809.619
Net profit / (loss) for the period	(112.936.945)	(9.734.474)	(103.202.471)
Non-controlling interest	(23.888.344)	-	(23.888.344)
TOTAL LIABILITIES AND EQUITY	9.102.982.257	-	9.102.982.257

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

2.2 Significant Accounting Policies and Changes (cont'd)

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

(ii) Condensed Consolidated Statement of Profit or Loss

	31 March 2018	TFRS 15 Effects	31 March 2018 (excluding effects)
Profit or loss			
Sales	1.194.745.297	(12.480.095)	1.207.225.392
Cost of sales (-)	(1.237.006.412)	-	(1.237.006.412)
Gross loss	(42.261.115)	(12.480.095)	(29.781.020)
General administrative expenses (-)	(57.681.020)	-	(57.681.020)
Marketing expenses (-)	(47.293.890)	-	(47.293.890)
Other operating income	15.509.866	-	15.509.866
Other operating expenses (-)	(443.028)	-	(443.028)
Operating loss	(132.169.187)	(12.480.095)	(119.689.092)
Income from investing activities	22.358.368	-	22.358.368
Expenses from investing activities (-)	-	-	-
Share of investments income accounted for using the equity method	1.139.921	-	1.139.921
Operating loss before financial expense	(108.670.898)	(12.480.095)	(96.190.803)
Financial income	19.586.715	-	19.586.715
Financial expense (-)	(47.025.115)	-	(47.025.115)
Loss before tax	(136.109.298)	(12.480.095)	(123.629.203)
Tax income	21.381.480	2.745.621	18.635.859
Current tax expense	-	-	-
Deferred tax income	21.381.480	2.745.621	18.635.859
Loss for the period	(114.727.818)	(9.734.474)	(104.993.344)
Net profit loss attributable to:			
Non-controlling interest	(1.790.873)	-	(1.790.873)
Shareholders' of the parent	(112.936.945)	(9.734.474)	(103.202.471)
	(114.727.818)	(9.734.474)	(104.993.344)
Loss per share (TL)	(1,10)	(0,10)	(1,00)
Other comprehensive income			
Items not to be reclassified to profit or loss			
Currency translation differences	171.214.716	-	171.214.716
Items to be reclassified to profit or loss			
Currency translation differences	(6.408.670)	-	(6.408.670)
Cash flow hedge	4.113.006	-	4.113.006
Deferred tax effect	(822.601)	-	(822.601)
Other comprehensive income	168.096.451	-	168.096.451
Total comprehensive income	53.368.633	(9.734.474)	63.103.107
Total comprehensive income attributable to:			
Non-controlling interest	(2.656.836)	-	(2.656.836)
Shareholders' of the parent	56.025.469	(9.734.474)	65.759.943
	53.368.633	(9.734.474)	63.103.107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

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

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

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

	1 January 2018
Retained earnings – 1 January 2018 – (excluding TFRS 15 effects)	355.561.802
Increase in deferred income	(24.046.159)
Deferred tax effect	5.290.155
Adjustment to retained earnings from adoption of IFRS 15	(18.756.004)
Opening retained earnings 1 January 2018 - (including IFRS 15 effects)	336.805.798

b) New standards and interpretations applied

(i) TFRS 15 Revenue from Contracts with Customers

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

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

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

- Scheduled and charter flight revenues are recorded as revenue when the transportation service is provided. Tickets sold but not yet used are recorded as passenger flight liabilities.
- Ancillary revenues, cargo services and training services are recognized when services are provided.
- Service fees, which is the fee added to ticket price for providing the sale service is recognized when transportation service is provided.

