

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

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

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE
SIX-MONTH INTERIM PERIOD ENDED
30 JUNE 2017 TOGETHER WITH
THE INDEPENDENT AUDITOR'S
LIMITED REVIEW REPORT

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of Pegasus Hava Taşımacılığı A.Ş.

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Pegasus Hava Taşımacılığı A.Ş. and its subsidiaries (together will be referred as the “Group”) as of 30 June 2017 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Group management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with Turkish Accounting Standards 34 “Interim Financial Reporting” (“TAS 34”). Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Independent Auditing Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with TAS 34 “Interim Financial Reporting”.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



Zere Gaye Şentürk
Partner

İstanbul, 14 August 2017

INDEX	PAGE
CONDENSED CONSOLIDATED BALANCE SHEET	1-2
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER	
COMPREHENSIVE INCOME	3
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	4
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS.....	5
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	6-40
NOTE 1 ORGANISATION AND OPERATIONS OF THE GROUP.....	6
NOTE 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS.....	6-9
NOTE 3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	10-11
NOTE 4 SEGMENT REPORTING.....	11
NOTE 5 RELATED PARTY DISCLOSURES	12-14
NOTE 6 TRADE RECEIVABLES AND PAYABLES.....	15
NOTE 7 PREPAID EXPENSES AND DEFERRED INCOME	16
NOTE 8 PROPERTY AND EQUIPMENT.....	17-18
NOTE 9 INTANGIBLE ASSETS	19
NOTE 10 LEASING TRANSACTIONS.....	19
NOTE 11 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	20-21
NOTE 12 COMMITMENTS.....	22-24
NOTE 13 EXPENSES BY NATURE	25
NOTE 14 SHAREHOLDERS' EQUITY	25
NOTE 15 SALES AND COST OF SALES.....	26
NOTE 16 GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES	27
NOTE 17 OTHER OPERATING INCOME AND EXPENSES	28
NOTE 18 INCOME AND EXPENSES FROM INVESTING ACTIVITIES	28
NOTE 19 FINANCIAL INCOME AND EXPENSES.....	29
NOTE 20 EARNINGS PER SHARE	29
NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS	30
NOTE 22 FINANCIAL INSTRUMENTS.....	30-31
NOTE 23 NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS	31-34
NOTE 24 FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES).....	35-38
NOTE 25 EVENTS AFTER THE REPORTING PERIOD	38
NOTE 26 EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW	39

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Reviewed) 30 June 2017	Prior period (Audited) 31 December 2016
ASSETS			
Current assets		2.423.572.427	1.459.825.834
Cash and cash equivalents	26	1.200.234.131	692.270.625
Trade receivables	6	619.353.484	212.269.499
<i>Trade receivables from third parties</i>	6	<i>619.353.484</i>	<i>212.269.499</i>
Other receivables		30.575.158	118.760.830
<i>Other receivables from related parties</i>	5	<i>680.053</i>	<i>1.097.807</i>
<i>Other receivables from third parties</i>		<i>29.895.105</i>	<i>117.663.023</i>
Derivative financial instruments	21	1.045.107	1.127.368
Inventories		27.468.853	24.361.722
Prepaid expenses	7	538.839.072	399.994.707
Current income tax assets		2.025.310	3.586.742
Other current assets		4.031.312	7.454.341
Non-Current assets		4.002.057.675	4.158.192.161
Other receivables		16.798.878	21.031.698
<i>Other receivables from third parties</i>		<i>16.798.878</i>	<i>21.031.698</i>
Investments accounted by using the equity method	3	26.792.707	23.969.467
Property and equipment	8	3.746.781.537	3.848.615.403
Intangible assets	9	20.771.512	20.357.729
Prepaid expenses	7	188.739.304	237.363.891
Deferred tax assets		2.173.737	6.853.973
TOTAL ASSETS		6.425.630.102	5.618.017.995

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 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Reviewed) 30 June 2017	Prior period (Audited) 31 December 2016
LIABILITIES			
Current liabilities		2.059.466.091	1.038.827.055
Short term financial liabilities	22	359.875.028	-
Short term portion of long term financial liabilities	22	482.363.079	338.293.216
Trade payables	6	338.490.663	317.877.743
<i>Trade payables to related parties</i>	5	1.026.930	1.455.390
<i>Trade payables to third parties</i>		337.463.733	316.422.353
Employee benefit obligations		21.865.688	24.600.271
Other payables		60.048.743	32.220.476
<i>Other payables to third parties</i>		60.048.743	32.220.476
Derivative financial instruments	21	23.734.556	-
Deferred income	7	728.520.245	302.378.913
Short term provisions		44.266.588	23.243.506
<i>Short term provisions for employee benefits</i>		28.941.457	12.166.104
<i>Other short term provisions</i>		15.325.131	11.077.402
Other current liabilities		301.501	212.930
Non-Current liabilities		2.724.203.440	3.009.869.595
Long term financial liabilities	22	1.955.014.397	2.338.272.374
Deferred income		10.543.173	6.660.918
Long term provisions		511.383.441	431.155.469
<i>Long term provisions for employee benefits</i>		9.326.966	8.875.253
<i>Other long term provisions</i>		502.056.475	422.280.216
Deferred tax liabilities		247.262.429	233.780.834
SHAREHOLDERS' EQUITY		1.641.960.571	1.569.321.345
Equity attributable to shareholders' of the parent		1.664.265.235	1.575.439.911
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		779.114.491	638.375.994
Other comprehensive income/expense to be reclassified to profit or loss			
Hedge fund		(17.015.232)	291.850
Restricted profit reserves		5.016.306	5.016.306
Retained earnings		355.561.802	481.327.846
Net loss for the period		(42.570.882)	(133.730.835)
Non-controlling interest		(22.304.664)	(6.118.566)
TOTAL LIABILITIES AND EQUITY		6.425.630.102	5.618.017.995

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 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

