

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  
NINE-MONTH INTERIM PERIOD ENDED  
30 SEPTEMBER 2017

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

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF 30 SEPTEMBER 2017**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 30 September 2017	Prior period (Audited) 31 December 2016
<b>ASSETS</b>			
<b>Current assets</b>		<b>3.072.663.583</b>	<b>1.459.825.834</b>
Cash and cash equivalents	26	1.823.035.764	692.270.625
Trade receivables	6	474.750.113	212.269.499
<i>Trade receivables from third parties</i>	6	<i>474.750.113</i>	<i>212.269.499</i>
Other receivables		15.217.721	118.760.830
<i>Other receivables from related parties</i>	5	<i>1.807.061</i>	<i>1.097.807</i>
<i>Other receivables from third parties</i>		<i>13.410.660</i>	<i>117.663.023</i>
Derivative financial instruments	21	6.931.127	1.127.368
Inventories		27.047.620	24.361.722
Prepaid expenses	7	721.272.534	399.994.707
Current income tax assets		-	3.586.742
Other current assets		4.408.704	7.454.341
<b>Non-Current assets</b>		<b>4.208.791.491</b>	<b>4.158.192.161</b>
Other receivables		17.010.607	21.031.698
<i>Other receivables from third parties</i>		<i>17.010.607</i>	<i>21.031.698</i>
Investments accounted by using the equity method	3	27.927.923	23.969.467
Property and equipment	8	4.029.562.466	3.848.615.403
Intangible assets	9	21.015.008	20.357.729
Prepaid expenses	7	113.275.487	237.363.891
Deferred tax assets		-	6.853.973
<b>TOTAL ASSETS</b>		<b>7.281.455.074</b>	<b>5.618.017.995</b>

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 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 30 September 2017	Prior period (Audited) 31 December 2016
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>1.935.514.722</b>	<b>1.038.827.055</b>
Short term financial liabilities	22	461.773.001	-
Short term portion of long term financial liabilities	22	499.288.566	338.293.216
Trade payables	6	386.567.580	317.877.743
<i>Trade payables to related parties</i>	5	1.303.082	1.455.390
<i>Trade payables to third parties</i>		385.264.498	316.422.353
Employee benefit obligations		43.750.129	24.600.271
Other payables		53.441.423	32.220.476
<i>Other payables to third parties</i>		53.441.423	32.220.476
Derivative financial instruments	21	1.824.235	-
Deferred income	7	417.508.094	302.378.913
Current income tax liabilities		1.287.478	-
Short term provisions		69.795.733	23.243.506
<i>Short term provisions for employee benefits</i>		54.192.898	12.166.104
<i>Other short term provisions</i>		15.602.835	11.077.402
Other current liabilities		278.483	212.930
<b>Non-Current liabilities</b>		<b>3.046.641.849</b>	<b>3.009.869.595</b>
Long term financial liabilities	22	2.064.771.175	2.338.272.374
Deferred income		8.970.839	6.660.918
Long term provisions		567.770.053	431.155.469
<i>Long term provisions for employee benefits</i>		10.735.932	8.875.253
<i>Other long term provisions</i>		557.034.121	422.280.216
Deferred tax liabilities		405.129.782	233.780.834
<b>SHAREHOLDERS' EQUITY</b>		<b>2.299.298.503</b>	<b>1.569.321.345</b>
<b>Equity attributable to shareholders' of the parent</b>		<b>2.320.212.980</b>	<b>1.575.439.911</b>
Paid-in share capital	14	102.272.000	102.272.000
Share premiums on capital stock		455.687.025	455.687.025
Effects of business acquisition		29.504.957	29.504.957
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans		(3.305.232)	(3.305.232)
Currency translation differences		876.649.531	638.375.994
Other comprehensive income/expense to be reclassified to profit or loss			
Hedge fund		4.634.292	291.850
Restricted profit reserves		5.016.306	5.016.306
Retained earnings		355.561.802	481.327.846
Net loss for the period		494.192.299	(133.730.835)
<b>Non-controlling interest</b>		<b>(20.914.477)</b>	<b>(6.118.566)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7.281.455.074</b>	<b>5.618.017.995</b>

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 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

Profit or loss	Notes	Current period	Prior period	Current period	Prior period
		(Not Reviewed)	(Not Reviewed)	(Not Reviewed)	(Not Reviewed)
		1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Sales	15	4.162.118.008	2.860.023.301	2.052.853.486	1.371.242.244
Cost of sales (-)	15	(3.398.938.437)	(2.553.531.914)	(1.277.784.601)	(948.661.905)
<b>Gross profit</b>		<b>763.179.571</b>	<b>306.491.387</b>	<b>775.068.885</b>	<b>422.580.339</b>
General administrative expenses (-)	16	(128.330.649)	(110.777.482)	(44.624.529)	(37.868.641)
Marketing expenses (-)	16	(133.140.446)	(133.491.552)	(48.164.762)	(42.937.195)
Other operating income	17	58.299.523	4.220.337	42.195.312	3.410.406
Other operating expenses (-)	17	(3.836.503)	(71.437.236)	(871.621)	(64.780.782)
<b>Operating income/(loss)</b>		<b>556.171.496</b>	<b>(4.994.546)</b>	<b>723.603.285</b>	<b>280.404.127</b>
Income from investing activities	18	142.498.427	805.485	(1.402.586)	190.671
Expenses from investing activities (-)	18	(58.563.056)	(7.140.968)	(22.042.200)	(6.895.391)
Share of investments income accounted for using the equity method	3	3.347.932	2.294.453	883.961	414.870
<b>Operating income/(loss) before financial expense</b>		<b>643.454.799</b>	<b>(9.035.576)</b>	<b>701.042.460</b>	<b>274.114.277</b>
Financial income	19	80.081.024	96.367.682	12.248.346	57.945.676
Financial expense (-)	19	(85.207.398)	(29.833.688)	(32.969.192)	(10.552.005)
<b>Income before tax</b>		<b>638.328.425</b>	<b>57.498.418</b>	<b>680.321.614</b>	<b>321.507.948</b>
<b>Tax expense</b>		<b>(146.166.358)</b>	<b>(14.219.641)</b>	<b>(141.850.070)</b>	<b>(75.271.359)</b>
Current tax expense		(5.759.446)	-	(5.759.446)	-
Deferred tax expense		(140.406.912)	(14.219.641)	(136.090.624)	(75.271.359)
<b>Income for the period</b>		<b>492.162.067</b>	<b>43.278.777</b>	<b>538.471.544</b>	<b>246.236.589</b>
<b>Net loss attributable to:</b>					
Non-controlling interest		(2.030.232)	4.279.198	1.708.363	3.405.683
Shareholders' of the parent		494.192.299	38.999.579	536.763.181	242.830.906
		<b>492.162.067</b>	<b>43.278.777</b>	<b>538.471.544</b>	<b>246.236.589</b>
Income per share (TL)	20	4,83	0,38	5,25	2,37
<b>Other comprehensive income</b>					
<b>Items not to be reclassified to profit or loss</b>					
Currency translation differences		238.198.369	83.487.098	97.216.864	73.196.643
<b>Items to be reclassified to profit or loss</b>					
Cash flow hedge		5.428.052	36.177.771	27.061.905	(9.046.163)
Deferred tax effect		(1.085.610)	(7.235.554)	(5.412.381)	1.809.233
<b>Other comprehensive income</b>		<b>242.540.811</b>	<b>112.429.315</b>	<b>118.866.388</b>	<b>65.959.713</b>
<b>Total comprehensive income</b>		<b>734.702.878</b>	<b>155.708.092</b>	<b>657.337.932</b>	<b>312.196.302</b>
<b>Total comprehensive income attributable to:</b>					
Non-controlling interest		(2.105.400)	4.361.321	1.390.187	3.595.794
Shareholders' of the parent		736.808.278	151.346.771	655.947.745	308.600.508
		<b>734.702.878</b>	<b>155.708.092</b>	<b>657.337.932</b>	<b>312.196.302</b>