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

2.3 Changes in Accounting Estimates

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

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

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

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

TFRS 9 Financial Instruments

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

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

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

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

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

TFRS 15 Revenue from Contracts with Customers

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

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

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

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

TFRS 16	<i>Leases</i> ¹
TAS 28 (Amendments)	<i>Investments in Associates and Joint Ventures</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

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

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

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	31 March 2018	31 December 2017
Joint ventures		
Hitit Bilgisayar	23.525.283	22.796.541
PUEM	7.269.546	6.347.718
	30.794.829	29.144.259

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

	1 January- 31 March 2018	1 January- 31 March 2017
Hitit Bilgisayar	728.742	820.768
PUEM	411.179	274.449
Net profit	1.139.921	1.095.217

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

Pegasus Uçuş Eğitim Merkezi A.Ş.

	31 March 2018	31 December 2017
Current assets	2.009.486	513.286
Non-current assets	19.398.003	21.333.742
Current liabilities	(6.486.362)	(5.982.733)
Non-current liabilities	(205.446)	(3.014.663)
Net assets of joint venture	14.715.681	12.849.632
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	7.269.546	6.347.718
	1 January- 31 March 2018	1 January- 31 March 2017
Revenue	2.225.207	1.764.043
Profit for the year	832.345	555.565
Group's ownership interest	49,40%	49,40%
Group's share in the net profit of the joint venture	411.179	274.449

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

Hitit Bilgisayar Hizmetleri A.Ş.

	31 March 2018	31 December 2017
Current assets	1.733.408	19.039.061
Non-current assets	48.490.804	30.083.777
Current liabilities	(4.466.050)	(4.857.939)
Non-current liabilities	(492.621)	(456.841)
Net assets of joint venture	45.265.541	43.808.058
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
Group's share in the net assets of the joint venture	23.525.283	22.796.541
	1 January- 31 March 2018	1 January- 31 March 2017
Revenue	10.879.642	9.599.226
Profit for the year	1.457.484	1.641.536
Group's weighted average ownership interest	50%	40%
Group's share in the net profit of the joint venture	728.742	820.768

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.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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

	31 March 2018	31 December 2017
Balances with joint ventures and subsidiaries:		
PUEM	1.122.149	1.702.020
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	-	31.747
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	11.777	-
	1.133.926	1.733.767

b) Trade payables to related parties

	31 March 2018	31 December 2017
Balances with joint ventures and subsidiaries:		
Hitit Bilgisayar	1.143.884	764.389
	1.143.884	764.389

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NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

(ii) Significant Transactions with Related Parties:

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

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

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

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

The Group, generates flight revenue from the ticket sales of Air Berlin Plc & Co Luftverkehrs Kg pursuant to the agreement between the parties.

a) Sale of services

	1 January- 31 March 2018	1 January- 31 March 2017
Transactions with joint ventures and subsidiaries:		
PUEM	419.855	355.779
Transactions with other related parties:		
Air Berlin Plc&Co Luftverkehrs Kg	-	851.023
	419.855	1.206.802

b) Purchases of goods or services

	1 January- 31 March 2018	1 January- 31 March 2017
Transactions with joint ventures and subsidiaries:		
Hitit Bilgisayar	3.604.367	4.771.492
PUEM	2.225.207	1.764.043
Transactions with other related parties:		
Esasburda	530.863	435.809
Other	12.988	-
	6.373.425	6.971.344

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**NOTES TO THE CONDENSED 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

	1 January- 31 March 2018	1 January- 31 March 2017
Esasburda	1.724.218	1.482.649
	1.724.218	1.482.649

d) Surety commission expenses

	1 January- 31 March 2018	1 January- 31 March 2017
Esas Holding (Note 19)	2.238.965	3.384.667
	2.238.965	3.384.667

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,725% 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 March 2018 and 2017 are as follows:

	1 January- 31 March 2018	1 January- 31 March 2017
Salaries and other short term benefits	4.098.559	2.359.512
Other long term benefits	810.479	985.195
	4.909.038	3.344.707

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - TRADE RECEIVABLES AND PAYABLES

