

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 2016 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 Tařımacılıđı A.ř.**

### *Introduction*

We have reviewed the accompanying condensed consolidated balance sheet of Pegasus Hava Tařımacılıđı A.ř. and its subsidiaries (together will be referred as the “Group”) as of 30 June 2016 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 BAĐIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜřAVİRLİK A.ř.**  
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Cem Tovil  
Partner

İstanbul, 15 August 2016

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF 30 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

|   | Notes | Current period<br>(Reviewed)<br>30 June<br>2016 | Prior period<br>(Audited)<br>31 December<br>2015 |
|---|-------|---|--|
| <b>ASSETS</b>                                   |       |   |  |
| <b>Current assets</b>                           |       | <b>1.616.635.896</b>                            | <b>1.833.732.173</b>                             |
| Cash and cash equivalents                       | 26    | 426.708.114                                     | 954.974.093                                      |
| Trade receivables                               | 6     | 405.618.964                                     | 294.629.623                                      |
| <i>Trade receivables from third parties</i>     | 6     | <i>405.618.964</i>                              | <i>294.629.623</i>                               |
| Other receivables                               |       | 127.824.355                                     | 189.515.187                                      |
| <i>Other receivables from related parties</i>   | 5     | <i>325.327</i>                                  | <i>278.844</i>                                   |
| <i>Other receivables from third parties</i>     |       | <i>127.499.028</i>                              | <i>189.236.343</i>                               |
| Derivative financial instruments                | 21    | 19.900.192                                      | 2.341.144  |
| Inventories                                     |       | 18.006.323                                      | 13.364.708                                       |
| Prepaid expenses                                | 7     | 593.704.185                                     | 347.664.779                                      |
| Current income tax assets                       |       | 20.199.634                                      | 29.034.468                                       |
| Other current assets                            |       | 4.674.129                                       | 2.208.171  |
| <b>Non-Current assets</b>                       |       | <b>2.350.463.284</b>                            | <b>2.264.365.079</b>                             |
| Other receivables                               |       | 17.038.362                                      | 29.274.800                                       |
| <i>Other receivables from third parties</i>     |       | <i>17.038.362</i>                               | <i>29.274.800</i>                                |
| Investment accounted by using the equity method | 3     | 23.249.510                                      | 20.745.960                                       |
| Property and equipment                          | 8     | 2.205.314.096                                   | 2.113.308.165                                    |
| Intangible assets                               | 9     | 14.779.153                                      | 14.568.673                                       |
| Prepaid expenses                                | 7     | 80.315.463                                      | 77.827.374                                       |
| Deferred tax assets                             |       | 9.766.700                                       | 8.640.107  |
| <b>TOTAL ASSETS</b>                             |       | <b>3.967.099.180</b>                            | <b>4.098.097.252</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 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

|  | Notes | Current period<br>(Reviewed)<br>30 June<br>2016 | Prior period<br>(Audited)<br>31 December<br>2015 |
|--|-------|---|--|
| <b>LIABILITIES</b>   |       |   |  |
| <b>Current liabilities</b>   |       | <b>1.137.084.113</b>                            | <b>991.845.572</b>                               |
| Short term financial liabilities   | 22    | 8.919.128                                       | 6.826.527  |
| Short term portion of long term financial liabilities                          | 22    | 197.788.225                                     | 201.887.265                                      |
| Trade payables   | 6     | 278.842.415                                     | 245.899.093                                      |
| <i>Trade payables to related parties</i>                                       | 5     | 344.505   | 1.013.200  |
| <i>Trade payables to third parties</i>   |       | 278.497.910                                     | 244.885.893                                      |
| Employee benefit obligations   |       | 18.740.279                                      | 12.636.938                                       |
| Other payables   |       | 29.125.933                                      | 12.043.950                                       |
| <i>Other payables to third parties</i>   |       | 29.125.933                                      | 12.043.950                                       |
| Derivative financial instruments   | 21    | 50.129.374                                      | 178.165.534                                      |
| Deferred income  | 7     | 528.071.972                                     | 300.686.908                                      |
| Short term provisions  |       | 25.195.273                                      | 29.034.306                                       |
| <i>Short term provisions for employee benefits</i>                             |       | 18.759.560                                      | 26.058.356                                       |
| <i>Other short term provisions</i>   |       | 6.435.713                                       | 2.975.950  |
| Other current liabilities  |       | 271.514   | 4.665.051  |
| <b>Non-Current liabilities</b>   |       | <b>1.533.771.648</b>                            | <b>1.653.520.051</b>                             |
| Long term financial liabilities  | 22    | 1.088.606.180                                   | 1.206.722.990                                    |
| Deferred income  |       | 7.946.204                                       | 9.831.545  |
| Long term provisions   |       | 281.712.757                                     | 232.991.886                                      |
| <i>Long term provisions for employee benefits</i>                              |       | 11.184.650                                      | 10.664.601                                       |
| <i>Other long term provisions</i>  |       | 270.528.107                                     | 222.327.285                                      |
| Deferred tax liabilities   |       | 155.506.507                                     | 203.973.630                                      |
| <b>SHAREHOLDERS' EQUITY</b>  |       | <b>1.296.243.419</b>                            | <b>1.452.731.629</b>                             |
| <b>Equity attributable to shareholders' of the parent</b>                      |       | <b>1.298.183.532</b>                            | <b>1.455.437.269</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<br>not to be reclassified to profit or loss |       |   |  |
| Actuarial gains/(losses) on defined benefit plans                              |       | (3.172.494)                                     | (3.172.494)                                      |
| Other comprehensive income/expense<br>to be reclassified to profit or loss     |       |   |  |
| Currency translation differences   |       | 417.338.826                                     | 406.940.383                                      |
| Hedge fund   |       | 14.040.393                                      | (22.138.754)                                     |
| Restricted profit reserves   |       | 5.016.306                                       | 9.806.631  |
| Retained earnings  |       | 481.327.846                                     | 363.411.817                                      |
| Net (loss)/income for the period   |       | (203.831.327)                                   | 113.125.704                                      |
| <b>Non-controlling interest</b>  |       | <b>(1.940.113)</b>                              | <b>(2.705.640)</b>                               |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |       | <b>3.967.099.180</b>                            | <b>4.098.097.252</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 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