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 SEPTEMBER 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 year	Equity attributable to shareholders' of the parent	Non- controlling interest	Shareholders' equity
<b>As at 1 January 2016</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.172.494)</b>	<b>406.940.383</b>	<b>(22.138.754)</b>	<b>9.806.631</b>	<b>363.411.817</b>	<b>113.125.704</b>	<b>1.455.437.269</b>	<b>(2.705.640)</b>	<b>1.452.731.629</b>
Transfers	-	-	-	-	-	-	(4.790.325)	117.916.029	(113.125.704)	-	-	-
Total comprehensive income	-	-	-	-	83.404.976	28.942.216	-	-	38.999.579	151.346.771	4.361.321	155.708.092
<b>As at 30 September 2016</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.172.494)</b>	<b>490.345.359</b>	<b>6.803.462</b>	<b>5.016.306</b>	<b>481.327.846</b>	<b>38.999.579</b>	<b>1.606.784.040</b>	<b>1.655.681</b>	<b>1.608.439.721</b>
<b>As at 1 January 2017</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>638.375.994</b>	<b>291.850</b>	<b>5.016.306</b>	<b>481.327.846</b>	<b>(133.730.835)</b>	<b>1.575.439.911</b>	<b>(6.118.566)</b>	<b>1.569.321.345</b>
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	-	-	-	-	238.273.537	4.342.442	-	-	494.192.299	736.808.278	(2.105.400)	734.702.878
<b>As at 30 September 2017</b>	<b>102.272.000</b>	<b>455.687.025</b>	<b>29.504.957</b>	<b>(3.305.232)</b>	<b>876.649.531</b>	<b>4.634.292</b>	<b>5.016.306</b>	<b>355.561.802</b>	<b>494.192.299</b>	<b>2.320.212.980</b>	<b>(20.914.477)</b>	<b>2.299.298.503</b>

(\*) 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 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 1 January- 30 September 2017	Prior period (Not Reviewed) 1 January- 30 September 2016
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Income for the period</b>		<b>492.162.067</b>	<b>43.278.777</b>
<b>Adjustments to reconcile the net profit</b>			
Depreciation and amortization	8-9	248.153.946	157.704.758
Adjustments related with impairments		2.242.087	(2.447.131)
<i>Provision for doubtful receivable</i>		<i>2.242.087</i>	<i>(2.447.131)</i>
Adjustments related with provisions		185.708.749	77.076.550
<i>Provision for employee benefits</i>		<i>47.607.579</i>	<i>9.933.584</i>
<i>Legal provision</i>		<i>3.118.226</i>	<i>830.183</i>
<i>Change in redelivery provision</i>		<i>134.982.944</i>	<i>66.312.783</i>
Interest and commission income	19	54.078.837	8.181.162
Gain on equity investments accounted for using the equity method	3	(3.347.932)	(2.294.453)
Current tax expense		146.166.358	14.219.641
Other provisions related with investing or financing activities		(120.153.376)	(138.836.619)
<b>Changes in working capital</b>			
Increase in trade receivables		(264.375.990)	(140.707.875)
Decrease in other receivables, prepaid expenses and other current assets		89.625.482	144.884.833
Increase in inventories		(2.685.898)	(7.856.061)
Increase in trade payables		68.689.837	87.459.701
Increase in deferred income, other payables and other current liabilities		159.022.711	41.845.765
<b>Net cash generated from operating activities</b>		<b>1.055.286.878</b>	<b>282.509.048</b>
Payment for employee, executive bonus plan and retirement benefits		(3.967.391)	(15.731.478)
Payment for other provisions		(50.609)	(100.609)
		<b>1.051.268.878</b>	<b>266.676.961</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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		1.621.777	742.349
Cash outflows from purchase of property, equipment and intangible assets		(73.022.065)	(228.837.379)
Changes in cash advances and payables		(216.854.601)	(177.713.172)
		<b>294.278.429</b>	<b>(410.218.052)</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in borrowings		461.773.001	697.352
Repayment of principal in financial lease liabilities		(472.585.756)	(185.713.337)
Interest and commission paid		(78.519.774)	(28.428.786)
Interest received		23.813.988	22.425.845
		<b>(65.518.541)</b>	<b>(191.018.926)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS     BEFORE TRANSLATION EFFECT (A+B+C)</b>		<b>1.280.028.766</b>	<b>(334.560.017)</b>
<b>D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS</b>		<b>(149.263.627)</b>	<b>36.768.806</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>1.130.765.139</b>	<b>(297.791.211)</b>
<b>E. CASH AND CASH EQUIVALENTS</b>			
<b>AT THE BEGINNING OF THE PERIOD</b>	26	<b>692.270.625</b>	<b>954.974.093</b>
<b>CASH AND CASH EQUIVALENTS     AT THE END OF THE PERIOD (A+B+C+D+E)</b>	26	<b>1.823.035.764</b>	<b>657.182.882</b>

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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 September 2017 and 31 December 2016 are as follows:

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

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

The Group’s total number of full time employees as of 30 September 2017 is 5.224 (31 December 2016: 5.257). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

### Approval of Financial Statements

Board of Directors has approved the condensed consolidated financial statements as of 30 September 2017 and delegated authority for publishing it on 9 November 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 consolidated financial statements and its notes for the interim period ended 30 September 2017 in accordance with TAS 34 “Interim Financial Reporting”.