Short term trade receivables

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

	31 March 2018	31 December 2017
Trade receivables	145.396.665	144.962.630
Credit card receivables	285.291.902	49.128.679
Income accruals	2.760.014	289.997
	433.448.581	194.381.306
Less: Allowance for doubtful receivables	(7.107.990)	(6.979.931)
	426.340.591	187.401.375

Short term trade payables

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

	31 March 2018	31 December 2017
Trade payables	199.358.006	280.291.185
Accrued direct operational costs	174.195.783	82.205.807
Other accrued expenses	31.717.689	30.448.774
Due to related parties (Note 5)	1.143.884	764.389
	406.415.362	393.710.155

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 - PREPAID EXPENSES AND DEFERRED INCOME

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

Short term prepaid expenses

	31 March 2018	31 December 2017
Advances on aircraft purchases	438.792.695	395.375.762
Advances to suppliers	266.646.152	247.896.894
Prepaid aircraft operating lease expenses	46.081.643	52.423.814
Prepaid insurance expenses	9.355.743	10.166.538
Prepaid advertising expenses	627.830	426.651
Other prepaid expenses	14.004.871	19.142.083
	775.508.934	725.431.742

Long term prepaid expenses

	31 March 2018	31 December 2017
Advances on aircraft purchases	162.643.504	198.287.869
Other prepaid expenses	56.132.428	57.643.758
	218.775.932	255.931.627

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

Short term deferred income

	31 March 2018	31 December 2017
Passenger flight liabilities	640.917.180	380.715.038
Advances received from customers	46.338.324	21.770.670
Other deferred income	13.798.488	12.962.174
	701.053.992	415.447.882

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

	31 March 2018	31 December 2017
Flight liability from ticket sales	501.676.381	268.933.251
Passenger airport fees received from customers	112.235.541	87.660.301
Flight liability from flight points	27.005.258	24.121.486
	640.917.180	380.715.038

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - PROPERTY AND EQUIPMENT

31 March 2018	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in progress	Total
Cost:								
Opening	72.526.512	75.261.821	101.564.014	58.525.763	499.675.611	5.106.452.248	3.510.816	5.917.516.785
Additions	1.148.412	(438.966)	1.716.071	10.250	69.727.139	371.328.138	4.535.798	448.026.842
Disposals	-	-	-	-	-	(146.857.556)	-	(146.857.556)
Transfers	-	-	-	-	-	-	-	-
Currency translation differences	5.615.621	5.802.140	7.975.079	4.551.031	41.564.738	434.543.896	451.170	500.503.675
Closing	79.290.545	80.624.995	111.255.164	63.087.044	610.967.488	5.765.466.726	8.497.784	6.719.189.746
Accumulated depreciation:								
Opening	(10.771.676)	(12.180.327)	(62.382.916)	(43.069.275)	(111.270.901)	(1.015.320.632)	-	(1.254.995.727)
Depreciation for the year	(1.304.834)	(1.589.643)	(2.905.996)	(1.577.474)	(10.644.340)	(75.047.163)	-	(93.069.450)
Disposals	-	-	-	-	-	77.272.358	-	77.272.358
Currency translation differences	(878.526)	(1.000.254)	(4.971.573)	(3.413.297)	(9.085.935)	(66.751.355)	-	(86.100.940)
Closing	(12.955.036)	(14.770.224)	(70.260.485)	(48.060.046)	(131.001.176)	(1.079.846.792)	-	(1.356.893.759)
Net book value	66.335.509	65.854.771	40.994.679	15.026.998	479.966.312	4.685.619.934	8.497.784	5.362.295.987

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NOTE 8 - PROPERTY AND EQUIPMENT (cont'd)