|   |              | Current period<br>(Reviewed)<br>1 January-<br>30 June 2016 | Prior period<br>(Reviewed)<br>1 January-<br>30 June 2015 | Current period<br>(Not Reviewed)<br>1 April -<br>30 June 2016 | Prior period<br>(Not Reviewed)<br>1 April -<br>30 June 2015 |
|---|--------------|--|--|---|---|
| <b>Profit or loss</b>   | <b>Notes</b> |  |  |   |   |
| Sales   | 15           | 1.488.781.057  | 1.417.042.133  | 797.680.256   | 833.895.804   |
| Cost of sales (-)   | 15           | (1.604.870.009)  | (1.389.494.570)  | (827.410.369)   | (770.985.350)   |
| <b>Gross (loss)/profit</b>  |              | <b>(116.088.952)</b>                                       | <b>27.547.563</b>  | <b>(29.730.113)</b>   | <b>62.910.454</b>   |
| General administrative expenses (-)                               | 16           | (72.908.841)   | (47.067.736)   | (37.567.870)  | (24.867.549)  |
| Marketing expenses (-)  | 16           | (90.554.357)   | (82.871.997)   | (45.320.588)  | (47.599.229)  |
| Other operating income  | 17           | 1.060.927  | 56.090.056   | 639.066   | (26.986.063)  |
| Other operating expenses (-)                                      | 17           | (6.907.450)  | (1.668.643)  | 32.474.139  | (512.242)   |
| <b>Operating loss</b>   |              | <b>(285.398.673)</b>                                       | <b>(47.970.757)</b>                                      | <b>(79.505.366)</b>   | <b>(37.054.629)</b>   |
| Income from investing activities                                  | 18           | 614.814  | 11.997.392   | 547.749   | 3.232.906   |
| Expenses from investing activities (-)                            | 18           | (245.577)  | -  | 9.167.692   | -   |
| Share of investments income accounted for using the equity method | 3            | 1.879.583  | 1.800.720  | 832.574   | 1.625.150   |
| <b>Operating loss before financial expense</b>                    |              | <b>(283.149.853)</b>                                       | <b>(34.172.645)</b>                                      | <b>(68.957.351)</b>   | <b>(32.196.573)</b>   |
| Financial income  | 19           | 38.422.006   | 35.517.490   | 6.742.868   | 43.799.344  |
| Financial expense (-)   | 19           | (19.281.683)   | (28.584.811)   | (9.838.814)   | 7.636.750   |
| <b>(Loss)/profit before tax</b>                                   |              | <b>(264.009.530)</b>                                       | <b>(27.239.966)</b>                                      | <b>(72.053.297)</b>   | <b>19.239.521</b>   |
| <b>Tax income/(expense)</b>                                       |              | <b>61.051.718</b>  | <b>(14.911.331)</b>                                      | <b>59.659.419</b>   | <b>19.254.693</b>   |
| Current tax expense   |              | -  | -  | -   | -   |
| Deferred tax income/(expense)                                     |              | 61.051.718   | (14.911.331)   | 59.659.419  | 19.254.693  |
| <b>(Loss)/income for the period</b>                               |              | <b>(202.957.812)</b>                                       | <b>(42.151.297)</b>                                      | <b>(12.393.878)</b>   | <b>38.494.214</b>   |
| <b>Net (loss)/income attributable to:</b>                         |              |  |  |   |   |
| Shareholders' of the parent                                       |              | (203.831.327)  | (38.993.687)   | (13.631.039)  | 35.292.631  |
| Non-controlling interest  |              | 873.515  | (3.157.610)  | 1.237.161   | 3.201.583   |
|   |              | <b>(202.957.812)</b>                                       | <b>(42.151.297)</b>                                      | <b>(12.393.878)</b>   | <b>38.494.214</b>   |
| (Loss)/gain per share (TL)  | 20           | (1,99)   | (0,38)   | (0,13)  | 0,35  |
| <b>Other comprehensive income</b>                                 |              |  |  |   |   |
| <b>Items to be reclassified to profit or loss</b>                 |              |  |  |   |   |
| Currency translation differences                                  |              | 10.290.455   | 65.130.930   | (7.261.018)   | 65.327.966  |
| Cash flow hedge   |              | 45.223.934   | 36.938.256   | 46.075.428  | (1.545.430)   |
| Deferred tax effect   |              | (9.044.787)  | (7.387.650)  | (9.215.086)   | 309.089   |
| <b>Other comprehensive income/(expense)</b>                       |              | <b>46.469.602</b>  | <b>94.681.536</b>  | <b>29.599.324</b>   | <b>64.091.625</b>   |
| <b>Total comprehensive income/(expense)</b>                       |              | <b>(156.488.210)</b>                                       | <b>52.530.239</b>  | <b>17.205.446</b>   | <b>102.585.839</b>  |
| <b>Total comprehensive income attributable to:</b>                |              |  |  |   |   |
| Shareholders' of the parent                                       |              | (157.253.737)  | 56.589.387   | 16.418.775  | 99.363.567  |
| Non-controlling interest  |              | 765.527  | (4.059.148)  | 786.671   | 3.222.272   |
|   |              | <b>(156.488.210)</b>                                       | <b>52.530.239</b>  | <b>17.205.446</b>   | <b>102.585.839</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 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

|                                      |                          |                                    |                                       | Other comprehensive<br>income items<br>not to be reclassified<br>to profit or loss | Other comprehensive<br>income items<br>to be reclassified to<br>profit or loss |                     | Retained earnings             |                      |                                     | Equity attributable<br>to shareholders' of<br>the parent | Non-<br>controlling<br>interest | Shareholders'<br>equity |
|--------------------------------------|--------------------------|------------------------------------|---------------------------------------|--|--|---------------------|-------------------------------|----------------------|-------------------------------------|--|---------------------------------|-------------------------|
|                                      | Paid in<br>share capital | Share premiums<br>on capital stock | Effects of<br>business<br>acquisition | Actuarial gains/(losses) on<br>defined benefit plans                               | Currency<br>translation<br>differences   | Hedge fund          | Restricted<br>profit reserves | Retained<br>earnings | Net profit/(loss)<br>for the period |  |                                 |                         |
| <b>As at 1 January 2015</b>          | <b>102.272.000</b>       | <b>455.687.025</b>                 | <b>29.504.957</b>                     | -  | <b>258.696.079</b>   | <b>(58.095.258)</b> | -                             | <b>229.876.620</b>   | <b>143.341.828</b>                  | <b>1.161.283.251</b>                                     | <b>(123.035)</b>                | <b>1.161.160.216</b>    |
| Transfers                            | -                        | -                                  | -                                     | -  | -  | -                   | 9.806.631                     | 133.535.197          | (143.341.828)                       | -  | -                               | -                       |
| Total comprehensive income/(expense) | -                        | -                                  | -                                     | -  | 66.032.468   | 29.550.606          | -                             | -                    | (38.993.687)                        | 56.589.387   | (4.059.148)                     | 52.530.239              |
| <b>As at 30 June 2015</b>            | <b>102.272.000</b>       | <b>455.687.025</b>                 | <b>29.504.957</b>                     | -  | <b>324.728.547</b>   | <b>(28.544.652)</b> | <b>9.806.631</b>              | <b>363.411.817</b>   | <b>(38.993.687)</b>                 | <b>1.217.872.638</b>                                     | <b>(4.182.183)</b>              | <b>1.213.690.455</b>    |
| <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/(expense) | -                        | -                                  | -                                     | -  | 10.398.443   | 36.179.147          | -                             | -                    | (203.831.327)                       | (157.253.737)  | 765.527                         | (156.488.210)           |
| <b>As at 30 June 2016</b>            | <b>102.272.000</b>       | <b>455.687.025</b>                 | <b>29.504.957</b>                     | <b>(3.172.494)</b>   | <b>417.338.826</b>   | <b>14.040.393</b>   | <b>5.016.306</b>              | <b>481.327.846</b>   | <b>(203.831.327)</b>                | <b>1.298.183.532</b>                                     | <b>(1.940.113)</b>              | <b>1.296.243.419</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 CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