Profit or loss	Notes	Current period	Prior period	Current period	Prior period
		(Reviewed)	(Reviewed)	(Not Reviewed)	(Not Reviewed)
		1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Sales	15	2.109.264.522	1.488.781.057	1.223.442.026	797.680.256
Cost of sales (-)	15	(2.121.153.836)	(1.604.870.009)	(1.090.696.946)	(827.410.369)
Gross profit/(loss)		(11.889.314)	(116.088.952)	132.745.080	(29.730.113)
General administrative expenses (-)	16	(83.706.120)	(72.908.841)	(42.186.727)	(37.567.870)
Marketing expenses (-)	16	(84.975.684)	(90.554.357)	(49.365.926)	(45.320.588)
Other operating income	17	16.104.211	1.060.927	(6.151.602)	639.066
Other operating expenses (-)	17	(2.964.882)	(6.907.450)	(414.112)	32.474.139
Operating income/(loss)		(167.431.789)	(285.398.673)	34.626.713	(79.505.366)
Income from investing activities	18	143.901.013	614.814	143.255.833	547.749
Expenses from investing activities (-)	18	(36.520.856)	(245.577)	(28.057.662)	9.167.692
Share of investments income accounted for using the equity method	3	2.463.971	1.879.583	1.368.754	832.574
Operating income/(loss) before financial expense		(57.587.661)	(283.149.853)	151.193.638	(68.957.351)
Financial income	19	67.832.678	38.422.006	63.842.919	6.742.868
Financial expense (-)	19	(52.238.206)	(19.281.683)	(29.869.841)	(9.838.814)
Income/(loss) before tax		(41.993.189)	(264.009.530)	185.166.716	(72.053.297)
Tax income/(expense)		(4.316.288)	61.051.718	(25.060.517)	59.659.419
Current tax expense		-	-	-	-
Deferred tax income/(expense)		(4.316.288)	61.051.718	(25.060.517)	59.659.419
Income/(loss) for the period		(46.309.477)	(202.957.812)	160.106.199	(12.393.878)
Net loss attributable to:					
Non-controlling interest		(3.738.595)	873.515	(563.599)	1.237.161
Shareholders' of the parent		(42.570.882)	(203.831.327)	160.669.798	(13.631.039)
		(46.309.477)	(202.957.812)	160.106.199	(12.393.878)
Income/(loss) per share (TL)	20	(0,42)	(1,99)	1,57	(0,13)
Other comprehensive income					
Items not to be reclassified to profit or loss					
Currency translation differences		140.981.505	10.290.455	53.440.416	(7.261.018)
Items to be reclassified to profit or loss					
Cash flow hedge		(21.633.853)	45.223.934	(11.260.245)	46.075.428
Deferred tax effect		4.326.771	(9.044.787)	2.252.049	(9.215.086)
Other comprehensive income		123.674.423	46.469.602	44.432.220	29.599.324
Total comprehensive income		77.364.946	(156.488.210)	204.538.419	17.205.446
Total comprehensive income attributable to:					
Non-controlling interest		(3.495.587)	765.527	(259.544)	786.671
Shareholders' of the parent		80.860.533	(157.253.737)	204.797.963	16.418.775
		77.364.946	(156.488.210)	204.538.419	17.205.446

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 30 JUNE 2017

(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	Hedge fund	Restricted profit reserves	Retained earnings	Net profit/(loss) for the period	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' equity
As at 1 January 2016	102.272.000	455.687.025	29.504.957	(3.172.494)	406.940.383	(22.138.754)	9.806.631	363.411.817	113.125.704	1.455.437.269	(2.705.640)	1.452.731.629
Transfers	-	-	-	-	-	-	(4.790.325)	117.916.029	(113.125.704)	-	-	-
Total comprehensive income	-	-	-	-	10.398.443	36.179.147	-	-	(203.831.327)	(157.253.737)	765.527	(156.488.210)
As at 30 June 2016	102.272.000	455.687.025	29.504.957	(3.172.494)	417.338.826	14.040.393	5.016.306	481.327.846	(203.831.327)	1.298.183.532	(1.940.113)	1.296.243.419
As at 1 January 2017	102.272.000	455.687.025	29.504.957	(3.305.232)	638.375.994	291.850	5.016.306	481.327.846	(133.730.835)	1.575.439.911	(6.118.566)	1.569.321.345
Increase according to the share-based transactions (*)	-	-	-	-	-	-	-	7.964.791	-	7.964.791	(12.690.511)	(4.725.720)
Transfers	-	-	-	-	-	-	-	(133.730.835)	133.730.835	-	-	-
Total comprehensive income	-	-	-	-	140.738.497	(17.307.082)	-	-	(42.570.882)	80.860.533	(3.495.587)	77.364.946
As at 30 June 2017	102.272.000	455.687.025	29.504.957	(3.305.232)	779.114.491	(17.015.232)	5.016.306	355.561.802	(42.570.882)	1.664.265.235	(22.304.664)	1.641.960.571

(*) 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. The transaction has been completed with and the approvals obtained from the General Directorate of Turkish Civil Aviation and the competent competition authorities. 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%.

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 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Reviewed) 1 January- 30 June 2017	Prior period (Reviewed) 1 January- 30 June 2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Income/(loss) for the period		(46.309.477)	(202.957.812)
Adjustments to reconcile the net profit/(loss)			
Depreciation and amortization	8-9	162.752.291	100.403.998
Adjustments related with impairments		1.887.090	250.996
<i>Provision for doubtful receivable</i>		<i>1.887.090</i>	<i>250.996</i>
Adjustments related with provisions		108.621.231	61.292.935
<i>Provision for employee benefits</i>		<i>20.150.927</i>	<i>8.071.391</i>
<i>Legal provision</i>		<i>2.124.786</i>	<i>35.256</i>
<i>Change in redelivery provision</i>		<i>86.345.518</i>	<i>53.186.288</i>
Interest and commission income	19	37.163.117	2.885.159
Gain on equity investments accounted for using the equity method	3	(2.463.971)	(1.879.583)
Current tax expense		4.316.288	(61.051.718)
Other provisions related with investing or financing activities		(119.418.940)	(100.371.274)
Changes in working capital			
Increase in trade receivables		(408.852.093)	(111.229.709)
Decrease in other receivables, prepaid expenses and other current assets		123.406.834	68.001.934
Increase in inventories		(3.107.131)	(4.641.615)
Increase in trade payables		20.612.920	32.943.322
Increase in deferred income, other payables and other current liabilities		455.202.554	248.156.355
Net cash generated from operating activities		333.810.713	31.802.988
Payment for employee, executive bonus plan and retirement benefits		(3.106.673)	(14.927.456)
Payment for other provisions		(32.341)	(89.556)
		330.671.699	16.785.976
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of subsidiary		(4.725.720)	-
Payment for purchase of joint-venture share		-	(4.409.850)
Proceeds from sale of aircraft		587.259.038	-
Proceeds from sale of property, equipment and intangible assets		3.008.715	699.307
Cash outflows from purchase of property, equipment and intangible assets		(47.670.433)	(177.694.225)
Changes in cash advances and payables		(143.243.631)	(242.302.405)
		394.627.969	(423.707.173)
C. CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in borrowings		359.875.028	697.352
Repayment of principal in financial lease liabilities		(404.563.492)	(103.439.951)
Interest and commission paid		(47.247.748)	(19.298.154)
Interest received		9.502.989	17.882.091
		(82.433.223)	(104.158.662)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
BEFORE TRANSLATION EFFECT (A+B+C)		642.866.445	(511.079.859)
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		(134.902.939)	(17.186.120)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		507.963.506	(528.265.979)
E. CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD	26	692.270.625	954.974.093
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD (A+B+C+D+E)	26	1.200.234.131	426.708.114