31 March 2017	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in progress	Total
Cost:								
Opening	58.446.618	54.947.225	73.778.851	47.936.130	325.933.190	4.510.753.029	415.109	5.072.210.152
Additions	252.660	-	3.767.343	-	4.730.304	19.623.596	-	28.373.903
Disposals	(79.377)	(711.116)	(868)	-	(739.055)	(396.934.775)	-	(398.465.191)
Transfers	-	-	-	99.315	(19.802.804)	19.802.804	(99.315)	-
Currency translation differences	2.127.184	2.915.037	3.924.233	2.564.336	25.768.971	232.267.217	2.907	269.569.885
Closing	60.747.085	57.151.146	81.469.559	50.599.781	335.890.606	4.385.511.871	318.701	4.971.688.749
Accumulated depreciation:								
Opening	(5.064.340)	(6.463.246)	(42.584.799)	(28.876.246)	(61.786.906)	(1.078.819.212)	-	(1.223.594.749)
Depreciation for the year	(1.047.050)	(1.052.986)	(2.294.179)	(1.879.110)	(8.904.554)	(65.469.806)	-	(80.647.685)
Disposals	26.791	469.299	39	-	126.109	149.234.379	-	149.856.617
Currency translation differences	(256.996)	(324.187)	(2.263.134)	(1.517.339)	(3.231.585)	(56.201.145)	-	(63.794.386)
Closing	(6.341.595)	(7.371.120)	(47.142.073)	(32.272.695)	(73.796.936)	(1.051.255.784)	-	(1.218.180.203)
Net book value	54.405.490	49.780.026	34.327.486	18.327.086	262.093.670	3.334.256.087	318.701	3.753.508.546

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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NOTE 9 - INTANGIBLE ASSETS

31 March 2018	Brand	Software	Total
Cost:			
Opening	3.183.429	66.414.193	69.597.622
Additions	-	471.920	471.920
Transfers	-	-	-
Currency translation differences	248.019	5.178.818	5.426.837
Closing	3.431.448	72.064.931	75.496.379
Accumulated amortization:			
Opening	(1.684.564)	(43.424.572)	(45.109.136)
Amortization for the year	(41.276)	(2.269.426)	(2.310.702)
Currency translation differences	(132.860)	(3.460.362)	(3.593.222)
Closing	(1.858.700)	(49.154.360)	(51.013.060)
Net book value	1.572.748	22.910.571	24.483.319
31 March 2017	Brand	Software	Total
Cost:			
Opening	2.385.298	47.464.326	49.849.624
Additions	-	2.574.688	2.574.688
Currency translation differences	370.055	2.517.543	2.887.598
Closing	2.755.353	52.556.557	55.311.910
Accumulated amortization:			
Opening	(1.142.954)	(28.348.941)	(29.491.895)
Amortization for the year	(34.614)	(2.024.941)	(2.059.555)
Currency translation differences	(177.146)	(1.499.953)	(1.677.099)
Closing	(1.354.714)	(31.873.835)	(33.228.549)
Net book value	1.400.639	20.682.722	22.083.361

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

NOTE 10 - LEASING TRANSACTIONS

Details related to leasing transactions are disclosed in Note 22.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11- PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigation

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 21.661.748 as of 31 March 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 9.733.507 (31 December 2017: TL 9.782.213) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 545.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.212. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 31 March 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 Audit

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.

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

Tax Audit (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.

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

Tax Audit (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.

Taking into consideration the established practices in the Turkish aviation sector and opinions from tax advisers the Company considers its practices under question to be in full compliance with the applicable tax law. No provision has been calculated on the accompanied consolidated financial statements including the periods not inspected.

As a result of the investigation, a settlement request was filed with the Tax Settlement Commission of the Revenue Administration in accordance with the provisions of Tax Procedure Law No.213 regarding the tax penalty imposed to the Company. The Company is entitled to further challenge the tax office decision before tax courts if no settlement is reached.

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.