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

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

The 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 September 2017: 1 Euro (€) = TL 4,1924 , 1 US Dollar (\$) = TL 3,5521 (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 SEPTEMBER 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 September 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 September 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 September 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 September 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 September 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 SEPTEMBER 2017**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.2 Significant Accounting Policies**

Condensed consolidated financial statements for the interim period with respect to the period ending on 30 September 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 September 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> <sup>1</sup>
TFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>

<sup>1</sup> 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 and third quarter compared to the first and fourth quarter. 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 September 2017 compared to last year-end.

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

**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:

	<b>30 September 2017</b>	<b>31 December 2016</b>
<b>Joint ventures</b>		
Hitit Bilgisayar	22.165.572	19.395.216
PUEM	5.762.351	4.574.251
	<b>27.927.923</b>	<b>23.969.467</b>

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

	<b>1 January - 30 September 2017</b>	<b>1 January - 30 September 2016</b>	<b>1 July - 30 September 2017</b>	<b>1 July - 30 September 2016</b>
Hitit Bilgisayar	2.782.762	1.642.005	861.893	177.809
PUEM	565.170	652.448	22.068	237.061
<b>Net profit</b>	<b>3.347.932</b>	<b>2.294.453</b>	<b>883.961</b>	<b>414.870</b>

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

**Pegasus Uçuş Eğitim Merkezi A.Ş.**

	<b>30 September 2017</b>	<b>31 December 2016</b>
Current assets	693.299	1.055.078
Non-current assets	19.605.904	18.209.286
Current liabilities	(5.895.233)	(7.741.613)
Non-current liabilities	(2.739.293)	(2.263.134)
<b>Net assets of joint venture</b>	<b>11.664.677</b>	<b>9.259.617</b>
Group's ownership interest in the joint venture	49,40%	49,40%
<b>Group's share in the net assets of the joint venture</b>	<b>5.762.351</b>	<b>4.574.251</b>

	<b>1 January - 30 September 2017</b>	<b>1 January - 30 September 2016</b>
Revenue	4.705.316	4.799.625
Profit for the year	1.144.068	1.320.746
Group's ownership interest	49,40%	49,40%
<b>Group's share in the net assets of the joint venture</b>	<b>565.170</b>	<b>652.448</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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 (cont'd)

Hitit Bilgisayar Hizmetleri A.Ş.

	30 September 2017	31 December 2016
Current assets	20.173.928	16.549.837
Non-current assets	27.461.320	25.960.551
Current liabilities	(4.934.324)	(5.390.180)
Non-current liabilities	(154.804)	(114.800)
<b>Net assets of joint venture</b>	<b>42.546.120</b>	<b>37.005.408</b>
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
<b>Group's share in the net assets of the joint venture</b>	<b>22.165.572</b>	<b>19.395.216</b>
	<b>1 January- 30 September 2017</b>	<b>1 January- 30 September 2016</b>
Revenue	31.442.168	25.677.584
Profit for the year	5.565.524	3.518.196
Group's weighted average ownership interest	50%	40%
<b>Group's share in the net assets of the joint venture</b>	<b>2.782.762</b>	<b>1.642.005</b>

NOTE 4 - SEGMENT REPORTING

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

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

**NOTES TO THE 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**

	<b>30 September 2017</b>	<b>31 December 2016</b>
<b>Balances with joint ventures and subsidiaries:</b>		
PUEM	1.735.363	999.811
<b>Balances with other related parties:</b>		
Air Berlin Plc&Co Luftverkehrs Kg	71.698	86.218
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	-	11.778
	<b>1.807.061</b>	<b>1.097.807</b>

**b) Trade payables to related parties**

	<b>30 September 2017</b>	<b>31 December 2016</b>
<b>Balances with joint ventures and subsidiaries:</b>		
Hitit Bilgisayar	1.213.498	1.277.402
<b>Balances with other related parties:</b>		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	89.584	177.988
	<b>1.303.082</b>	<b>1.455.390</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
<b>Balances with joint ventures and subsidiaries:</b>				
PUEM	1.000.727	495.535	337.630	168.499
<b>Balances with other related parties:</b>				
Air Berlin Plc&Co Luftverkehrs Kg	889.222	4.704.260	4.821	2.483.143
	<b>1.889.949</b>	<b>5.199.795</b>	<b>342.451</b>	<b>2.651.642</b>

#### b) Purchases of goods or services

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
<b>Balances with joint ventures and subsidiaries:</b>				
Hitit Bilgisayar	10.243.269	8.572.481	3.337.551	3.875.097
PUEM	4.705.316	4.799.625	1.221.658	1.554.196
<b>Balances with other related parties:</b>				
Esasburda	1.627.689	1.056.876	540.355	288.441
Other	-	50.135	-	-
	<b>16.576.274</b>	<b>14.479.117</b>	<b>5.099.564</b>	<b>5.717.734</b>

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

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

c) Rent expenses

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Esasburda	4.765.266	3.802.604	1.627.256	1.281.908
	<b>4.765.266</b>	<b>3.802.604</b>	<b>1.627.256</b>	<b>1.281.908</b>

d) Surety commission expenses

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Esas Holding (Note 19)	9.201.295	8.924.904	2.931.381	2.823.870
	<b>9.201.295</b>	<b>8.924.904</b>	<b>2.931.381</b>	<b>2.823.870</b>

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,675% 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 September 2017 and 2016 are as follows:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Salaries and other short term benefits	6.800.171	9.777.727	2.147.955	2.115.566
Other long term benefits	985.195	3.523.737	-	-
	<b>7.785.366</b>	<b>13.301.464</b>	<b>2.147.955</b>	<b>2.115.566</b>