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 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

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

The shareholders and their respective holdings in the Company as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Esas Holding A.Ş. (“Esas Holding”)	62,92%	62,92%
Publicly held	34,51%	34,51%
Sabancı Family Members	2,57%	2,57%
Total	100,00%	100,00%

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

The Group’s total number of full time employees as of 30 June 2017 is 5.273 (31 December 2016: 5.257). 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 30 June 2017 and delegated authority for publishing it on 14 August 2017. 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 Group has prepared the condensed financial statements and its notes for the interim period ended 30 June 2017 in accordance with TAS 34 “Interim Financial Reporting”.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(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 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; 30 June 2017: 1 Euro (€) = TL 4,0030 , 1 US Dollar (\$) = TL 3,5071 (31 December 2016: 1 Euro (€) = TL 3,7099, 1 US Dollar (\$) = TL 3,5192).
- 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 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 30 June 2017 and 31 December 2016:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2017</u>	<u>31 December 2016</u>	
IHY İzmir Havayolları A.Ş. ("İzair") (*)	Air transportation	98,63%	69,12%	Turkey
Air Company "Air Manas" LTD ("Air Manas") (**)	Air transportation	49,00%	49,00%	Kyrgyzstan
Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.	Simulator technical support and maintenance	100,00%	100,00%	Turkey

(*) 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. The transaction has been completed with the approvals obtained from the General Directorate of Turkish Civil Aviation and the competent competition authorities. 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%.

(**) In accordance with its rights arising from Air Manas Articles of Association, the Company has the right to control Air Manas operations with 49% shareholding rate and therefore, Air Manas was included in line by line consolidation as a subsidiary as of 30 June 2017 and 31 December 2016.

The table below sets out affiliates and joint ventures then indicates the proportion of ownership interest of the Company in these affiliates and joint ventures as of 30 June 2017 and 31 December 2016:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2017</u>	<u>31 December 2016</u>	
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Simulator training	49,40%	49,40%	Turkey
Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar")	Information system solutions	50,00%	50,00%	Turkey

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

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

2.2 Significant Accounting Policies

Condensed consolidated financial statements for the interim period with respect to the period ending on 30 June 2017 are prepared in accordance with TAS 34 standard pertaining to the preparation of TAS's interim period condensed financial statements. Further, condensed consolidated financial statements with respect to the period ending on 30 June 2017 are prepared upon applying such accounting policies that are consistent with the accounting policies applied during preparation of the consolidated financial statements corresponding to the year ending on 31 December 2016. Therefore, such interim period condensed consolidated financial statements have to be assessed together with the consolidated financial statements corresponding to the year ending on 31 December 2016.

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 2016.

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

(a) Amendments to TAS affecting amounts reported and/or disclosures in the financial statements

None.

(b) New and revised standards applied with no material effect on the consolidated financial statements

None.

(c) 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 9	<i>Financial Instruments</i> ¹
TFRS 15	<i>Revenue from Contracts with Customers</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2018.

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

2.5 Seasonality on Operations

Due to seasonality of air passenger transportation, Company expected to incur higher sales revenue in the second half of the year compared to the first half. As a result of higher sales with the effect of summer season and growth of the Company, trade receivables and passenger flight liabilities under deferred income increased as of 30 June 2017 compared to last year-end.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(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:

	30 June 2017	31 December 2016
Joint ventures		
Hitit Bilgisayar	21.303.681	19.395.216
PUEM	5.489.026	4.574.251
	26.792.707	23.969.467

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

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Hitit Bilgisayar	1.920.869	1.464.196	1.100.101	674.234
PUEM	543.102	415.387	268.653	158.340
Net profit	2.463.971	1.879.583	1.368.754	832.574

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

Pegasus Uçuş Eğitim Merkezi A.Ş.

	30 June 2017	31 December 2016
Current assets	835.170	1.055.078
Non-current assets	18.995.850	18.209.286
Current liabilities	(6.175.933)	(7.741.613)
Non-current liabilities	(2.543.698)	(2.263.134)
Net assets of joint venture	11.111.389	9.259.617
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	5.489.026	4.574.251
	1 January- 30 June 2017	1 January- 30 June 2016
Revenue	3.483.658	3.245.429
Profit for the period	1.099.396	840.864
Group's ownership interest	49,40%	49,40%
Group's share in the net assets of the joint venture	543.102	415.387

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

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

Hitit Bilgisayar Hizmetleri A.Ş.