|   |     | Current period<br>(Reviewed)<br>1 January-<br>30 June 2016 | Prior period<br>(Reviewed)<br>1 January-<br>30 June 2015 |
|---|-----|--|--|
| <b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>  |     |  |  |
| Loss for the period   |     | (202.957.812)  | (42.151.297)   |
| <b>Adjustments to reconcile the net profit</b>  |     |  |  |
| Depreciation and amortization   | 8-9 | 100.403.998  | 83.312.912   |
| Adjustments related with impairments  |     | 250.996  | 322.916  |
| <i>Provision for doubtful receivable</i>  |     | 250.996  | 322.916  |
| Adjustments related with provisions   |     | 61.292.935   | 55.328.652   |
| <i>Provision for employee benefits</i>  |     | 8.071.391  | 20.814.617   |
| <i>Legal provision</i>  |     | 35.256   | 651.684  |
| <i>Change in maintenance reserves and redelivery provision</i>                                    |     | 53.186.288   | 33.862.351   |
| Interest and commission income  | 19  | 2.885.159  | (774.675)  |
| Gain on equity investments accounted for<br>using the equity method                               | 3   | (1.879.583)  | (1.800.720)  |
| Current tax expense   |     | (61.051.718)   | 14.911.331   |
| Other provisions related with investing<br>or financing activities                                | 24  | (100.371.274)  | (60.690.005)   |
| <b>Changes in working capital</b>   |     |  |  |
| Increase in trade receivables   |     | (111.229.709)  | (156.625.596)  |
| Increase in inventories   |     | (4.641.615)  | (2.194.556)  |
| Decrease in other receivables, prepaid expenses and<br>other current assets                       |     | 68.001.934   | 97.101.203   |
| Increase in trade payables  |     | 32.943.322   | 70.697.176   |
| Increase in deferred income, other payables and other current liabilities                         |     | 248.156.355  | 293.920.446  |
| <b>Net cash generated from operating activities</b>   |     | <b>31.802.988</b>  | <b>351.357.787</b>                                       |
| Payment for employee, executive bonus plan and retirement benefits                                |     | (14.927.456)   | (20.034.163)   |
| Payment for other provisions  |     | (89.556)   | (736.249)  |
|   |     | <b>16.785.976</b>  | <b>330.587.375</b>                                       |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |     |  |  |
| Cash outflows from purchase of property, equipment<br>and intangible assets                       | 8-9 | (177.694.225)  | (39.990.078)   |
| Changes in advances on aircraft   | 12  | (242.302.405)  | (5.064.300)  |
| Proceeds from sale of property, equipment<br>and intangible assets                                |     | 699.307  | 22.554   |
| Payment for purchase of joint-venture share   |     | (4.409.850)  | (11.499.750)   |
|   |     | <b>(423.707.173)</b>                                       | <b>(56.531.574)</b>                                      |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |     |  |  |
| Repayment of principal in financial lease liabilities   |     | (103.439.951)  | (89.540.123)   |
| Interest and commission paid  |     | (19.298.154)   | (17.034.771)   |
| Interest received   |     | 17.882.091   | 17.782.262   |
| Net increase in borrowings  |     | 697.352  | 869.726  |
|   |     | <b>(104.158.662)</b>                                       | <b>(87.922.906)</b>                                      |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS<br/>BEFORE TRANSLATION EFFECT (A+B+C)</b> |     |  |  |
|   |     | <b>(511.079.859)</b>                                       | <b>186.132.895</b>                                       |
| <b>D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS</b>                             |     |  |  |
|   |     | (17.186.120)   | 54.585.751   |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>                             |     |  |  |
|   |     | <b>(528.265.979)</b>                                       | <b>240.718.646</b>                                       |
| <b>E. CASH AND CASH EQUIVALENTS</b>   |     |  |  |
| AT THE BEGINNING OF THE PERIOD  | 26  | 954.974.093  | 856.890.769  |
| <b>CASH AND CASH EQUIVALENTS</b>  |     |  |  |
| AT THE END OF THE PERIOD (A+B+C+D+E)  | 26  | <b>426.708.114</b>   | <b>1.097.609.415</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 JUNE 2016

(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 2016 and 31 December 2015 are as follows:

|                                    | <b>30 June 2016</b> | <b>31 December 2015</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 June 2016 is 6.028 (31 December 2015: 4.967). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

#### Approval of Financial Statements

Board of Directors has approved the condensed consolidated financial statements as of 30 June 2016 and delegated authority for publishing it on 15 August 2016. 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 2016 in accordance with TAS 34 “Interim Financial Reporting”.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016**

(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 June 2016: 1 Euro (€) = TL 3,2044, 1 US Dollar (\$) = TL 2,8936 (31 December 2015: 1 Euro (€) = TL 3,1776, 1 US Dollar (\$) = TL 2,9076).
- 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 2016

(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 2016 and 31 December 2015:

| <u>Name of the company</u>                          | <u>Principal activity</u> | <u>Participation rate</u> |                         | <u>Country of registration and operation</u> |
|---|---------------------------|---------------------------|-------------------------|--|
|   |                           | <u>30 June 2016</u>       | <u>31 December 2015</u> |  |
| IHY İzmir Havayolları A.Ş. ("İzair")                | Air transportation        | 69%                       | 69%                     | Turkey                                       |
| Air Company "Air Manas" LTD ("Air Manas") (*)       | Air transportation        | 49%                       | 49%                     | Kyrgyzstan                                   |
| Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.(**) | Simulator training        | 100%                      | -                       | Turkey                                       |

(\*) In accordance with its rights arising from Air Manas Articles of Association, the Company has the right to control Air Manas operations with 49% shareholding rate and therefore, Air Manas was included in line by line consolidation as a subsidiary as of 30 June 2016 and 31 December 2015.

(\*\*) Pegasus Havacılık Teknolojileri ve Ticaret A.Ş., was established in May 2016 in İstanbul and has not commenced its operations as of 30 June 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 2016 and 31 December 2015:

| <u>Name of the company</u>                                | <u>Principal activity</u>    | <u>Participation rate</u> |                         | <u>Country of registration and operation</u> |
|---|------------------------------|---------------------------|-------------------------|--|
|   |                              | <u>30 June 2016</u>       | <u>31 December 2015</u> |  |
| Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")                 | Simulator training           | 49%                       | 49%                     | Turkey                                       |
| Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar") (*) | Information system solutions | 50%                       | 40%                     | Turkey                                       |

(\*) The Group used its call option that is acquired during the share purchase agreement for additional Group (B) registered shares representing a further 10% of the share of Hitit Bilgisayar for a total consideration of US Dollar 1.500.000, by making the equivalent payment of TL 4.409.850 in 30 May 2016 and consequently participation rate increased to 50%.

#### 2.2 Significant Accounting Policies

Condensed consolidated financial statements for the interim period with respect to the period ending on 30 June 2016 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 2016 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 2015. 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 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

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

2.3 Changes in Accounting Estimates

The same presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2015.

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

|  |   |
|--|---|
| Amendments to TAS 16 and TAS 38  | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>                  |
| Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 | <i>Agriculture: Bearer Plants</i> <sup>1</sup>  |
| Amendments to TFRS 11 and TFRS 1   | <i>Accounting for Acquisition of Interests in Joint operations</i> <sup>1</sup>                           |
| Annual Improvements to 2011-2013 Cycle   | <i>TFRS 1</i> <sup>2</sup>  |
| Amendments to TAS 1  | <i>Disclosure Initiative</i> <sup>2</sup>   |
| Annual Improvements to 2012-2014 Cycle   | <i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> <sup>2</sup>  |
| Amendments to TAS 27   | <i>Equity Method in Separate Financial Statements</i> <sup>2</sup>  |
| Amendments to TFRS 10 and TAS 28   | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup> |
| Amendments to TFRS 10, TFRS 12 and TAS 28  | <i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>                             |
| TFRS 14  | <i>Regulatory Deferral Accounts</i> <sup>2</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 31 December 2015.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016.