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NOTE 12 - COMMITMENTS

Purchase Commitments

	31 March 2018	31 December 2017
Commitments to purchase aircraft	44.752.760.928	43.557.045.242
	44.752.760.928	43.557.045.242

As of 31 March 2018, the Group holds firm orders for 86 aircraft. The expected deliveries are: 8 aircraft in 2018, 14 aircraft in 2019, 14 aircraft in 2019, 13 aircraft in 2020, 13 aircraft in 2021, 13 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 601.436.199 (31 December 2017: TL 593.663.631) and TL 438.792.695 of this amount is reclassified under short term, TL 162.643.504 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 March 2018	1 January- 31 March 2017
Minimum lease payments	141.946.619	145.165.788
	141.946.619	145.165.788

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 March 2018 and 31 December 2017 are as follows:

	31 March 2018	31 December 2017
Less than 1 year	568.545.347	560.853.156
Between 1 - 5 years	1.317.568.217	1.378.861.599
Over 5 years	132.932.321	164.687.976
	2.019.045.885	2.104.402.731

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages(“CPM”)

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

31 March 2018		TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity						
-Collateral		1.222.506.461	295.295.781	6.865.650	11.852.918	11.142.855
-Pledge		-	-	-	-	-
-Mortgage		-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation						
-Collateral		57.429.575	10.087.000	-	17.597.021	-
-Pledge		-	-	-	-	-
-Mortgage		-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)						
-Collateral		3.825.917	968.856	-	-	-
-Pledge		-	-	-	-	-
-Mortgage		-	-	-	-	-
D. Total amounts of other CPM given						
i. Total amount of CPM given on behalf of the Parent						
-Collateral		-	-	-	-	-
-Pledge		-	-	-	-	-
-Mortgage		-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C						
-Collateral		-	-	-	-	-
-Pledge		-	-	-	-	-
-Mortgage		-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C						
-Collateral		-	-	-	-	-
-Pledge		-	-	-	-	-
-Mortgage		-	-	-	-	-
		1.283.761.953	306.351.637	6.865.650	29.449.939	11.142.855

(*) Consisted of given CPMs to third parties in order to guarantee PUEM's, joint venture company accounted for 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 March 2018.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages("CPM") (cont'd)

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

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

(*) Consisted of given CPMs to third parties in order to guarantee PUEM's, joint venture company accounted for 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.

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NOTE 13 - EXPENSES BY NATURE

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

	1 January- 31 March 2018	1 January- 31 March 2017
Jet fuel expenses	438.836.345	325.616.408
Personnel expenses	175.693.183	149.904.517
Operating lease expenses	141.946.619	145.165.788
Maintenance expenses	120.161.479	110.869.176
Handling and station fees	97.532.023	79.651.913
Depreciation and amortisation expenses	95.380.152	82.707.240
Navigation expenses	85.587.095	67.656.635
Landing expenses	41.932.297	33.887.362
Commission expenses	25.387.719	18.239.440
Passenger service and catering expenses	14.503.285	10.818.600
Advertising expenses	9.882.180	7.197.806
Other expenses	95.138.945	75.871.156
	1.341.981.322	1.107.586.041

NOTE 14 - SHAREHOLDERS' EQUITY

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

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

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

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 - SALES AND COST OF SALES

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

Sales:

	1 January- 31 March 2018	1 January- 31 March 2017
Scheduled flight and service revenue	1.149.473.156	802.195.028
<i>International flight revenue</i>	510.645.947	340.801.686
<i>Domestic flight revenue</i>	302.016.013	236.201.397
<i>Service revenue</i>	336.811.196	225.191.945
Charter flight and service revenue	20.334.988	8.824.581
<i>Charter flight revenue</i>	19.882.821	8.463.006
<i>Service revenue</i>	452.167	361.575
Wetlease revenue	-	50.051.337
Other revenue	24.937.153	24.751.550
	1.194.745.297	885.822.496

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

	1 January- 31 March 2018	1 January- 31 March 2017
Europe	368.738.608	236.552.781
Domestic	302.016.013	236.201.397
Other	141.907.339	104.248.905
	812.661.960	577.003.083

Cost of sales:

	1 January- 31 March 2018	1 January- 31 March 2017
Jet fuel expenses	438.836.345	325.616.408
Personnel expenses	147.220.559	130.619.881
Operating lease expenses	141.946.619	145.165.788
Maintenance expenses	120.161.479	110.869.176
Handling and station fees	97.532.023	79.651.913
Navigation expenses	85.587.095	67.656.635
Depreciation and amortisation expenses	85.353.986	74.165.125
Landing expenses	41.932.297	33.887.362
Passenger service and catering expenses	14.503.285	10.818.600
Other expenses	63.932.724	52.006.002
	1.237.006.412	1.030.456.890

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 31 March 2018	1 January- 31 March 2017
Marketing expenses	47.293.890	35.609.758
General administrative expenses	57.681.020	41.519.393
	104.974.910	77.129.151

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

General administrative expenses:

	1 January- 31 March 2018	1 January- 31 March 2017
Personnel expenses	22.351.303	14.509.139
IT expenses	10.646.357	7.328.313
Depreciation and amortisation expenses	8.116.851	6.916.399
Rent expenses	4.542.021	4.829.742
Consultancy expenses	3.847.143	2.238.474
Legal and notary expenses	1.603.246	1.120.631
Travel expenses	1.431.412	314.182
Office utility expenses	763.082	786.254
Communication expenses	471.196	426.438
Training expenses	222.451	130.504
Other expenses	3.685.958	2.919.317
	57.681.020	41.519.393

Marketing expenses:

	1 January- 31 March 2018	1 January- 31 March 2017
Commission expenses	25.387.719	18.239.440
Advertising expenses	9.882.180	7.197.806
Personnel expenses	6.121.321	4.775.497
Call center expenses	2.964.374	2.476.053
Depreciation and amortisation expenses	1.909.315	1.625.716
Other expenses	1.028.981	1.295.246
	47.293.890	35.609.758

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

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

Other operating income:

	1 January- 31 March 2018	1 January- 31 March 2017
Foreign exchange gain from operating activities	15.108.277	21.602.540
Reversal of doubtful provision	176.840	-
Other income	224.749	653.273
	15.509.866	22.255.813

Other operating expenses:

	1 January- 31 March 2018	1 January- 31 March 2017
Doubtful receivable expense	-	2.166.728
Other expense	443.028	384.042
	443.028	2.550.770

NOTE 18 - INCOME FROM INVESTING ACTIVITIES

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

Income from investing activities:

	1 January- 31 March 2018	1 January- 31 March 2017
Income from sale of aircraft	22.335.452	-
Other income	22.916	645.180
	22.358.368	645.180

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 - FINANCIAL INCOME AND EXPENSES

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

Financial income:

	1 January- 31 March 2018	1 January- 31 March 2017
Interest income	19.586.715	4.722.295
	19.586.715	4.722.295

Financial expenses:

	1 January- 31 March 2018	1 January- 31 March 2017
Interest expense on financial lease	20.024.566	11.701.245
Other commission expenses	14.125.948	7.008.486
Foreign exchange loss	4.781.058	9.195.730
Interest expense on bank loans	3.402.274	62.493
Losses from derivative contracts	2.452.304	211.474
Surety commission expenses	2.238.965	3.384.667
	47.025.115	31.564.095

NOTE 20 - EARNINGS / LOSS PER SHARE

Earnings/(loss) per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 31 March 2018 and 2017 are as follows:

	1 January- 31 March 2018	1 January- 31 March 2017
Loss attributable to the shareholders of the parent	(112.936.945)	(203.240.680)
Weighted average number of shares issued in the year	102.272.000	102.272.000
Loss per share	(1,10)	(1,99)

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NOTE 21 - DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments

	31 March 2018		31 December 2017	
	Asset	Liability	Asset	Liability
Short term	37.011.324	2.775.490	31.979.841	-
	37.011.324	2.775.490	31.979.841	-

Explanations related to derivative instruments are disclosed in Note 24.