	30 June 2017	31 December 2016
Current assets	18.206.684	16.549.837
Non-current assets	27.058.814	25.960.551
Current liabilities	(4.305.436)	(5.390.180)
Non-current liabilities	(137.724)	(114.800)
Net assets of joint venture	40.822.338	37.005.408
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	21.303.681	19.395.216
	1 January- 30 June 2017	1 April- 30 June 2016
Revenue	20.075.662	17.432.070
Profit for the period	3.841.738	3.149.080
Group's weighted average ownership interest	50%	40%
Group's share in the net assets of the joint venture	1.920.869	1.464.196

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 5 - RELATED PARTY TRANSACTIONS

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

(i) Balances with Related Parties:

a) Other receivables from related parties

	30 June 2017	31 December 2016
Balances with joint ventures and subsidiaries:		
PUEM	552.502	999.811
Balances with other related parties:		
Air Berlin Plc&Co Luftverkehrs Kg	127.551	86.218
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	-	11.778
	680.053	1.097.807

b) Trade payables to related parties

	30 June 2017	31 December 2016
Balances with joint ventures and subsidiaries:		
Hitit Bilgisayar	1.026.930	1.277.402
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	-	177.988
	1.026.930	1.455.390

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(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 services from Doğan Burda for magazine advertising and printing expenditures.

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- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Balances with joint ventures and subsidiaries:				
PUEM	663.097	327.036	307.318	182.348
Balances with other related parties:				
Air Berlin Plc&Co Luftverkehrs Kg	884.401	2.221.117	33.378	1.201.656
Doğan Burda	-	46.264	-	43.075
	1.547.498	2.594.417	340.696	1.427.079

b) Purchases of goods or services

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Balances with joint ventures and subsidiaries:				
Hitit Bilgisayar	6.905.718	4.697.384	2.134.226	2.249.192
PUEM	3.483.658	3.245.429	1.719.615	1.766.328
Balances with other related parties:				
Esasburda	1.087.334	768.435	651.525	358.612
Other	-	3.871	-	1.550
	11.476.710	8.715.119	4.505.366	4.375.682

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

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

c) Rent expenses

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Esasburda	3.138.010	2.520.696	1.655.361	1.241.763
	3.138.010	2.520.696	1.655.361	1.241.763

d) Surety commission expenses

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Esas Holding (Note 19)	6.269.914	6.101.034	2.885.247	2.967.833
	6.269.914	6.101.034	2.885.247	2.967.833

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,675% of the 115% of the amount guaranteed.

(iii) Compensation of Key Management Personnel:

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the period ended 30 June 2017 and 2016 are as follows:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Salaries and other short term benefits	4.652.216	7.662.161	2.292.704	2.375.924
Other long term benefits	985.195	3.523.737	-	-
	5.637.411	11.185.898	2.292.704	2.375.924

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

Short term trade receivables

The details of short term trade receivables as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Trade receivables	175.740.898	89.631.639
Credit card receivables	454.208.481	129.356.458
Income accruals	408.326	2.279.549
	630.357.705	221.267.646
Less: Allowance for doubtful receivables	(11.004.221)	(8.998.147)
	619.353.484	212.269.499

Short term trade payables

The details of short term trade payables as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Trade payables	159.232.341	235.037.980
Accrued direct operational costs	160.480.310	65.407.597
Other accrued expenses	17.751.082	15.976.776
Due to related parties (Note 5)	1.026.930	1.455.390
	338.490.663	317.877.743

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 7 - PREPAID EXPENSES AND DEFERRED INCOME

The details of prepaid expenses as of 30 June 2017 and 31 December 2016 are as follows:

Short term prepaid expenses

	30 June 2017	31 December 2016
Advances on aircraft purchases	364.872.813	180.317.329
Advances to suppliers	115.471.938	156.973.574
Prepaid aircraft operating lease expenses	42.283.384	42.065.722
Prepaid insurance expenses	3.493.335	14.297.869
Prepaid advertising expenses	371.064	588.452
Other prepaid expenses	12.346.538	5.751.761
	538.839.072	399.994.707

Long term prepaid expenses

	30 June 2017	31 December 2016
Advances on aircraft purchases	176.955.197	224.414.166
Other prepaid expenses	11.784.107	12.949.725
	188.739.304	237.363.891

The details of deferred income as of 30 June 2017 and 31 December 2016 are as follows:

Short term deferred income

	30 June 2017	31 December 2016
Passenger flight liabilities	671.923.195	262.726.328
Advances received from customers	42.800.504	11.190.304
Deferred income from sale of subsidiary (*)	-	18.743.784
Other deferred income	13.796.546	9.718.497
	728.520.245	302.378.913

(*) 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.

The details of passenger flight liabilities as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Flight liability from ticket sales	532.319.337	177.504.919
Passenger airport fees received from customers	106.432.813	60.671.024
Flight liability from flight points	33.171.045	24.550.385
	671.923.195	262.726.328

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 8 - PROPERTY AND EQUIPMENT

30 June 2017	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in process	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	1.366.703	-	3.851.655	-	45.469.780	179.250.770	1.363.917	231.302.825
Disposals	(79.394)	(711.269)	(868)	-	(766.038)	(770.834.670)	-	(772.392.239)
Transfers	-	-	-	99.315	(19.802.804)	19.802.804	(99.315)	-
Currency translation differences	3.530.626	4.213.834	5.890.271	3.779.041	34.995.755	286.338.524	36.453	338.784.504
Closing	63.264.553	58.449.790	83.519.909	51.814.486	385.829.883	4.225.310.457	1.716.164	4.869.905.242
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 period	(2.121.439)	(2.083.619)	(4.578.980)	(3.759.819)	(18.844.251)	(127.339.827)	-	(158.727.935)
Disposals	26.797	469.399	39	-	127.095	297.038.550	-	297.661.880
Currency translation differences	(405.892)	(512.786)	(3.444.284)	(2.329.130)	(5.205.982)	(26.564.827)	-	(38.462.901)
Closing	(7.564.874)	(8.590.252)	(50.608.024)	(34.965.195)	(85.710.044)	(935.685.316)	-	(1.123.123.705)
Net book value	55.699.679	49.859.538	32.911.885	16.849.291	300.119.839	3.289.625.141	1.716.164	3.746.781.537

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 8 - PROPERTY AND EQUIPMENT (cont'd)