(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>   |
| Amendments to TFRS 9 and TFRS 7 | <i>Mandatory Effective Date of TFRS 9 and Transition Disclosures</i> |

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 & payables and passenger flight liabilities under deferred income increased as of 30 June 2016 compared to last year-end.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016**

(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 June 2016</b> | <b>31 December 2015</b> |
|-----------------------|---------------------|-------------------------|
| <b>Joint ventures</b> |                     |                         |
| PUEM                  | 3.851.426           | 3.413.797               |
| Hitit Bilgisayar      | 19.398.084          | 17.332.163              |
|                       | <b>23.249.510</b>   | <b>20.745.960</b>       |

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

|                   | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|-------------------|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| PUEM              | 415.387                            | 388.277                            | 158.340                           | 212.707                           |
| Hitit Bilgisayar  | 1.464.196                          | 1.412.443                          | 674.234                           | 1.412.443                         |
| <b>Net profit</b> | <b>1.879.583</b>                   | <b>1.800.720</b>                   | <b>832.574</b>                    | <b>1.625.150</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 June 2016</b>                | <b>31 December 2015</b>            |
|---|------------------------------------|------------------------------------|
| Current assets  | 867.325                            | 1.405.528                          |
| Non-current assets  | 16.273.663                         | 16.496.379                         |
| Current liabilities   | (6.192.631)                        | (6.285.656)                        |
| Non-current liabilities   | (3.151.949)                        | (4.705.731)                        |
| <b>Net assets of joint venture</b>                              | <b>7.796.408</b>                   | <b>6.910.520</b>                   |
| Group's ownership interest in the joint venture                 | 49,40%                             | 49,40%                             |
| <b>Group's share in the net assets<br/>of the joint venture</b> | <b>3.851.426</b>                   | <b>3.413.797</b>                   |
|   | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> |
| Revenue   | 3.245.429                          | 2.905.277                          |
| Profit for the period   | 840.864                            | 785.985                            |
| Group's ownership interest                                      | 49,40%                             | 49,40%                             |
| <b>Group's share in the net assets<br/>of the joint venture</b> | <b>415.387</b>                     | <b>388.277</b>                     |

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016

(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 2016                       | 31 December 2015                 |
|---|------------------------------------|----------------------------------|
| Current assets  | 13.660.273                         | 13.861.790                       |
| Non-current assets  | 27.864.428                         | 32.891.666                       |
| Current liabilities   | (4.393.415)                        | (5.496.308)                      |
| Non-current liabilities   | (120.142)                          | (158.021)                        |
| <b>Net assets of joint venture</b>                              | <b>37.011.144</b>                  | <b>41.099.127</b>                |
| Group's ownership interest in the joint venture                 | 50%                                | 40%                              |
| Goodwill  | 892.512                            | 892.512                          |
| <b>Group's share in the net assets<br/>of the joint venture</b> | <b>19.398.084</b>                  | <b>17.332.163</b>                |
|   | <b>1 January-<br/>30 June 2016</b> | <b>1 April-<br/>30 June 2015</b> |
| Revenue   | 17.432.070                         | 7.462.440                        |
| Profit for the period   | 3.149.080                          | 3.531.108                        |
| Group's weighted average ownership interest (*)                 | 41,70%                             | 40%                              |
| <b>Group's share in the net assets<br/>of the joint venture</b> | <b>1.464.196</b>                   | <b>1.412.443</b>                 |

(\*) The Group used its call option that is acquired during the share purchase agreement for additional Group (B) registered shares representing a further 10% of the share of Hitit Bilgisayar for a total consideration of US Dollar 1.500.000, by making the equivalent payment of TL 4.409.850 in 30 May 2016 and consequently as of 30 June 2016, participation rate has increased to 50% and weighted average participation rate has increased to 41,70% as well.

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 Company's single reportable segment.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(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 2016   | 31 December 2015 |
|---|----------------|------------------|
| <b>Balances with other related parties:</b> |                |                  |
| Air Berlin Plc&Co Luftverkehrs Kg           | 302.946        | 278.844          |
| PUEM  | 22.381         | -                |
|   | <b>325.327</b> | <b>278.844</b>   |

##### b) Trade payables to related parties

##### Balances with parent company:

|              |   |         |
|--------------|---|---------|
| Esas Holding | - | 190.421 |
|--------------|---|---------|

##### Balances with joint ventures and subsidiaries:

|                  |         |         |
|------------------|---------|---------|
| Hitit Bilgisayar | 311.378 | 595.265 |
| PUEM             | -       | 179.953 |

##### Balances with other related parties:

|   |        |        |
|---|--------|--------|
| Esasburda İnşaat Sanayi ve Ticaret A.Ş.                           | -      | 47.561 |
| Doğan Burda Dergi Yayıncılık ve<br>Pazarlama A.Ş. ("Doğan Burda") | 33.127 | -      |

|  |                |                  |
|--|----------------|------------------|
|  | <b>344.505</b> | <b>1.013.200</b> |
|--|----------------|------------------|

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(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 generates advertising revenue by renting ad space via Doğan Burda.

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

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-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|---|----------------------------|----------------------------|---------------------------|---------------------------|
| <b>Balances with joint ventures and subsidiaries:</b> |                            |                            |                           |                           |
| PUEM  | 327.036                    | 272.693                    | 182.348                   | 141.680                   |
| <b>Balances with other related parties:</b>           |                            |                            |                           |                           |
| Air Berlin Plc&Co Luftverkehrs Kg                     | 2.221.117                  | 9.100.703                  | 1.201.656                 | 6.437.879                 |
| Doğan Burda   | 46.264                     | 450.000                    | 43.075                    | 225.000                   |
|   | <b>2.594.417</b>           | <b>9.823.396</b>           | <b>1.427.079</b>          | <b>6.804.559</b>          |

#### b) Purchases of goods or services

|  | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|--|----------------------------|----------------------------|---------------------------|---------------------------|
| <b>Balances with joint ventures and subsidiaries:</b>  |                            |                            |                           |                           |
| PUEM   | 3.245.429                  | 2.801.015                  | 1.766.328                 | 1.311.670                 |
| Hitit Bilgisayar                                       | 4.697.384                  | 1.722.377                  | 2.249.192                 | 1.722.377                 |
| <b>Balances with other related parties:</b>            |                            |                            |                           |                           |
| Callpex Çağrı Merkezi ve<br>Müşteri Hizmetleri A.Ş.(*) | -                          | 3.744.700                  | -                         | 1.907.021                 |
| Esasburda  | 768.435                    | 139.570                    | 358.612                   | 93.781                    |
| Other  | 3.871                      | 3.810                      | 1.550                     | 1.270                     |
|  | <b>8.715.119</b>           | <b>8.411.472</b>           | <b>4.375.682</b>          | <b>5.036.119</b>          |

(\*) Due to disposal of shares of the Company's Chairman of the Board, call center service provider Callpex Çağrı Merkezi ve Müşteri Hizmetleri A.Ş. was delisted from related parties list as of 31 December 2015.



PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016

(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-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|-----------|----------------------------|----------------------------|---------------------------|---------------------------|
| Esasburda | 2.520.696                  | 1.927.219                  | 1.241.763                 | 1.087.105                 |
|           | <b>2.520.696</b>           | <b>1.927.219</b>           | <b>1.241.763</b>          | <b>1.087.105</b>          |

d) Surety commission expenses

|                        | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|------------------------|----------------------------|----------------------------|---------------------------|---------------------------|
| Esas Holding (Note 19) | 6.101.034                  | 5.869.728                  | 2.967.833                 | 2.959.079                 |
|                        | <b>6.101.034</b>           | <b>5.869.728</b>           | <b>2.967.833</b>          | <b>2.959.079</b>          |

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,575% 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 2016 and 2015 are as follows:

|  | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|--|----------------------------|----------------------------|---------------------------|---------------------------|
| Salaries and other short term benefits | 7.662.161                  | 3.568.628                  | 2.375.924                 | 1.685.100                 |
| Other long term benefits               | 3.523.737                  | 1.496.387                  | -                         | -                         |
|  | <b>11.185.898</b>          | <b>5.065.015</b>           | <b>2.375.924</b>          | <b>1.685.100</b>          |

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016**

(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 2016 and 31 December 2015 are as follows:

|  | <b>30 June 2016</b> | <b>31 December 2015</b> |
|--|---------------------|-------------------------|
| Trade receivables                        | 95.934.444          | 66.728.316              |
| Credit card receivables                  | 300.129.367         | 220.177.025             |
| Income accruals                          | 12.992.425          | 10.899.930              |
|  | <b>409.056.236</b>  | <b>297.805.271</b>      |
| Less: Allowance for doubtful receivables | (3.437.272)         | (3.175.648)             |
|  | <b>405.618.964</b>  | <b>294.629.623</b>      |