NOTE 22 - FINANCIAL INSTRUMENTS

Financial Liabilities

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

Short term financial liabilities	31 March 2018	31 December 2017
Short term bank borrowings	700.929.749	541.267.652
Short term portion of long term financial lease obligations	398.121.417	355.987.254
	1.099.051.166	897.254.906
Long term financial liabilities	31 March 2018	31 December 2017
Long term financial lease obligations	3.110.856.417	2.711.225.518
	3.110.856.417	2.711.225.518

a) Bank Borrowings

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

31 March 2018	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	2,40%	USD	177.500.000	700.929.749
				700.929.749
31 December 2017	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	2,21%	USD	143.500.000	541.267.652
				541.267.652

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NOTE 22 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Financial Lease Liabilities

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

	31 March 2018	31 December 2017
Less than 1 year	497.657.232	444.735.353
Between 1 - 5 years	1.909.038.200	1.695.330.708
Over 5 years	1.787.821.915	1.511.332.834
	4.194.517.347	3.651.398.895
Less: Future interest expenses	(685.539.513)	(584.186.123)
	3.508.977.834	3.067.212.772

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

	31 March 2018	31 December 2017
Less than 1 year	398.121.417	355.987.254
Between 1 - 5 years	1.550.413.282	1.387.401.998
Over 5 years	1.560.443.135	1.323.823.520
	3.508.977.834	3.067.212.772

The Group purchases certain of its aircraft and handling equipment through financial lease arrangements. The average lease term is 6,47 years. For the year ended 31 March 2018, the floating interest rate applicable to Euro-denominated lease obligations is 1,62% (31 December 2017: 1,64%) and the floating rate applicable to US Dollar-denominated lease obligations is 5,55% (31 December 2017: 5,54%).

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

Financial Risk Factors

Foreign currency risk management

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

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

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

31 March 2018	TL Total	USD	TL	GBP	Other
1. Trade receivables	384.758.978	10.854.436	302.760.159	901.676	34.141.804
2a. Monetary financial assets	1.884.301.130	452.008.211	48.566.252	3.962.878	28.851.254
2b. Non monetary financial assets	-	-	-	-	-
3. Other	662.781.755	166.624.456	105.896	-	4.692.545
4. CURRENT ASSETS	2.931.841.863	629.487.103	351.432.307	4.864.554	67.685.603
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	235.315.588	58.969.072	671.121	19.800	1.671.836
8. NON CURRENT ASSETS	235.315.588	58.969.072	671.121	19.800	1.671.836
9. TOTAL ASSETS	3.167.157.451	688.456.175	352.103.428	4.884.354	69.357.439
10. Trade payables	191.915.324	28.796.522	70.682.942	191.531	6.457.002
11. Financial liabilities	834.767.527	211.392.420	-	-	-
12a. Other liabilities, monetary	132.922.650	10.864.428	88.862.878	88.962	664.516
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	1.159.605.501	251.053.370	159.545.820	280.493	7.121.518
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.360.165.979	344.441.738	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	1.360.165.979	344.441.738	-	-	-
18. TOTAL LIABILITIES	2.519.771.480	595.495.108	159.545.820	280.493	7.121.518
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	(2.268.125)	19.692.370	-	(14.450.000)	-
19.a Off-balance sheet foreign currency derivative assets	77.763.200	19.692.370	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	80.031.325	-	-	14.450.000	-
20. Net foreign currency asset/(liability) position	647.385.971	92.961.067	192.557.608	4.603.861	62.235.921
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(250.711.372)	(132.632.461)	191.780.591	4.584.061	55.871.540