30 June 2016	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in process	Total
Cost:								
Opening	9.746.987	11.637.132	54.184.095	37.279.765	112.911.844	2.706.657.545	55.291.499	2.987.708.867
Additions	712.778	1.510.361	4.811.821	344.368	110.865.367	30.209.574	26.483.200	174.937.469
Disposals	(4.405)	(1.303.596)	(135.993)	-	(23.057)	-	-	(1.467.051)
Transfers	16.351.473	38.355.079	1.731.124	1.296.035	-	-	(57.733.711)	-
Currency translation differences	(357.364)	(895.627)	337.782	274.091	(795.126)	20.727.034	1.518.459	20.809.249
Closing	26.449.469	49.303.349	60.928.829	39.194.259	222.959.028	2.757.594.153	25.559.447	3.181.988.534
Accumulated depreciation:								
Opening	(2.585.198)	(4.687.833)	(29.952.719)	(18.985.851)	(33.930.943)	(784.258.158)	-	(874.400.702)
Depreciation for the period	(603.128)	(1.250.440)	(3.258.379)	(2.852.822)	(7.711.431)	(82.179.869)	-	(97.856.069)
Disposals	-	706.437	60.848	-	459	-	-	767.744
Currency translation differences	(10.097)	(30.069)	(201.807)	(114.706)	(135.768)	(4.692.964)	-	(5.185.411)
Closing	(3.198.423)	(5.261.905)	(33.352.057)	(21.953.379)	(41.777.683)	(871.130.991)	-	(976.674.438)
Net book value	23.251.046	44.041.444	27.576.772	17.240.880	181.181.345	1.886.463.162	25.559.447	2.205.314.096

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 9 - INTANGIBLE ASSETS

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

30 June 2016	Brand	Software	Total
Cost:			
Opening	2.240.209	32.251.720	34.491.929
Additions	-	2.756.756	2.756.756
Currency translation differences	18.894	107.589	126.483
Closing	2.259.103	35.116.065	37.375.168
Accumulated amortization:			
Opening	(980.090)	(18.943.166)	(19.923.256)
Amortization for the period	(57.382)	(2.490.547)	(2.547.929)
Currency translation differences	(7.361)	(117.469)	(124.830)
Closing	(1.044.833)	(21.551.182)	(22.596.015)
Net book value	1.214.270	13.564.883	14.779.153

Remaining average useful life of intangible assets as of 30 June 2017 is 2,2 years (31 December 2016: 2,2 years).

NOTE 10 - LEASING TRANSACTIONS

Details related to leasing transactions are disclosed in Note 22.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11- PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigation

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 14.404.778 as of 30 June 2017 (31 December 2016: TL 11.768.340). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 8.465.703 (31 December 2016: TL 6.373.258) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 545.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.212. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 30 June 2017 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

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. 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.

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 12 - COMMITMENTS

Purchase Commitments

	30 June 2017	31 December 2016
Commitments to purchase aircraft	28.853.165.121	30.172.478.983
	28.853.165.121	30.172.478.983

As of 30 June 2017, the Group holds firm orders for 68 aircraft. The expected deliveries are: 5 aircraft in 2017, 10 aircraft in 2018, 14 aircraft in 2019, 13 aircraft in 2020, 13 aircraft in 2021, 13 aircraft in 2022. 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 541.828.010 (31 December 2016: TL 404.731.495) and TL 364.872.813 of this amount is reclassified under short term, TL 176.955.197 of this amount is reclassified under long term prepaid expenses (31 December 2016: TL 180.317.329 of this amount is reclassified under short term, TL 224.414.166 of this amount is reclassified under long term prepaid expenses).

The Company as Lessee

Operating Lease Agreements:

Payments recognised as expense:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Minimum lease payments	283.651.692	207.110.001	138.485.904	104.300.895
	283.651.692	207.110.001	138.485.904	104.300.895

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

The non-cancellable operating lease liabilities as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Less than 1 year	532.734.693	546.554.494
Between 1 - 5 years	1.452.747.718	1.619.658.343
Over 5 years	240.686.573	339.147.938
	2.226.168.984	2.505.360.775

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 12 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages(“CPM”)

The details of the CPMs given by the Group as of 30 June 2017 is as follows:

30 June 2017	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	944.965.315	255.032.461	7.118.650	12.098.247	9.946.768
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	49.007.830	8.737.000	-	18.366.297	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	4.715.995	1.344.699	-	-	-
-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	-	-	-	-	-
	998.689.140	265.114.160	7.118.650	30.464.544	9.946.768

(*) 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 30 June 2017.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 12 - COMMITMENTS (cont'd)

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

The details of the CPMs given by the Group as of 31 December 2016 is as follows:

31 December 2016	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	567.220.217	147.492.033	7.084.248	12.315.097	9.569.306
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	49.113.547	8.737.000	-	18.366.297	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	6.316.380	1.794.834	-	-	-
-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	-	-	-	-	-
	622.650.144	158.023.867	7.084.248	30.681.394	9.569.306

(*) 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 2016.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 13 - EXPENSES BY NATURE

The details of expenses by nature for the years ended 30 June 2017 and 2016 are as follows:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Jet fuel expenses	675.757.276	432.269.816	350.140.868	230.153.070
Personnel expenses	319.958.345	313.094.528	170.053.828	159.052.094
Operating lease expenses	283.651.692	207.110.001	138.485.904	104.300.895
Maintenance expenses	217.995.509	172.920.594	107.126.333	90.806.803
Handling and station fees	173.104.753	147.294.995	93.452.840	72.043.121
Depreciation and amortisation expenses	162.752.291	100.403.998	80.045.051	51.196.694
Navigation expenses	144.512.963	117.011.503	76.856.328	61.348.437
Landing expenses	72.532.969	55.788.799	38.645.607	28.576.373
Commission expenses	46.681.489	32.344.039	28.442.049	16.179.808
Passenger service and catering expenses	24.114.385	21.694.251	13.295.785	11.383.737
Advertising expenses	18.369.052	40.794.186	11.171.246	19.110.235
Other expenses	150.404.916	127.606.497	74.533.760	66.147.560
	2.289.835.640	1.768.333.207	1.182.249.599	910.298.827

NOTE 14 - SHAREHOLDERS' EQUITY

The Company's shareholding structure as of 30 June 2017 and 31 December 2016 is as follows:

Shareholders:	30 June 2017		31 December 2016	
	(%)	TL	(%)	TL
Esas Holding	62,92	64.353.570	62,92	64.353.570
Publicly held	34,51	35.294.000	34,51	35.294.000
Emine Kamyşlı	0,86	874.810	0,86	874.810
Ali İsmail Sabancı	0,86	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
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 2016: 102.272.000 shares). All issued shares are fully paid in cash.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 15 - SALES AND COST OF SALES