**Short term trade payables**

The details of short term trade payables as of 30 June 2016 and 31 December 2015 are as follows:

|                                  | <b>30 June 2016</b> | <b>31 December 2015</b> |
|----------------------------------|---------------------|-------------------------|
| Trade payables                   | 183.836.746         | 173.295.633             |
| Accrued direct operational costs | 77.935.935          | 60.336.067              |
| Other accrued expenses           | 16.725.229          | 11.254.193              |
| Due to related parties (Note 5)  | 344.505             | 1.013.200               |
|                                  | <b>278.842.415</b>  | <b>245.899.093</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 June 2016 and 31 December 2015 are as follows:

**Short term prepaid expenses**

|  | <b>30 June 2016</b> | <b>31 December 2015</b> |
|--|---------------------|-------------------------|
| Advances on aircraft purchases               | 440.556.020         | 206.989.481             |
| Advances to suppliers                        | 106.716.733         | 93.557.209              |
| Prepaid aircraft<br>operating lease expenses | 37.197.316          | 29.726.231              |
| Prepaid insurance expenses                   | 3.187.091           | 11.984.253              |
| Prepaid advertising expenses                 | 1.503.200           | 1.819.674               |
| Other prepaid expenses                       | 4.543.825           | 3.587.931               |
|  | <b>593.704.185</b>  | <b>347.664.779</b>      |

**Long term prepaid expenses**

|                                | <b>30 June 2016</b> | <b>31 December 2015</b> |
|--------------------------------|---------------------|-------------------------|
| Advances on aircraft purchases | 66.447.963          | 62.324.466              |
| Other prepaid expenses         | 13.867.500          | 15.502.908              |
|                                | <b>80.315.463</b>   | <b>77.827.374</b>       |

The details of deferred income as of 30 June 2016 and 31 December 2015 are as follows:

**Short term deferred income**

|   | <b>30 June 2016</b> | <b>31 December 2015</b> |
|---|---------------------|-------------------------|
| Passenger flight liabilities                | 490.547.600         | 272.748.385             |
| Deferred income from sale of subsidiary (*) | 16.189.811          | 16.054.408              |
| Advances received from customers            | 17.904.567          | 8.727.433               |
| Other deferred income                       | 3.429.994           | 3.156.682               |
|   | <b>528.071.972</b>  | <b>300.686.908</b>      |

(\*) The deferred income from sale of subsidiary, was not recognized in the statement of profit or loss as of 30 June 2016 due to on-going negotiations and process over the sale.

The details of passenger flight liabilities as of 30 June 2016 and 31 December 2015 are as follows:

|  | <b>30 June 2016</b> | <b>31 December 2015</b> |
|--|---------------------|-------------------------|
| Flight liability from ticket sales             | 384.258.455         | 187.347.110             |
| Passenger airport fees received from customers | 76.715.351          | 61.623.605              |
| Flight liability from flight points            | 29.573.794          | 23.777.670              |
|  | <b>490.547.600</b>  | <b>272.748.385</b>      |

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(Amounts are expressed in TL unless otherwise stated.)

**NOTE 8 - PROPERTY AND EQUIPMENT**

| <b>30 June 2016</b>              | <b>Machinery<br/>and equipment</b> | <b>Motor<br/>vehicles</b> | <b>Furniture and<br/>fixtures</b> | <b>Leasehold<br/>improvements</b> | <b>Components,<br/>spare engine<br/>and repairables</b> | <b>Owned and<br/>leased aircraft</b> | <b>Construction<br/>in process</b> | <b>Total</b>         |
|----------------------------------|------------------------------------|---------------------------|-----------------------------------|-----------------------------------|---|--------------------------------------|------------------------------------|----------------------|
| <b>Cost:</b>                     |                                    |                           |                                   |                                   |   |                                      |                                    |                      |
| Opening                          | <b>9.746.987</b>                   | <b>11.637.132</b>         | <b>54.184.095</b>                 | <b>37.279.765</b>                 | <b>112.911.844</b>                                      | <b>2.706.657.545</b>                 | <b>55.291.499</b>                  | <b>2.987.708.867</b> |
| 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           |
| <b>Closing</b>                   | <b>26.449.469</b>                  | <b>49.303.349</b>         | <b>60.928.829</b>                 | <b>39.194.259</b>                 | <b>222.959.028</b>                                      | <b>2.757.594.153</b>                 | <b>25.559.447</b>                  | <b>3.181.988.534</b> |
| <b>Accumulated depreciation:</b> |                                    |                           |                                   |                                   |   |                                      |                                    |                      |
| Opening                          | <b>(2.585.198)</b>                 | <b>(4.687.833)</b>        | <b>(29.952.719)</b>               | <b>(18.985.851)</b>               | <b>(33.930.943)</b>                                     | <b>(784.258.158)</b>                 | -                                  | <b>(874.400.702)</b> |
| 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)          |
| <b>Closing</b>                   | <b>(3.198.423)</b>                 | <b>(5.261.905)</b>        | <b>(33.352.057)</b>               | <b>(21.953.379)</b>               | <b>(41.777.683)</b>                                     | <b>(871.130.991)</b>                 | -                                  | <b>(976.674.438)</b> |
| <b>Net book value</b>            | <b>23.251.046</b>                  | <b>44.041.444</b>         | <b>27.576.772</b>                 | <b>17.240.880</b>                 | <b>181.181.345</b>                                      | <b>1.886.463.162</b>                 | <b>25.559.447</b>                  | <b>2.205.314.096</b> |

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

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

| <b>30 June 2015</b>              | <b>Machinery<br/>and equipment</b> | <b>Motor<br/>vehicles</b> | <b>Furniture and<br/>fixtures</b> | <b>Leasehold<br/>improvements</b> | <b>Components,<br/>spare engine<br/>and repairables</b> | <b>Owned and<br/>leased aircraft</b> | <b>Construction<br/>in process</b> | <b>Total</b>         |
|----------------------------------|------------------------------------|---------------------------|-----------------------------------|-----------------------------------|---|--------------------------------------|------------------------------------|----------------------|
| <b>Cost:</b>                     |                                    |                           |                                   |                                   |   |                                      |                                    |                      |
| Opening                          | <b>7.016.010</b>                   | <b>7.310.207</b>          | <b>40.779.927</b>                 | <b>28.184.960</b>                 | <b>67.289.792</b>                                       | <b>2.392.480.349</b>                 | <b>1.529.477</b>                   | <b>2.544.590.722</b> |
| Additions                        | 1.367.131                          | 3.076.350                 | 2.402.949                         | 1.207.135                         | 29.228.396  | -                                    | 51.064.885                         | 88.346.846           |
| Disposals                        | -                                  | -                         | (215.697)                         | -                                 | -   | -                                    | -                                  | (215.697)            |
| Currency translation differences | 502.279                            | 567.389                   | 2.437.422                         | 1.676.866                         | 5.119.357   | 146.088.457                          | 2.300.552                          | 158.692.322          |
| <b>Closing</b>                   | <b>8.885.420</b>                   | <b>10.953.946</b>         | <b>45.404.601</b>                 | <b>31.068.961</b>                 | <b>101.637.545</b>                                      | <b>2.538.568.806</b>                 | <b>54.894.914</b>                  | <b>2.791.414.193</b> |
| <b>Accumulated depreciation:</b> |                                    |                           |                                   |                                   |   |                                      |                                    |                      |
| Opening                          | <b>(1.900.821)</b>                 | <b>(3.757.948)</b>        | <b>(21.909.947)</b>               | <b>(12.388.565)</b>               | <b>(22.916.369)</b>                                     | <b>(550.204.426)</b>                 | -                                  | <b>(613.078.076)</b> |
| Depreciation for the period      | (245.392)                          | (531.154)                 | (2.359.768)                       | (2.215.011)                       | (4.674.460)   | (71.431.703)                         | -                                  | (81.457.488)         |
| Disposals                        | -                                  | -                         | 193.143                           | -                                 | -   | -                                    | -                                  | 193.143              |
| Currency translation differences | (147.352)                          | (252.098)                 | (1.344.036)                       | (806.698)                         | (1.485.523)   | (37.913.967)                         | -                                  | (41.949.674)         |
| <b>Closing</b>                   | <b>(2.293.565)</b>                 | <b>(4.541.200)</b>        | <b>(25.420.608)</b>               | <b>(15.410.274)</b>               | <b>(29.076.352)</b>                                     | <b>(659.550.096)</b>                 | -                                  | <b>(736.292.095)</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 9 - INTANGIBLE ASSETS**