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

**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 30 September 2017 and 31 December 2016 are as follows:

	<b>30 September 2017</b>	<b>31 December 2016</b>
Trade receivables	178.297.580	89.631.639
Credit card receivables	305.386.479	129.356.458
Income accruals	2.653.001	2.279.549
	<b>486.337.060</b>	<b>221.267.646</b>
Less: Allowance for doubtful receivables	(11.586.947)	(8.998.147)
	<b>474.750.113</b>	<b>212.269.499</b>

**Short term trade payables**

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

	<b>30 September 2017</b>	<b>31 December 2016</b>
Trade payables	204.226.348	235.037.980
Accrued direct operational costs	163.462.363	65.407.597
Other accrued expenses	17.575.787	15.976.776
Due to related parties (Note 5)	1.303.082	1.455.390
	<b>386.567.580</b>	<b>317.877.743</b>

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

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

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

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

**Short term prepaid expenses**

	<b>30 September 2017</b>	<b>31 December 2016</b>
Advances on aircraft purchases	520.360.181	180.317.329
Advances to suppliers	125.697.042	156.973.574
Prepaid aircraft operating lease expenses	42.402.683	42.065.722
Prepaid insurance expenses	19.813.871	14.297.869
Prepaid advertising expenses	101.354	588.452
Other prepaid expenses	12.897.403	5.751.761
	<b>721.272.534</b>	<b>399.994.707</b>

**Long term prepaid expenses**

	<b>30 September 2017</b>	<b>31 December 2016</b>
Advances on aircraft purchases	102.675.625	224.414.166
Other prepaid expenses	10.599.862	12.949.725
	<b>113.275.487</b>	<b>237.363.891</b>

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

**Short term deferred income**

	<b>30 September 2017</b>	<b>31 December 2016</b>
Passenger flight liabilities	341.460.469	262.726.328
Advances received from customers	62.884.848	11.190.304
Deferred income from sale of subsidiary (*)	-	18.743.784
Other deferred income	13.162.777	9.718.497
	<b>417.508.094</b>	<b>302.378.913</b>

(\*) 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 September 2017 and 31 December 2016 are as follows:

	<b>30 September 2017</b>	<b>31 December 2016</b>
Flight liability from ticket sales	233.746.882	177.504.919
Passenger airport fees received from customers	73.984.278	60.671.024
Flight liability from flight points	33.729.309	24.550.385
	<b>341.460.469</b>	<b>262.726.328</b>

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

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**NOTE 8 - PROPERTY AND EQUIPMENT**

<b>30 September 2017</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	<b>58.446.618</b>	<b>54.947.225</b>	<b>73.778.851</b>	<b>47.936.130</b>	<b>325.933.190</b>	<b>4.510.753.029</b>	<b>415.109</b>	<b>5.072.210.152</b>
Additions	1.494.061	-	4.619.544	15.991	60.121.510	350.410.908	126.707	416.788.721
Disposals	(80.724)	(723.182)	(883)	-	(778.868)	(770.834.670)	-	(772.418.327)
Transfers	-	-	-	99.315	(19.802.804)	19.802.804	(99.315)	-
Currency translation differences	6.458.394	6.943.837	9.807.623	6.223.825	54.119.024	488.975.447	32.364	572.560.514
<b>Closing</b>	<b>66.318.349</b>	<b>61.167.880</b>	<b>88.205.135</b>	<b>54.275.261</b>	<b>419.592.052</b>	<b>4.599.107.518</b>	<b>474.865</b>	<b>5.289.141.060</b>
<b>Accumulated depreciation:</b>								
Opening	<b>(5.064.340)</b>	<b>(6.463.246)</b>	<b>(42.584.799)</b>	<b>(28.876.246)</b>	<b>(61.786.906)</b>	<b>(1.078.819.212)</b>	-	<b>(1.223.594.749)</b>
Depreciation for the year	(3.281.018)	(3.190.104)	(6.974.027)	(5.596.773)	(29.671.398)	(193.344.618)	-	(242.057.938)
Disposals	27.246	477.261	40	-	129.223	297.038.550	-	297.672.320
Currency translation differences	(767.101)	(938.298)	(5.874.799)	(4.005.363)	(9.469.337)	(70.543.329)	-	(91.598.227)
<b>Closing</b>	<b>(9.085.213)</b>	<b>(10.114.387)</b>	<b>(55.433.585)</b>	<b>(38.478.382)</b>	<b>(100.798.418)</b>	<b>(1.045.668.609)</b>	-	<b>(1.259.578.594)</b>
<b>Net book value</b>	<b>57.233.136</b>	<b>51.053.493</b>	<b>32.771.550</b>	<b>15.796.879</b>	<b>318.793.634</b>	<b>3.553.438.909</b>	<b>474.865</b>	<b>4.029.562.466</b>

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

<b>30 September 2016</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	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	2.573.564	1.634.646	6.582.505	152.039	158.097.891	529.255.334	26.532.410	724.828.389
Disposals	-	(1.509.569)	(210.343)	(12.161)	(23.166)	-	-	(1.755.239)
Transfers	16.351.473	38.355.079	1.731.124	3.173.170	-	-	(59.610.846)	-
Currency translation differences	964.555	1.489.295	3.333.763	2.224.782	10.838.838	166.717.492	2.591.079	188.159.804
<b>Closing</b>	<b>29.636.579</b>	<b>51.606.583</b>	<b>65.621.144</b>	<b>42.817.595</b>	<b>281.825.407</b>	<b>3.402.630.371</b>	<b>24.804.142</b>	<b>3.898.941.821</b>
<b>Accumulated depreciation:</b>								
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 year	(1.028.190)	(1.872.006)	(5.064.455)	(4.359.771)	(14.023.461)	(127.312.176)	-	(153.660.059)
Disposals	-	909.572	96.066	6.791	461	-	-	1.012.890
Currency translation differences	(171.660)	(294.455)	(1.861.993)	(1.212.657)	(2.310.232)	(47.300.137)	-	(53.151.134)
<b>Closing</b>	<b>(3.785.048)</b>	<b>(5.944.722)</b>	<b>(36.783.101)</b>	<b>(24.551.488)</b>	<b>(50.264.175)</b>	<b>(958.870.471)</b>	<b>-</b>	<b>(1.080.199.005)</b>
<b>Net book value</b>	<b>25.851.531</b>	<b>45.661.861</b>	<b>28.838.043</b>	<b>18.266.107</b>	<b>231.561.232</b>	<b>2.443.759.900</b>	<b>24.804.142</b>	<b>2.818.742.816</b>