The details of sales and cost of sales for the years ended 30 June 2017 and 2016 are as follows:

Sales:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Scheduled flights	1.435.583.497	1.071.975.372	858.580.414	572.211.944
<i>International scheduled flights</i>	<i>858.312.711</i>	<i>607.058.955</i>	<i>517.511.025</i>	<i>312.960.901</i>
<i>Domestic scheduled flights</i>	<i>577.270.786</i>	<i>464.916.417</i>	<i>341.069.389</i>	<i>259.251.043</i>
Ancillary revenue	501.528.005	370.809.734	275.974.485	194.976.145
Wetlease revenue	79.837.804	-	29.786.467	-
Charter flights	46.607.847	18.023.047	38.144.841	15.984.774
Other revenue	45.707.369	27.972.904	20.955.819	14.507.393
	2.109.264.522	1.488.781.057	1.223.442.026	797.680.256

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

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Europe	600.487.582	424.418.549	363.934.801	236.510.158
Domestic	577.270.786	464.916.417	341.069.389	259.251.043
Other	257.825.129	182.640.406	153.576.224	76.450.743
	1.435.583.497	1.071.975.372	858.580.414	572.211.944

Cost of sales:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Jet fuel expenses	675.757.276	432.269.816	350.140.868	230.153.070
Operating lease expenses	283.651.692	207.110.001	138.485.904	104.300.895
Personnel expenses	281.494.290	277.682.205	150.874.409	142.227.731
Maintenance expenses	217.995.509	172.920.594	107.126.333	90.806.803
Handling and station fees	173.104.753	147.294.995	93.452.840	72.043.121
Depreciation and amortisation expenses	145.700.614	89.505.481	71.535.489	45.256.387
Navigation expenses	144.512.963	117.011.503	76.856.328	61.348.437
Landing expenses	72.532.969	55.788.799	38.645.607	28.576.373
Passenger service and catering expenses	24.114.385	21.694.251	13.295.785	11.383.737
Other expenses	102.289.385	83.592.364	50.283.383	41.313.815
	2.121.153.836	1.604.870.009	1.090.696.946	827.410.369

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Marketing expenses	84.975.684	90.554.357	49.365.926	45.320.588
General administrative expenses	83.706.120	72.908.841	42.186.727	37.567.870
	168.681.804	163.463.198	91.552.653	82.888.458

The details of general administrative expenses and marketing expenses for the years ended 30 June 2017 and 2016 are as follows (there are no research & development expenses in the periods ended in respective dates):

General administrative expenses:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Personnel expenses	28.687.579	27.690.192	14.178.440	12.556.506
Depreciation and amortisation expenses	13.805.979	8.812.410	6.889.580	4.799.523
IT expenses	13.242.423	10.947.361	5.914.110	5.705.342
Rent expenses	9.549.778	7.931.972	4.720.036	3.948.963
Consultancy expenses	5.309.845	3.357.817	3.071.371	1.891.401
Travel expenses	2.014.648	1.718.601	1.700.466	1.011.597
Legal and notary expenses	1.941.282	2.383.858	820.651	1.549.635
Office utility expenses	1.340.496	1.124.313	554.242	532.424
Communication expenses	873.121	811.194	446.683	432.010
Training expenses	282.756	1.132.538	152.252	592.220
Other expenses	6.658.213	6.998.585	3.738.896	4.548.249
	83.706.120	72.908.841	42.186.727	37.567.870

Marketing expenses:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Commission expenses	46.681.489	32.344.039	28.442.049	16.179.808
Advertising expenses	18.369.052	40.794.186	11.171.246	19.110.235
Personnel expenses	9.776.476	7.722.131	5.000.979	4.267.857
Call center expenses	5.002.585	5.180.611	2.526.532	2.602.332
Depreciation and amortisation expenses	3.245.698	2.086.107	1.619.982	1.140.784
Other expenses	1.900.384	2.427.283	605.138	2.019.572
	84.975.684	90.554.357	49.365.926	45.320.588

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

The details of other operating income and expenses for the years ended 30 June 2017 and 2016 are as follows:

Other operating income:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Foreign exchange gain from operating activities	14.638.428	-	(6.964.112)	-
Other income	1.465.783	1.060.927	812.510	639.066
	16.104.211	1.060.927	(6.151.602)	639.066

Other operating expenses:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Doubtful receivable expense	1.887.090	250.996	(279.638)	217.585
Foreign exchange loss from operating activities	-	5.734.531	-	(32.893.546)
Other expense	1.077.792	921.923	693.750	201.822
	2.964.882	6.907.450	414.112	(32.474.139)

NOTE 18 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of income and expenses from investing activities for the years ended 30 June 2017 and 2016 are as follows:

Income from investing activities:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Income from sale of aircraft	121.601.904	-	121.601.904	-
Income from sale of subsidiary	20.224.633	-	20.224.633	-
Other income	2.074.476	614.814	1.429.296	547.749
	143.901.013	614.814	143.255.833	547.749

Expenses from investing activities:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Foreign exchange loss from investing activities	36.520.856	245.577	28.057.662	(9.167.692)
	36.520.856	245.577	28.057.662	(9.167.692)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 19 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses for the years ended 30 June 2017 and 2016 are as follows:

Financial income:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Foreign exchange gain	56.902.614	6.942.121	57.635.150	(10.761.155)
Interest income	10.930.064	16.396.524	6.207.769	5.007.062
Gain on derivative contracts	-	15.083.361	-	12.496.961
	67.832.678	38.422.006	63.842.919	6.742.868

Financial expenses:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Interest expense on financial lease	24.747.705	2.908.385	13.046.460	1.402.966
Other commission expenses	15.720.873	10.272.264	8.712.387	5.468.015
Surety commission expenses	6.269.914	6.101.034	2.885.247	2.967.833
Losses from derivative contracts	4.145.025	-	3.933.551	-
Interest expense on bank loans	1.354.689	-	1.292.196	-
	52.238.206	19.281.683	29.869.841	9.838.814

NOTE 20 - EARNINGS / LOSS PER SHARE

Earnings/(loss) per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 30 June 2017 and 2016 are as follows:

	1 January- 30 June 2017	1 January- 30 June 2016	1 April - 30 June 2017	1 April - 30 June 2016
Net income/(loss) attributable to the shareholders of the parent	(42.570.882)	(203.831.327)	160.669.798	(13.631.039)
Weighted average number of shares issued in the period	102.272.000	102.272.000	102.272.000	102.272.000
Income/(loss) per share	(0,42)	(1,99)	1,57	(0,13)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 21 - DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments

	30 June 2017		31 December 2016	
	Asset	Liability	Asset	Liability
Short term	1.045.107	23.734.556	1.127.368	-
	1.045.107	23.734.556	1.127.368	-

Explanations related to derivative instruments are disclosed in Note 24.