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

| <b>30 June 2015</b>              | <b>Brand</b>     | <b>Software</b>     | <b>Total</b>        |
|----------------------------------|------------------|---------------------|---------------------|
| <b>Cost:</b>                     |                  |                     |                     |
| Opening                          | <b>1.988.594</b> | <b>23.204.104</b>   | <b>25.192.698</b>   |
| Additions                        | -                | 1.290.615           | 1.290.615           |
| Currency translation differences | 113.858          | 1.386.574           | 1.500.432           |
| <b>Closing</b>                   | <b>2.102.452</b> | <b>25.881.293</b>   | <b>27.983.745</b>   |
| <b>Accumulated amortization:</b> |                  |                     |                     |
| Opening                          | <b>(770.579)</b> | <b>(12.951.075)</b> | <b>(13.721.654)</b> |
| Amortization for the period      | (50.378)         | (1.805.046)         | (1.855.424)         |
| Currency translation differences | (46.303)         | (820.351)           | (866.654)           |
| <b>Closing</b>                   | <b>(867.260)</b> | <b>(15.576.472)</b> | <b>(16.443.732)</b> |
| <b>Net book value</b>            | <b>1.235.192</b> | <b>10.304.821</b>   | <b>11.540.013</b>   |

Remaining average useful life of intangible assets as of 30 June 2016 is 2,2 years (31 December 2015: 2,7 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 2016

(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 7.498.577 as of 30 June 2016 (31 December 2015: TL 7.164.906). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 2.310.582 (31 December 2015: TL 2.333.183) 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 2016 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

The Inspection Officers of Ministry of Finance audited the accounts and transactions of the Company for 2009, 2010, 2011 and until January 2012 on the subject of VAT. As a result of this inspection, the tax inspector challenged the VAT tax remitted on behalf of the non-resident aircraft lessor company that is party to the Company's financial lease structure. In accordance with the legislative changes made by the Cabinet Decree on 01 August 2008, rate of VAT applied by the Company is 1%.

The tax inspector asserted that the VAT rate should have been 18% for all periods resulting a liability of TL 30.872.430 and an additional tax penalty amount of TL 46.308.645 for the audited periods. The tax inspector challenged the applicability of the Cabinet Decree to the Group's transactions.

During this process;

On the official web site of the Directorate General of Revenues ([www.gib.gov.tr](http://www.gib.gov.tr)), the Directorate of Major Taxpayers' Tax Office has issued individual circular orders, which have been given to a taxpayer dated 21 May 2013 and number 64597866-130 [28-2013]- 74, dated 8 July 2013 and number 64597866-130[28-2013]-93. Directorate General of Revenues also published Value Added Tax General Implementation Circular on Official Gazette Number 28983 dated 26 April 2014.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(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)

In Value Added Tax General Implementation Circular and in other individual circular order mentioned above, it is indicated that such vehicle deliveries of which purchases are exempted from VAT pursuant to Article (13/a) of Law Number 3065, services with respect to such tax payers whose operations are either fully or partially involved with leasing and/or operating such vehicles in diverse manners are subject to VAT at the rate of (1%), and in the event such vehicles are subject to financial leasing, VAT at the rate of (1%) is applicable.

As a result of the Tax Inspection made, upon our due request with respect to the accrued value added tax and tax loss penalties, such reconciliation negotiations realized on 13 November 2004 before Central Reconciliation Commission Chairmanship have not been concluded with reconciliation. This status is declared to the general public by our Special Status Announcement dated 13 November 2014. In parallel to the foregoing, the Company filed an action against the subject matter tax accrual and imposition of tax depletion penalty within the legal term of 15 days granted to that effect.

Based on the explanations of both communiqués of Directorate General of Revenues and Ministry of Finance General Circulars, it is concluded that the opinion in respect of value added tax applicable to aircraft leasing operations made via financial leasing from abroad is to be at the rate of 1% is definite and conclusive, so the Company management is in the opinion that the VAT application with respect to financial leasing of aircraft is fully compatible with the resolutions adopted by the Assembly of Ministers of the Republic of Turkey and in the opinion that the filed lawsuits will be concluded in favor of the Company.

On grounds of the foregoing, the Company has not put aside and reserved any provision, in parallel to the relevant opinions of its legal advisors as well as experts on taxation matters, taking into consideration several specific communiqués and the explanations under such Value Added Tax General Implementation Circular provided by the Revenues Administration to different taxpayers in relation with the subject matter, confirming the VAT rates applied at the different periods referred to hereinbefore, including the periods not reviewed and inquired on the attached consolidated financial statements.

From amongst the actions pending before Istanbul Tax Offices, All Tax Courts inspecting and reviewing the lawsuits, decided for release of VAT assessment in the amount of TL 30.872.430 and tax fine in the amount of TL 46.308.645, basing on the justification that the financial leasing service acquired from abroad is subject to VAT at the rate of 1%, and calculating the relevant law at the rate of 18% and assessment of the same including fine is not legal. The tax office appealed to Council of State, and thus the judgments are not yet finalized. And the trial process pertaining to the other lawsuits is still ongoing.

Company's accounts as well as operations pertaining to year 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.



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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(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)

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 76.798,60 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.

Under decrees of the 4th Department of the Supreme Court of State, dated 28 February 2007, numbers E:2006/2738 E., K:2007/610 and dated 31 March 2005, numbers E:2004/1293, K:2005/529, it is contained judgments reading that the lump sum income amount could possibly be subjected to deduction over the tax return, and further, since the minor fixed assets claimed on the Report and direct costs of which are taken into consideration as expense remain below those limits specified pursuant to the Law, it is opinionated that the matters alleged on the Tax Inspection Report are as to the revocation of the administrative transaction as a consequence of the action filed. Therefore, no provision has been provided and set aside in parallel to the opinions of Company's legal advisors and taxation specialists, including the period not inspected and reviewed on the attached consolidated financial statements.

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 months of year 2010, with the demand for waiver of the assessments set forth under the subject matter tax inspection reports and rescission of any fines accrued. Actions with respect to the claim that any financial leasing payments made for abroad are subject to corporation tax withholding is concluded in favor of the Company as a result of the Judgment adopted by Tax Courts, which Judgments are brought to appeal by the Tax Administration, and the trial process is still ongoing.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016**

(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)

Such lawsuit filed on grounds of the argument that any package computer software of commodity nature, purchased from any company 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 (royalty) fee under scope of Article 30 of Corporation Tax Law, 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.

According to the specific communiqués issued by the Revenues Department on various dates, since such package computer software purchased from companies with legal and principal places of business domiciled abroad are submitted to the market in readily available form, not comprising of those programs prepared specific to the company, these are commercial commodities, and accordingly, it is opinionated that the purchasing prices of such programs are not subject to corporation tax withholding.

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 grounds of 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 2016

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 12 - COMMITMENTS

##### Purchase Commitments

|                                  | <b>30 June 2016</b>   | <b>31 December 2015</b> |
|----------------------------------|-----------------------|-------------------------|
| Commitments to purchase aircraft | 27.737.751.330        | 26.485.177.805          |
|                                  | <b>27.737.751.330</b> | <b>26.485.177.805</b>   |

As of 30 June 2016, the Group holds firm orders for 80 aircraft. The expected deliveries are: 9 aircraft in 2016, 8 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 507.003.983 (31 December 2015: TL 269.313.947) and TL 440.556.020 of this amount is reclassified under short term, TL 66.447.963 of this amount is reclassified under long term prepaid expenses (31 December 2015: TL 206.989.481 of this amount is reclassified under short term, TL 62.324.466 of this amount is reclassified under long term prepaid expenses).