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NOTE 9 - INTANGIBLE ASSETS

30 September 2017	Brand	Software	Total
<b>Cost:</b>			
Opening	2.385.298	47.464.326	49.849.624
Additions	-	4.082.024	4.082.024
Currency translation differences	570.345	6.324.635	6.894.980
<b>Closing</b>	<b>2.955.643</b>	<b>57.870.985</b>	<b>60.826.628</b>
<b>Accumulated amortization:</b>			
Opening	(1.142.954)	(28.348.941)	(29.491.895)
Amortization for the year	(105.602)	(5.990.406)	(6.096.008)
Currency translation differences	(278.524)	(3.945.193)	(4.223.717)
<b>Closing</b>	<b>(1.527.080)</b>	<b>(38.284.540)</b>	<b>(39.811.620)</b>
<b>Net book value</b>	<b>1.428.563</b>	<b>19.586.445</b>	<b>21.015.008</b>

30 September 2016	Brand	Software	Total
<b>Cost:</b>			
Opening	2.240.209	32.251.720	34.491.929
Additions	-	5.638.902	5.638.902
Currency translation differences	129.156	1.881.221	2.010.377
<b>Closing</b>	<b>2.369.365</b>	<b>39.771.843</b>	<b>42.141.208</b>
<b>Accumulated amortization:</b>			
Opening	(980.090)	(18.943.166)	(19.923.256)
Amortization for the year	(86.482)	(3.958.217)	(4.044.699)
Currency translation differences	(58.875)	(1.194.933)	(1.253.808)
<b>Closing</b>	<b>(1.125.447)</b>	<b>(24.096.316)</b>	<b>(25.221.763)</b>
<b>Net book value</b>	<b>1.243.918</b>	<b>15.675.527</b>	<b>16.919.445</b>

Remaining average useful life of intangible assets as of 30 September 2017 is 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 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

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

##### Litigation

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 15.755.535 as of 30 September 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 9.440.875 (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 September 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 SEPTEMBER 2017**

(Amounts are expressed in TL unless otherwise stated.)

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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. Such lawsuit filed subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right (royalty) fee is concluded against the Company and such Judgment is brought by the Company to appeal before the Council of State, and the trial process is still ongoing. Under such capacity and in parallel to the relevant opinions of Company's legal advisors and taxation specialists, no provision has been provided therefore, including the periods on the accompanied consolidated financial statements not inspected.

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

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

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

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

#### 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 and no provision has been provided therefore, including the periods on the accompanied consolidated financial statements 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.

#### NOTE 12 - COMMITMENTS

##### **Purchase Commitments**

	<b>30 September 2017</b>	<b>31 December 2016</b>
Commitments to purchase aircraft	28.803.375.664	30.172.478.983
	<b>28.803.375.664</b>	<b>30.172.478.983</b>



# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 12 – COMMITMENTS (cont'd)

As of 30 September 2017, the Group holds firm orders for 67 aircraft. The expected deliveries are: 4 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 623.035.806 (31 December 2016: TL 404.731.495) and TL 520.360.181 of this amount is reclassified under short term, TL 102.675.625 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 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Minimum lease payments	421.997.630	321.025.194	138.345.938	113.915.193
	<b>421.997.630</b>	<b>321.025.194</b>	<b>138.345.938</b>	<b>113.915.193</b>

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

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

	30 September 2017	31 December 2016
Less than 1 year	535.594.286	546.554.494
Between 1 - 5 years	1.383.009.621	1.619.658.343
Over 5 years	199.364.230	339.147.938
	<b>2.117.968.137</b>	<b>2.505.360.775</b>

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

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

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

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

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

<b>30 September 2017</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.123.857.711	301.997.196	6.862.394	12.098.247	10.265.323
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	30.530.167	4.998.000	-	12.776.771	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	4.786.304	1.347.457	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	<b>1.159.174.182</b>	<b>308.342.653</b>	<b>6.862.394</b>	<b>24.875.018</b>	<b>10.265.323</b>

(\*) 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 September 2017.

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

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

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

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

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

<b>31 December 2016</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	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	-	-	-	-	-
	<b>622.650.144</b>	<b>158.023.867</b>	<b>7.084.248</b>	<b>30.681.394</b>	<b>9.569.306</b>

(\*) 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 SEPTEMBER 2017

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 13 - EXPENSES BY NATURE

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

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Jet fuel expenses	1.103.855.018	720.249.470	428.097.742	287.979.654
Personnel expenses	531.986.925	493.143.892	212.028.580	180.049.364
Operating lease expenses	421.997.630	321.025.194	138.345.938	113.915.193
Maintenance expenses	321.993.031	254.710.219	103.997.522	81.789.625
Handling and station fees	291.903.163	229.734.055	118.798.410	82.439.060
Depreciation and amortisation expenses	248.153.946	157.704.758	85.401.655	57.300.760
Navigation expenses	245.375.214	190.031.146	100.862.251	73.019.643
Landing expenses	123.302.618	92.006.691	50.769.649	36.217.892
Commission expenses	73.490.393	54.168.780	26.808.904	21.824.741
Passenger service and catering expenses	41.574.422	35.845.414	17.460.037	14.151.163
Advertising expenses	30.161.578	51.640.252	11.792.526	10.846.066
Other expenses	226.615.594	197.541.077	76.210.678	69.934.580
	<b>3.660.409.532</b>	<b>2.797.800.948</b>	<b>1.370.573.892</b>	<b>1.029.467.741</b>

### NOTE 14 - SHAREHOLDERS' EQUITY

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

Shareholders:	30 September 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
<b>TL historic capital</b>	<b>100,0</b>	<b>102.272.000</b>	<b>100,0</b>	<b>102.272.000</b>

The Company's share capital consists of 102.272.000 shares of par value TL 1 each (31 December 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  
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**NOTE 15 - SALES AND COST OF SALES**