NOTE 22 - FINANCIAL INSTRUMENTS

Financial Liabilities

The details of financial liabilities as of 30 June 2017 and 31 December 2016 are as follows:

Short term financial liabilities	30 June 2017	31 December 2016
Short term bank borrowings	359.875.028	-
Short term portion of long term financial lease obligations	482.363.079	338.293.216
	842.238.107	338.293.216
Long term financial liabilities	30 June 2017	31 December 2016
Long term financial lease obligations	1.955.014.397	2.338.272.374
	1.955.014.397	2.338.272.374

a) Bank Borrowings

The effective interest rates, original currency and TL equivalents of the borrowings as of 30 June 2017 is as follows (31 December 2016: None):

30 June 2017	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	0,00 (*)	TL	9.165.029	9.165.029
	Libor + 0,75	USD	100.000.000	350.709.999
				359.875.028

(*) Amount consists of non-interest bearing loans for monthly social security premiums and tax payments.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

NOTE 22 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Financial Lease Liabilities

The details of financial lease liabilities as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Less than 1 year	536.895.682	389.599.184
Between 1 - 5 years	1.234.534.951	1.549.886.614
Over 5 years	1.039.277.920	1.118.924.055
	2.810.708.553	3.058.409.853
Less: Future interest expenses	(373.331.077)	(381.844.263)
	2.437.377.476	2.676.565.590

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

	30 June 2017	31 December 2016
Less than 1 year	482.363.079	338.293.216
Between 1 - 5 years	1.035.492.475	1.348.471.440
Over 5 years	919.521.922	989.800.934
	2.437.377.476	2.676.565.590

The Group purchases certain of its aircraft and handling equipment through financial lease arrangements. The average lease term is 5,86 years. For the year ended 30 June 2017, the floating interest rate applicable to Euro-denominated lease obligations is 0,6+% (31 December 2016: 0,50%) and the floating rate applicable to US Dollar-denominated lease obligations is 5,13% (31 December 2016: 4,61%).

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

Financial Risk Factors

Foreign currency risk management

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

The Group's foreign currency position of monetary and non-monetary assets/liabilities for the years ended 30 June 2017 and 31 December 2016 are as follows:

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

30 June 2017	TL Total	USD	TL	GBP	Other
1. Trade receivables	498.149.722	31.070.314	314.348.205	4.159.509	55.945.241
2a. Monetary financial assets	1.083.144.815	273.339.674	79.226.775	3.093.544	31.239.758
2b. Non monetary financial assets	-	-	-	-	-
3. Other	380.389.602	107.026.165	673.051	60.782	4.089.058
4. CURRENT ASSETS	1.961.684.139	411.436.153	394.248.031	7.313.835	91.274.057
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	192.937.674	54.386.191	655.761	19.800	1.454.185
8. NON CURRENT ASSETS	192.937.674	54.386.191	655.761	19.800	1.454.185
9. TOTAL ASSETS	2.154.621.813	465.822.344	394.903.792	7.333.635	92.728.242
10. Trade payables	154.887.186	23.769.825	60.529.964	125.922	10.422.219
11. Financial liabilities	495.524.621	138.678.564	9.165.029	-	-
12a. Other liabilities, monetary	112.116.483	13.244.297	64.951.208	21.764	617.364
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	762.528.290	175.692.686	134.646.201	147.686	11.039.583
14. Trade payables	-	-	-	-	-
15. Financial liabilities	901.685.026	257.102.742	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	901.685.026	257.102.742	-	-	-
18. TOTAL LIABILITIES	1.664.213.316	432.795.428	134.646.201	147.686	11.039.583
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	(2.204.769)	18.438.560	-	(14.725.000)	-
19.a Off-balance sheet foreign currency derivative assets	64.665.874	18.438.560	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	66.870.643	-	-	14.725.000	-
20. Net foreign currency asset/(liability) position	490.408.497	33.026.916	260.257.591	7.185.949	81.688.659
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(82.918.779)	(128.385.440)	258.928.779	7.105.367	76.145.416

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2016	TL Total	USD	TL	GBP	Other
1. Trade receivables	136.119.410	10.462.426	39.600.493	3.176.579	45.980.220
2a. Monetary financial assets	479.857.123	115.814.353	56.509.870	998.995	11.458.822
2b. Non monetary financial assets	-	-	-	-	-
3. Other	289.345.009	75.327.858	20.187.181	59.823	3.805.661
4. CURRENT ASSETS	905.321.542	201.604.637	116.297.544	4.235.397	61.244.703
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	244.691.900	68.925.723	587.209	19.800	1.455.772
8. NON CURRENT ASSETS	244.691.900	68.925.723	587.209	19.800	1.455.772
9. TOTAL ASSETS	1.150.013.442	270.530.360	116.884.753	4.255.197	62.700.475
10. Trade payables	201.568.025	34.159.184	71.634.896	294.638	8.447.617
11. Financial liabilities	134.221.362	38.139.737	-	-	-
12a. Other liabilities, monetary	72.402.420	(1.597.712)	77.729.155	-	295.933
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	408.191.807	70.701.209	149.364.051	294.638	8.743.550
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.125.413.365	319.792.386	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	1.125.413.365	319.792.386	-	-	-
18. TOTAL LIABILITIES	1.533.605.172	390.493.595	149.364.051	294.638	8.743.550
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	(383.591.730)	(119.963.235)	(32.479.298)	3.960.559	53.956.925
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(917.628.639)	(264.216.816)	(53.253.688)	3.880.936	48.695.492