##### The Company as Lessee

###### Operating Lease Agreements:

Payments recognised as expense:

|                        | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|------------------------|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Minimum lease payments | 207.110.001                        | 142.914.078                        | 104.300.895                       | 78.429.999                        |
|                        | <b>207.110.001</b>                 | <b>142.914.078</b>                 | <b>104.300.895</b>                | <b>78.429.999</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 June 2016 and 31 December 2015 are as follows:

|                     | <b>30 June 2016</b>  | <b>31 December 2015</b> |
|---------------------|----------------------|-------------------------|
| Less than 1 year    | 445.927.742          | 400.006.430             |
| Between 1 - 5 years | 1.403.588.936        | 1.311.457.028           |
| Over 5 years        | 351.349.843          | 327.309.414             |
|                     | <b>2.200.866.521</b> | <b>2.038.772.872</b>    |

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

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

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

The details of the CPMs given by the Group as of 30 June 2016 is as follows:

| <b>30 June 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  | 405.874.627        | 127.714.607        | 7.724.099        | 10.515.034        | 8.713.344        |
| -Pledge  | -                  | -                  | -                | -                 | -                |
| -Mortgage  | -                  | -                  | -                | -                 | -                |
| B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation          |                    |                    |                  |                   |                  |
| -Collateral  | 32.289.330         | 6.888.000          | -                | 12.772.871        | -                |
| -Pledge  | -                  | -                  | -                | -                 | -                |
| -Mortgage  | -                  | -                  | -                | -                 | -                |
| C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*) |                    |                    |                  |                   |                  |
| -Collateral  | 7.821.802          | 2.760.571          | -                | -                 | -                |
| -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>445.985.759</b> | <b>137.363.178</b> | <b>7.724.099</b> | <b>23.287.905</b> | <b>8.713.344</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 June 2016.

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

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

The details of the CPMs given by the Group as of 31 December 2015 is as follows:

| <b>31 December 2015</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  | 411.975.570        | 125.795.166        | 7.894.099        | 12.046.966        | 9.082.290        |
| -Pledge  | -                  | -                  | -                | -                 | -                |
| -Mortgage  | -                  | -                  | -                | -                 | -                |
| B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation          |                    |                    |                  |                   |                  |
| -Collateral  | 31.234.216         | 6.348.000          | -                | 12.776.771        | -                |
| -Pledge  | -                  | -                  | -                | -                 | -                |
| -Mortgage  | -                  | -                  | -                | -                 | -                |
| C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*) |                    |                    |                  |                   |                  |
| -Collateral  | 8.641.842          | 2.972.156          | -                | -                 | -                |
| -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>451.851.628</b> | <b>135.115.322</b> | <b>7.894.099</b> | <b>24.823.737</b> | <b>9.082.290</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 2015.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 13 - EXPENSES BY NATURE

The details of expenses by nature for the periods ended 30 June 2016 and 2015 are as follows:

|   | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|---|----------------------------|----------------------------|---------------------------|---------------------------|
| Jet fuel expenses                       | 432.269.816                | 522.215.722                | 230.153.070               | 294.924.514               |
| Personnel expenses                      | 313.094.528                | 206.100.314                | 159.052.094               | 108.562.487               |
| Operating lease expenses                | 207.110.001                | 142.914.078                | 104.300.895               | 78.429.999                |
| Maintenance expenses                    | 172.920.594                | 124.820.225                | 90.806.803                | 67.697.328                |
| Handling and station fees               | 147.294.995                | 117.482.659                | 72.043.121                | 66.069.593                |
| Navigation expenses                     | 117.011.503                | 107.217.844                | 61.348.437                | 63.133.402                |
| Depreciation and amortisation expense   | 100.403.998                | 83.312.912                 | 51.196.694                | 43.530.961                |
| Landing expenses                        | 55.788.799                 | 43.429.929                 | 28.576.373                | 25.745.368                |
| Advertising expenses                    | 40.794.186                 | 41.894.639                 | 19.110.235                | 24.452.663                |
| Commission expenses                     | 32.344.039                 | 28.258.930                 | 16.179.808                | 16.277.695                |
| Passenger service and catering expenses | 21.694.251                 | 17.901.854                 | 11.383.737                | 10.357.213                |
| Other expenses                          | 127.606.497                | 83.885.197                 | 66.147.560                | 44.270.905                |
|   | <b>1.768.333.207</b>       | <b>1.519.434.303</b>       | <b>910.298.827</b>        | <b>843.452.128</b>        |

### NOTE 14 - SHAREHOLDERS' EQUITY

The Company's shareholding structure as of 30 June 2016 and 31 December 2015 is as follows:

| Shareholders:              | 30 June 2016 |                    | 31 December 2015 |                    |
|----------------------------|--------------|--------------------|------------------|--------------------|
|                            | (%)          | TL                 | (%)              | TL                 |
| Esas Holding               | 62,92        | 64.353.570         | 62,92            | 64.353.570         |
| Publicly held              | 34,51        | 35.294.000         | 34,51            | 35.294.000         |
| Emine Kamışlı              | 0,86         | 874.810            | 0,86             | 874.810            |
| Ali İsmail Sabancı         | 0,86         | 874.810            | 0,86             | 874.810            |
| Kazım Köseoğlu             | 0,43         | 437.405            | 0,43             | 437.405            |
| Can Köseoğlu               | 0,43         | 437.405            | 0,43             | 437.405            |
| <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 2015: 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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(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 periods ended 30 June 2016 and 2015 are as follows:

**Sales:**

|  | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|--|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Scheduled flights                      | 1.071.975.372                      | 1.061.529.894                      | 572.211.944                       | 624.579.044                       |
| <i>International scheduled flights</i> | <i>607.058.955</i>                 | <i>639.046.883</i>                 | <i>312.960.901</i>                | <i>379.678.463</i>                |
| <i>Domestic scheduled flights</i>      | <i>464.916.417</i>                 | <i>422.483.011</i>                 | <i>259.251.043</i>                | <i>244.900.581</i>                |
| Ancillary revenue                      | 370.809.734                        | 292.121.047                        | 194.976.145                       | 164.835.654                       |
| Charter flights                        | 18.023.047                         | 35.133.792                         | 15.984.774                        | 29.690.671                        |
| Other revenue                          | 27.972.904                         | 28.257.400                         | 14.507.393                        | 14.790.435                        |
|  | <b>1.488.781.057</b>               | <b>1.417.042.133</b>               | <b>797.680.256</b>                | <b>833.895.804</b>                |

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

|          | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|----------|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Domestic | 464.916.417                        | 422.483.011                        | 236.510.158                       | 304.980.954                       |
| Europe   | 424.418.549                        | 504.689.088                        | 259.251.043                       | 244.900.581                       |
| Other    | 182.640.406                        | 134.357.795                        | 76.450.743                        | 74.697.509                        |
|          | <b>1.071.975.372</b>               | <b>1.061.529.894</b>               | <b>572.211.944</b>                | <b>624.579.044</b>                |