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

**Sales:**

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Scheduled flights	3.017.124.869	2.117.098.833	1.581.541.372	1.045.123.461
<i>International scheduled flights</i>	<i>1.909.597.111</i>	<i>1.244.800.524</i>	<i>1.051.284.400</i>	<i>637.741.569</i>
<i>Domestic scheduled flights</i>	<i>1.107.527.758</i>	<i>872.298.309</i>	<i>530.256.972</i>	<i>407.381.892</i>
Ancillary revenue	845.285.659	610.912.864	343.757.654	240.103.130
Wetlease revenue	79.837.804	-	-	-
Charter flights	155.282.562	89.261.575	108.674.715	71.238.528
Other revenue	64.587.114	42.750.029	18.879.745	14.777.125
	<b>4.162.118.008</b>	<b>2.860.023.301</b>	<b>2.052.853.486</b>	<b>1.371.242.244</b>

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

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Europe	1.404.106.433	912.451.413	803.618.851	488.032.864
Domestic	1.107.527.758	872.298.309	530.256.972	407.381.892
Other	505.490.678	332.349.111	247.665.549	149.708.705
	<b>3.017.124.869</b>	<b>2.117.098.833</b>	<b>1.581.541.372</b>	<b>1.045.123.461</b>

**Cost of sales:**

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Jet fuel expenses	1.103.855.018	720.249.470	428.097.742	287.979.654
Operating lease expenses	421.997.630	321.025.194	138.345.938	113.915.193
Personnel expenses	473.707.708	439.640.633	192.213.418	161.958.428
Maintenance expenses	321.993.031	254.710.219	103.997.522	81.789.625
Handling and station fees	291.903.163	229.734.055	118.798.410	82.439.060
Depreciation and amortisation expenses	222.265.959	140.778.859	76.565.345	51.273.378
Navigation expenses	245.375.214	190.031.146	100.862.251	73.019.643
Landing expenses	123.302.618	92.006.691	50.769.649	36.217.892
Passenger service and catering expenses	41.574.422	35.845.414	17.460.037	14.151.163
Other expenses	152.963.674	129.510.233	50.674.289	45.917.869
	<b>3.398.938.437</b>	<b>2.553.531.914</b>	<b>1.277.784.601</b>	<b>948.661.905</b>

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

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

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

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Marketing expenses	133.140.446	133.491.552	48.164.762	42.937.195
General administrative expenses	128.330.649	110.777.482	44.624.529	37.868.641
	<b>261.471.095</b>	<b>244.269.034</b>	<b>92.789.291</b>	<b>80.805.836</b>

The details of general administrative expenses and marketing expenses for the periods ended 30 September 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 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Personnel expenses	43.704.473	41.429.199	15.016.894	13.739.007
Depreciation and amortisation expenses	20.970.800	13.683.558	7.164.821	4.871.148
IT expenses	21.019.057	15.870.637	7.776.634	4.923.276
Rent expenses	14.092.129	11.846.964	4.542.351	3.914.992
Consultancy expenses	8.490.622	6.290.554	3.180.777	2.932.737
Travel expenses	2.740.850	2.387.994	726.202	669.393
Legal and notary expenses	3.573.429	4.337.106	1.632.147	1.953.248
Office utility expenses	1.977.386	1.767.394	636.890	643.081
Communication expenses	1.380.059	1.251.805	506.938	440.611
Training expenses	497.775	1.457.131	215.019	324.593
Other expenses	9.884.069	10.455.140	3.225.856	3.456.555
	<b>128.330.649</b>	<b>110.777.482</b>	<b>44.624.529</b>	<b>37.868.641</b>

**Marketing expenses:**

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Commission expenses	73.490.393	54.168.780	26.808.904	21.824.741
Advertising expenses	30.161.578	51.640.252	11.792.526	10.846.066
Personnel expenses	14.574.744	12.074.060	4.798.268	4.351.929
Call center expenses	7.727.641	8.113.611	2.725.056	2.933.000
Depreciation and amortisation expenses	4.917.187	3.242.341	1.671.489	1.156.234
Other expenses	2.268.903	4.252.508	368.519	1.825.225
	<b>133.140.446</b>	<b>133.491.552</b>	<b>48.164.762</b>	<b>42.937.195</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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 periods ended 30 September 2017 and 2016 are as follows:

#### Other operating income:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Reversal of doubtful provision	-	2.447.131	-	2.698.127
Foreign exchange gain from operating activities	56.422.869	-	41.784.441	-
Reversal of discounts	-	10.438	-	(1.168)
Other income	1.876.654	1.762.768	410.871	713.447
	<b>58.299.523</b>	<b>4.220.337</b>	<b>42.195.312</b>	<b>3.410.406</b>

#### Other operating expenses:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Doubtful receivable expense	2.242.087	-	354.997	-
Foreign exchange loss from operating activities	-	69.920.243	-	64.185.712
Other expense	1.594.416	1.516.993	516.624	595.070
	<b>3.836.503</b>	<b>71.437.236</b>	<b>871.621</b>	<b>64.780.782</b>

### NOTE 18 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

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

#### Income from investing activities:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Income from sale of aircraft	121.601.904	-	-	-
Income from sale of subsidiary	20.224.633	-	-	-
Other income	671.890	805.485	(1.402.586)	190.671
	<b>142.498.427</b>	<b>805.485</b>	<b>(1.402.586)</b>	<b>190.671</b>

#### Expenses from investing activities:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Foreign exchange loss from investing activities	58.563.056	7.140.968	22.042.200	6.895.391
	<b>58.563.056</b>	<b>7.140.968</b>	<b>22.042.200</b>	<b>6.895.391</b>

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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### NOTE 19 - FINANCIAL INCOME AND EXPENSES

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

#### Financial income:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Foreign exchange gain	54.125.089	71.349.503	(2.777.525)	64.407.382
Interest income	25.955.935	21.652.526	15.025.871	5.256.002
Gain on derivative contracts	-	3.365.653	-	(11.717.708)
	<b>80.081.024</b>	<b>96.367.682</b>	<b>12.248.346</b>	<b>57.945.676</b>

#### Financial expenses:

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Interest expense on financial lease	38.384.344	5.955.773	13.636.639	3.047.388
Other commission expenses	29.058.395	14.953.011	13.337.522	4.680.747
Surety commission expenses	9.201.295	8.924.904	2.931.381	2.823.870
Losses from derivative contracts	5.172.626	-	1.027.601	-
Interest expense on bank loans	3.390.738	-	2.036.049	-
	<b>85.207.398</b>	<b>29.833.688</b>	<b>32.969.192</b>	<b>10.552.005</b>