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity

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

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

Foreign currency sensitivity tables as of 30 June 2017 and 31 December 2016 are as follows:

30 June 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)	(45.026.058)	45.026.058	-	-
Part of hedged from USD risk	6.466.587	(6.466.587)	-	-
USD net effect	(38.559.471)	38.559.471	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	25.892.878	(25.892.878)	165.897.580	(165.897.580)
Part of hedged from TL risk	-	-	-	-
TL net effect	25.892.878	(25.892.878)	165.897.580	(165.897.580)
31 December 2016	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)	(92.983.182)	92.983.182	-	-
Part of hedged from USD risk	-	-	-	-
USD net effect	(92.983.182)	92.983.182	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	(5.325.369)	5.325.369	121.925.547	(121.925.547)
Part of hedged from TL risk	-	-	-	-
TL net effect	(5.325.369)	5.325.369	121.925.547	(121.925.547)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments

30 June 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	1.200.234.131	-	-	-	1.200.234.131	26
Trade receivables	619.353.484	-	-	-	619.353.484	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	619.353.484	-	-	-	619.353.484	6
Other receivables	47.374.036	-	-	-	47.374.036	
- <i>Related party</i>	680.053	-	-	-	680.053	5
- <i>Other</i>	46.693.983	-	-	-	46.693.983	
Pre-delivery payment for purchase of aircraft	541.828.010	-	-	-	541.828.010	7
Derivative financial assets	-	-	1.045.107	-	1.045.107	21
Financial liabilities						
Bank borrowings	-	-	-	359.875.028	359.875.028	22
Obligations under financial leases	-	-	-	2.437.377.476	2.437.377.476	22
Trade payables	-	-	-	338.490.663	338.490.663	6
- <i>Related party</i>	-	-	-	1.026.930	1.026.930	5
- <i>Other</i>	-	-	-	337.463.733	337.463.733	
Passenger airport fees liability	-	-	-	106.432.813	106.432.813	7
Derivative financial liabilities	-	21.269.040	2.465.516	-	23.734.556	21

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments (cont'd)

31 December 2016	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	692.270.625	-	-	-	692.270.625	26
Trade receivables	212.269.499	-	-	-	212.269.499	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	212.269.499	-	-	-	212.269.499	6
Other receivables	139.792.528	-	-	-	139.792.528	
- <i>Related party</i>	1.097.807	-	-	-	1.097.807	5
- <i>Other</i>	138.694.721	-	-	-	138.694.721	
Pre-delivery payment for purchase of aircraft	404.731.495	-	-	-	404.731.495	7
Derivative financial assets	-	364.813	762.555	-	1.127.368	21
Financial liabilities						
Obligations under financial leases	-	-	-	2.676.565.590	2.676.565.590	22
Trade payables	-	-	-	317.877.743	317.877.743	6
- <i>Related party</i>	-	-	-	1.455.390	1.455.390	5
- <i>Other</i>	-	-	-	316.422.353	316.422.353	
Passenger airport fees liability	-	-	-	60.671.024	60.671.024	7

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments (cont'd)

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

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

Financial assets / (Financial liabilities)	Fair value as at		Fair value hierarchy	Valuation technique	
	30 June 2017	31 December 2016			
Fuel purchase option contracts	(4.961.101)	364.813	Level 2	Discounted cash flow method	
Fuel purchase forward contracts	(16.307.939)	-	Level 2	Discounted cash flow method	
Currency forward contracts	(2.465.516)	-	Level 2	Discounted cash flow method	
Interest rate swap contracts	1.045.107	762.555	Level 2	Discounted cash flow method	
	Fuel purchase forward contracts	Fuel purchase option contracts	Currency forward contracts	Interest rate swap contracts	Total
30 June 2017					
Fair value:					
Opening	-	364.813	-	762.555	1.127.368
Fair value increase / (decrease)					
Reflected at equity	(16.307.939)	(5.325.914)	-	-	(21.633.853)
Reflected at profit or loss	-	-	(2.465.516)	282.552	(2.182.964)
Closing	(16.307.939)	(4.961.101)	(2.465.516)	1.045.107	(22.689.449)
Assets	-	-	-	1.045.107	1.045.107
Liabilities	(16.307.939)	(4.961.101)	(2.465.516)	-	(23.734.556)
Total net assets and liabilities	(16.307.939)	(4.961.101)	(2.465.516)	1.045.107	(22.689.449)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

(Amounts are expressed in TL unless otherwise stated.)

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

Fair Value of Financial Instruments (cont'd)

31 December 2016	Fuel purchase forward contracts	Fuel purchase option contracts	Currency forward contracts	Chooser forward contracts	Interest rate swap contracts	Total
Fair value:						
Opening	(30.014.587)	-	2.341.144	(148.115.834)	(35.113)	(175.824.390)
Fair value increase / (decrease)						
Reflected at equity	30.014.587	364.813	(2.341.144)	-	-	28.038.256
Reflected at profit or loss	-	-	-	148.115.834	797.668	148.913.502
Closing	-	364.813	-	-	762.555	1.127.368
Assets	-	364.813	-	-	762.555	1.127.368
Total net assets and liabilities	-	364.813	-	-	762.555	1.127.368

NOTE 25 - EVENTS AFTER THE REPORTING PERIOD

None.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2017**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 26 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Cash on hand	334.515	417.322
Cash at banks	1.199.899.616	691.853.303
- Demand deposits	81.535.444	60.841.952
- Time deposits	1.118.364.172	631.011.351
	1.200.234.131	692.270.625

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

30 June 2017	Weighted average interest rates	Total
USD deposits	4,24%	946.380.385
TL deposits	13,29%	76.195.621
EUR deposits	1,74%	85.056.908
GBP deposits	1,00%	8.174.564
CHF deposits	0,20%	2.556.694
		1.118.364.172

31 December 2016	Weighted average interest rates	Total
USD deposits	3,32%	393.498.961
TL deposits	9,74%	51.897.924
EUR deposits	1,05%	185.614.466
		631.011.351

All of the time deposits as of 30 June 2017 and 31 December 2016 have maturities less than 90 days.