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

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

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity

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

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

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

31 March 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)	(52.375.233)	52.375.233	-	-
Part of hedged from USD risk	7.776.320	(7.776.320)	-	-
USD net effect	(44.598.913)	44.598.913	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	19.178.059	(19.178.059)	249.219.915	(249.219.915)
Part of hedged from TL risk	-	-	-	-
TL net effect	19.178.059	(19.178.059)	249.219.915	(249.219.915)
31 December 2017	Profit/(Loss)		Shareholders' equity	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / (liability)	(24.160.589)	24.160.589	-	-
Part of hedged from USD risk	6.116.815	(6.116.815)	-	-
USD net effect	(18.043.774)	18.043.774	-	-
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	-	-	-	-
TL net effect	(3.432.111)	3.432.111	246.087.693	(246.087.693)

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

Fair Value of Financial Instruments

31 March 2018	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected at fair value in profit/loss	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	2.053.879.874	-	-	-	2.053.879.874	26
Trade receivables	426.340.591	-	-	-	426.340.591	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	426.340.591	-	-	-	426.340.591	6
Other receivables	119.438.112	-	-	-	119.438.112	
- <i>Related party</i>	1.133.926	-	-	-	1.133.926	5
- <i>Other</i>	118.304.186	-	-	-	118.304.186	
Pre-delivery payment for purchase of aircraft	601.436.199	-	-	-	601.436.199	7
Derivative financial assets	-	33.814.605	3.196.719	-	37.011.324	21
Financial liabilities						
Bank borrowings	-	-	-	700.929.749	700.929.749	22
Obligations under financial leases	-	-	-	3.508.977.834	3.508.977.834	22
Trade payables	-	-	-	406.415.362	406.415.362	6
- <i>Related party</i>	-	-	-	1.143.884	1.143.884	5
- <i>Other</i>	-	-	-	405.271.478	405.271.478	
Passenger airport fees liability	-	-	-	112.235.541	112.235.541	7

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

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

Fair Value of Financial Instruments (cont'd)

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

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

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

Fair Value of Financial Instruments (cont'd)

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

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

Financial assets / (Financial liabilities)	Fair value as at		Fair value hierarchy	Valuation technique	
	31 March 2018	31 December 2017			
Fuel purchase option contracts	31.916.073	25.666.669	Level 2	Discounted cash flow method	
Fuel purchase forward contracts	1.898.532	4.034.930	Level 2	Discounted cash flow method	
Currency forward contracts	(2.775.490)	204.227	Level 2	Discounted cash flow method	
Interest rate swap contracts	3.196.719	2.074.015	Level 2	Discounted cash flow method	
31 March 2018	Fuel purchase forward contracts	Fuel purchase option contracts	Currency forward contracts	Interest rate swap contracts	Total
Fair value:					
Opening	4.034.930	25.666.669	204.227	2.074.015	31.979.841
Fair value increase					
Reflected at equity	(2.136.398)	6.249.404	-	-	4.113.006
Reflected at profit or loss	-	-	(2.979.717)	1.122.704	(1.857.013)
Closing	1.898.532	31.916.073	(2.775.490)	3.196.719	34.235.834
Assets	1.898.532	31.916.073	-	3.196.719	37.011.324
Liabilities	-	-	(2.775.490)	-	(2.775.490)
Total net assets and liabilities	1.898.532	31.916.073	(2.775.490)	3.196.719	34.235.834

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

Fair Value of Financial Instruments (cont'd)

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

NOTE 25 - EVENTS AFTER THE REPORTING PERIOD

None.

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NOTE 26 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

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

	31 March 2018	31 December 2017
Cash on hand	722.573	733.960
Cash at banks	2.053.157.301	1.987.376.287
- Demand deposits	68.745.617	57.522.636
- Time deposits	1.984.411.684	1.929.853.651
	2.053.879.874	1.988.110.247

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

31 March 2018	Weighted average interest rates	Total
USD deposits	3,87%	1.771.417.003
EUR deposits	1,43%	150.081.414
TL deposits	13,98%	38.089.158
GBP deposits	0,85%	18.831.773
CHF deposits	0,20%	5.992.336
		1.984.411.684

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

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