### NOTE 20 - EARNINGS / LOSS PER SHARE

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

	1 January- 30 September 2017	1 January- 30 September 2016	1 July - 30 September 2017	1 July - 30 September 2016
Net income attributable to the shareholders of the parent	494.192.299	38.999.579	536.763.181	242.830.906
Weighted average number of shares issued in the year	102.272.000	102.272.000	102.272.000	102.272.000
<b>Income per share</b>	<b>4,83</b>	<b>0,38</b>	<b>5,25</b>	<b>2,37</b>



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**NOTE 21 - DERIVATIVE INSTRUMENTS**

**Fair Value of Derivative Instruments**

	30 September 2017		31 December 2016	
	Asset	Liability	Asset	Liability
Short term	6.931.127	1.824.235	1.127.368	-
	<b>6.931.127</b>	<b>1.824.235</b>	<b>1.127.368</b>	<b>-</b>

Explanations related to derivative instruments are disclosed in Note 24.

**NOTE 22 - FINANCIAL INSTRUMENTS**

**Financial Liabilities**

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

Short term financial liabilities	30 September 2017	31 December 2016
Short term bank borrowings	461.773.001	-
Short term portion of long term financial lease obligations	499.288.566	338.293.216
	<b>961.061.567</b>	<b>338.293.216</b>
Long term financial liabilities	30 September 2017	31 December 2016
Long term financial lease obligations	2.064.771.175	2.338.272.374
	<b>2.064.771.175</b>	<b>2.338.272.374</b>

a) Bank Borrowings

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

30 September 2017	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	Libor + 0,75	USD	130.000.000	461.773.001
				<b>461.773.001</b>

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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 30 September 2017 and 31 December 2016 are as follows:

	30 September 2017	31 December 2016
Less than 1 year	557.229.436	389.599.184
Between 1 - 5 years	1.325.324.666	1.549.886.614
Over 5 years	1.064.005.508	1.118.924.055
	2.946.559.610	3.058.409.853
Less: Future interest expenses	(382.499.869)	(381.844.263)
	<b>2.564.059.741</b>	<b>2.676.565.590</b>

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

	30 September 2017	31 December 2016
Less than 1 year	499.288.566	338.293.216
Between 1 - 5 years	1.117.868.226	1.348.471.440
Over 5 years	946.902.949	989.800.934
	<b>2.564.059.741</b>	<b>2.676.565.590</b>

The Group purchases certain of its aircraft and handling equipment through financial lease arrangements. The average lease term is 5,39 years. For the period ended 30 September 2017, the floating interest rate applicable to Euro-denominated lease obligations is 1,15% (31 December 2016: 0,50%) and the floating rate applicable to US Dollar-denominated lease obligations is 5,14% (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 periods ended 30 September 2017 and 31 December 2016 are as follows:

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

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

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

<b>30 September 2017</b>	<b>TL Total</b>	<b>USD</b>	<b>TL</b>	<b>GBP</b>	<b>Other</b>
1. Trade receivables	460.203.429	17.921.262	361.663.537	709.869	31.511.461
2a. Monetary financial assets	1.377.191.736	368.952.941	29.916.542	2.834.892	23.257.952
2b. Non monetary financial assets	-	-	-	-	-
3. Other	534.482.331	149.122.658	204.342	76.168	4.217.765
<b>4. CURRENT ASSETS</b>	<b>2.371.877.496</b>	<b>535.996.861</b>	<b>391.784.421</b>	<b>3.620.929</b>	<b>58.987.178</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	118.888.085	32.844.473	655.761	19.800	1.471.465
<b>8. NON CURRENT ASSETS</b>	<b>118.888.085</b>	<b>32.844.473</b>	<b>655.761</b>	<b>19.800</b>	<b>1.471.465</b>
<b>9. TOTAL ASSETS</b>	<b>2.490.765.581</b>	<b>568.841.334</b>	<b>392.440.182</b>	<b>3.640.729</b>	<b>60.458.643</b>
10. Trade payables	170.280.558	27.591.367	58.129.641	182.459	13.277.343
11. Financial liabilities	595.901.603	167.760.368	-	-	-
12a. Other liabilities, monetary	150.714.210	10.581.331	112.395.822	27.082	603.862
12b. Other liabilities, non monetary	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>916.896.371</b>	<b>205.933.066</b>	<b>170.525.463</b>	<b>209.541</b>	<b>13.881.205</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	890.115.919	250.588.643	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>890.115.919</b>	<b>250.588.643</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>1.807.012.290</b>	<b>456.521.709</b>	<b>170.525.463</b>	<b>209.541</b>	<b>13.881.205</b>
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	(1.762.156)	7.363.224	-	(5.880.000)	-
19.a Off-balance sheet foreign currency derivative assets	26.154.908	7.363.224	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	27.917.064	-	-	5.880.000	-
20. Net foreign currency asset/(liability) position	683.753.291	112.319.625	221.914.719	3.431.188	46.577.438
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	30.382.875	(69.647.506)	221.054.616	3.335.220	40.888.208

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

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

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

<b>31 December 2016</b>	<b>TL Total</b>	<b>USD</b>	<b>TL</b>	<b>GBP</b>	<b>Other</b>
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
<b>4. CURRENT ASSETS</b>	<b>905.321.542</b>	<b>201.604.637</b>	<b>116.297.544</b>	<b>4.235.397</b>	<b>61.244.703</b>
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
<b>8. NON CURRENT ASSETS</b>	<b>244.691.900</b>	<b>68.925.723</b>	<b>587.209</b>	<b>19.800</b>	<b>1.455.772</b>
<b>9. TOTAL ASSETS</b>	<b>1.150.013.442</b>	<b>270.530.360</b>	<b>116.884.753</b>	<b>4.255.197</b>	<b>62.700.475</b>
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	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>408.191.807</b>	<b>70.701.209</b>	<b>149.364.051</b>	<b>294.638</b>	<b>8.743.550</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.125.413.365	319.792.386	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>1.125.413.365</b>	<b>319.792.386</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>1.533.605.172</b>	<b>390.493.595</b>	<b>149.364.051</b>	<b>294.638</b>	<b>8.743.550</b>
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	(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

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

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

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

Foreign currency sensitivity

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

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

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

<b>30 September 2017</b>	<b>Profit/(Loss)</b>		<b>Shareholders' equity</b>	
	<b>If foreign currency appreciated 10%</b>	<b>If foreign currency depreciated 10%</b>	<b>If foreign currency appreciated 10%</b>	<b>If foreign currency depreciated 10%</b>
Effect of 10% change in USD rate				
USD net asset / (liability)	(24.739.491)	24.739.491	-	-
Part of hedged from USD risk	2.615.491	(2.615.491)	-	-
<b>USD net effect</b>	<b>(22.124.000)</b>	<b>22.124.000</b>	<b>-</b>	<b>-</b>
Effect of 10% change in TL rate				
TL net asset / (liability)	22.105.462	(22.105.462)	229.466.421	(229.466.421)
Part of hedged from TL risk	-	-	-	-
<b>TL net effect</b>	<b>22.105.462</b>	<b>(22.105.462)</b>	<b>229.466.421</b>	<b>(229.466.421)</b>
<b>31 December 2016</b>				
	<b>If foreign currency appreciated 10%</b>	<b>If foreign currency depreciated 10%</b>	<b>If foreign currency appreciated 10%</b>	<b>If foreign currency depreciated 10%</b>
Effect of 10% change in USD rate				
USD net asset / (liability)	(92.983.182)	92.983.182	-	-
Part of hedged from USD risk	-	-	-	-
<b>USD net effect</b>	<b>(92.983.182)</b>	<b>92.983.182</b>	<b>-</b>	<b>-</b>
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	-	-	-	-
<b>TL net effect</b>	<b>(5.325.369)</b>	<b>5.325.369</b>	<b>121.925.547</b>	<b>(121.925.547)</b>

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

**Fair Value of Financial Instruments**

<b>30 September 2017</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	1.823.035.764	-	-	-	1.823.035.764	26
Trade receivables	474.750.113	-	-	-	474.750.113	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	474.750.113	-	-	-	474.750.113	6
Other receivables	32.228.328	-	-	-	32.228.328	
- <i>Related party</i>	1.807.061	-	-	-	1.807.061	5
- <i>Other</i>	30.421.267	-	-	-	30.421.267	
Pre-delivery payment for purchase of aircraft	623.035.806	-	-	-	623.035.806	7
Derivative financial assets	-	5.792.865	1.138.262	-	6.931.127	21
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	461.773.001	461.773.001	22
Obligations under financial leases	-	-	-	2.564.059.741	2.564.059.741	22
Trade payables	-	-	-	386.567.580	386.567.580	6
- <i>Related party</i>	-	-	-	1.303.082	1.303.082	5
- <i>Other</i>	-	-	-	385.264.498	385.264.498	
Passenger airport fees liability	-	-	-	73.984.278	73.984.278	7
Derivative financial liabilities	-	-	1.824.235	-	1.824.235	21

(\*) 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)**

<b>31 December 2016</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	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
<b>Financial liabilities</b>						
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.

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

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

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

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

Financial assets / (Financial liabilities)	Fair value as at		Fair value hierarchy	Valuation technique	
	30 September 2017	31 December 2016			
Fuel purchase option contracts	1.492.582	364.813	Level 2	Discounted cash flow method	
Fuel purchase forward contracts	4.300.283	-	Level 2	Discounted cash flow method	
Currency forward contracts	(1.824.235)	-	Level 2	Discounted cash flow method	
Interest rate swap contracts	1.138.262	762.555	Level 2	Discounted cash flow method	
	<b>Fuel purchase forward contracts</b>	<b>Fuel purchase option contracts</b>	<b>Currency forward contracts</b>	<b>Interest rate swap contracts</b>	<b>Total</b>
<b>30 September 2017</b>					
<b>Fair value:</b>					
Opening	-	364.813	-	762.555	1.127.368
Fair value increase / (decrease)					
Reflected at equity	4.300.283	1.127.769	-	-	5.428.052
Reflected at profit or loss	-	-	(1.824.235)	375.707	(1.448.528)
<b>Closing</b>	<b>4.300.283</b>	<b>1.492.582</b>	<b>(1.824.235)</b>	<b>1.138.262</b>	<b>5.106.892</b>
Assets	4.300.283	1.492.582	-	1.138.262	6.931.127
Liabilities	-	-	(1.824.235)	-	(1.824.235)
<b>Total net assets and liabilities</b>	<b>4.300.283</b>	<b>1.492.582</b>	<b>(1.824.235)</b>	<b>1.138.262</b>	<b>5.106.892</b>



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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(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)**

<b>31 December 2016</b>	<b>Fuel purchase forward contracts</b>	<b>Fuel purchase option contracts</b>	<b>Currency forward contracts</b>	<b>Chooser forward contracts</b>	<b>Interest rate swap contracts</b>	<b>Total</b>
<b>Fair value:</b>						
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
<b>Closing</b>	<b>-</b>	<b>364.813</b>	<b>-</b>	<b>-</b>	<b>762.555</b>	<b>1.127.368</b>
<b>Assets</b>	<b>-</b>	<b>364.813</b>	<b>-</b>	<b>-</b>	<b>762.555</b>	<b>1.127.368</b>
<b>Total net assets and liabilities</b>	<b>-</b>	<b>364.813</b>	<b>-</b>	<b>-</b>	<b>762.555</b>	<b>1.127.368</b>

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

None.

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

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

	<b>30 September 2017</b>	<b>31 December 2016</b>
Cash on hand	414.641	417.322
Cash at banks	1.822.621.123	691.853.303
- Demand deposits	96.514.412	60.841.952
- Time deposits	1.726.106.711	631.011.351
	<b>1.823.035.764</b>	<b>692.270.625</b>

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

<b>30 September 2017</b>	<b>Weighted average interest rates</b>	<b>Total</b>
USD deposits	4,17%	1.277.089.275
TL deposits	11,70%	19.586.188
EUR deposits	1,69%	416.428.689
GBP deposits	0,74%	10.445.571
CHF deposits	0,20%	2.556.988
		<b>1.726.106.711</b>

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

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

(Amounts are expressed in TL unless otherwise stated.)

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

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

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