**Cost of sales:**

|   | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|---|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Jet fuel expenses                       | 432.269.816                        | 522.215.722                        | 230.153.070                       | 294.924.514                       |
| Personnel expenses                      | 277.682.205                        | 180.692.178                        | 142.227.731                       | 95.000.182                        |
| Operating lease expenses                | 207.110.001                        | 142.914.078                        | 104.300.895                       | 78.429.999                        |
| Maintenance expenses                    | 172.920.594                        | 124.820.225                        | 90.806.803                        | 67.697.328                        |
| Handling and station fees               | 147.294.995                        | 117.482.659                        | 72.043.121                        | 66.069.593                        |
| Navigation expenses                     | 117.011.503                        | 107.217.844                        | 61.348.437                        | 63.133.402                        |
| Depreciation and amortisation expenses  | 89.505.481                         | 75.933.244                         | 45.256.387                        | 39.504.006                        |
| Landing expenses                        | 55.788.799                         | 43.429.929                         | 28.576.373                        | 25.745.368                        |
| Passenger service and catering expenses | 21.694.251                         | 17.901.854                         | 11.383.737                        | 10.357.213                        |
| Other expenses                          | 83.592.364                         | 56.886.837                         | 41.313.815                        | 30.123.745                        |
|   | <b>1.604.870.009</b>               | <b>1.389.494.570</b>               | <b>827.410.369</b>                | <b>770.985.350</b>                |

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

|                                 | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|---------------------------------|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Marketing expenses              | 90.554.357                         | 82.871.997                         | 45.320.588                        | 47.599.229                        |
| General administrative expenses | 72.908.841                         | 47.067.736                         | 37.567.870                        | 24.867.549                        |
|                                 | <b>163.463.198</b>                 | <b>129.939.733</b>                 | <b>82.888.458</b>                 | <b>72.466.778</b>                 |

The details of general administrative expenses and marketing expenses for the periods ended 30 June 2016 and 2015 are as follows (there are no research & development expenses in the periods ended in respective dates):

**General administrative expenses:**

|  | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|--|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Personnel expenses                     | 27.690.192                         | 19.522.003                         | 12.556.506                        | 10.334.380                        |
| IT expenses                            | 10.947.361                         | 4.403.103                          | 5.705.342                         | 2.630.130                         |
| Depreciation and amortisation expenses | 8.812.410                          | 5.976.104                          | 4.799.523                         | 3.278.180                         |
| Rent expenses                          | 7.931.972                          | 5.480.283                          | 3.948.963                         | 2.851.589                         |
| Consultancy expenses                   | 3.357.817                          | 2.107.405                          | 1.891.401                         | 1.036.107                         |
| Legal and notary expenses              | 2.383.858                          | 2.235.988                          | 1.549.635                         | 983.547                           |
| Travel expenses                        | 1.718.601                          | 1.320.695                          | 1.011.597                         | 710.310                           |
| Office utility expenses                | 1.124.313                          | 678.683                            | 532.424                           | 326.028                           |
| Other expenses                         | 8.942.317                          | 5.343.472                          | 5.572.479                         | 2.717.278                         |
|  | <b>72.908.841</b>                  | <b>47.067.736</b>                  | <b>37.567.870</b>                 | <b>24.867.549</b>                 |

**Marketing expenses:**

|  | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|--|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Advertising expenses                   | 40.794.186                         | 41.894.639                         | 19.110.235                        | 24.452.663                        |
| Commission expenses                    | 32.344.039                         | 28.258.930                         | 16.179.808                        | 16.277.695                        |
| Personnel expenses                     | 7.722.131                          | 5.886.133                          | 4.267.857                         | 3.227.925                         |
| Call center expenses                   | 5.180.611                          | 3.897.929                          | 2.602.332                         | 2.018.098                         |
| Depreciation and amortisation expenses | 2.086.107                          | 1.403.564                          | 1.140.784                         | 748.775                           |
| Other expenses                         | 2.427.283                          | 1.530.802                          | 2.019.572                         | 874.073                           |
|  | <b>90.554.357</b>                  | <b>82.871.997</b>                  | <b>45.320.588</b>                 | <b>47.599.229</b>                 |



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**NOTE 17 - OTHER OPERATING INCOME AND EXPENSES**

The details of other operating income and expenses for the periods ended 30 June 2016 and 2015 are as follows:

**Other operating income:**

|  | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|--|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Foreign exchange gain/(loss) from operating activities | -                                  | 54.681.012                         | -                                 | (27.563.137)                      |
| Reversal of discounts                                  | 11.606                             | 107.560                            | 11.606                            | 29.400                            |
| Other income   | 1.049.321                          | 1.301.484                          | 627.460                           | 547.674                           |
|  | <b>1.060.927</b>                   | <b>56.090.056</b>                  | <b>639.066</b>                    | <b>(26.986.063)</b>               |

**Other operating expenses:**

|   | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|---|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Foreign exchange loss from operating activities | 5.734.531                          | -                                  | (32.893.546)                      | -                                 |
| Doubtful receivable expense                     | 250.996                            | 322.916                            | 217.585                           | 31.992                            |
| Other expense                                   | 921.923                            | 1.345.727                          | 201.822                           | 480.250                           |
|   | <b>6.907.450</b>                   | <b>1.668.643</b>                   | <b>(32.474.139)</b>               | <b>512.242</b>                    |

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

The details of income and expenses from investing activities for the periods ended 30 June 2016 and 2015 are as follows:

**Income from investing activities:**

|   | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|---|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Foreign exchange gain from investing activities | -                                  | 11.976.589                         | -                                 | 3.232.274                         |
| Other income                                    | 614.814                            | 20.803                             | 547.749                           | 632                               |
|   | <b>614.814</b>                     | <b>11.997.392</b>                  | <b>547.749</b>                    | <b>3.232.906</b>                  |

**Expenses from investing activities:**

|   | <b>1 January-<br/>30 June 2016</b> | <b>1 January-<br/>30 June 2015</b> | <b>1 April -<br/>30 June 2016</b> | <b>1 April -<br/>30 June 2015</b> |
|---|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Foreign exchange loss from investing activities | 245.577                            | -                                  | (9.167.692)                       | -                                 |
|   | <b>245.577</b>                     | <b>-</b>                           | <b>(9.167.692)</b>                | <b>-</b>                          |

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 19 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses for the periods ended 30 June 2016 and 2015 are as follows:

#### Financial income:

|                              | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|------------------------------|----------------------------|----------------------------|---------------------------|---------------------------|
| Interest income              | 16.396.524                 | 17.786.233                 | 5.007.062                 | 9.648.740                 |
| Gain on derivative contracts | 15.083.361                 | -                          | 12.496.961                | -                         |
| Foreign exchange gain        | 6.942.121                  | 17.731.257                 | (10.761.155)              | 34.150.604                |
|                              | <b>38.422.006</b>          | <b>35.517.490</b>          | <b>6.742.868</b>          | <b>43.799.344</b>         |

#### Financial expenses:

|                                     | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|-------------------------------------|----------------------------|----------------------------|---------------------------|---------------------------|
| Other commission expenses           | 10.272.264                 | 7.151.997                  | 5.468.015                 | 4.008.885                 |
| Surety commission expenses          | 6.101.034                  | 5.869.728                  | 2.967.833                 | 2.959.079                 |
| Interest expense on financial lease | 2.908.385                  | 3.989.833                  | 1.402.966                 | 2.055.430                 |
| Losses from derivative contracts    | -                          | 11.573.253                 | -                         | (16.660.144)              |
|                                     | <b>19.281.683</b>          | <b>28.584.811</b>          | <b>9.838.814</b>          | <b>(7.636.750)</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 June 2016 and 2015 are as follows:

|  | 1 January-<br>30 June 2016 | 1 January-<br>30 June 2015 | 1 April -<br>30 June 2016 | 1 April -<br>30 June 2015 |
|--|----------------------------|----------------------------|---------------------------|---------------------------|
| Net (loss)/income attributable to the shareholders of the parent | (203.831.327)              | (38.993.687)               | (13.631.039)              | 35.292.631                |
| Weighted average number of shares issued in the period           | 102.272.000                | 102.272.000                | 102.272.000               | 102.272.000               |
| <b>(Loss)/gain per share</b>                                     | <b>(1,99)</b>              | <b>(0,38)</b>              | <b>(0,13)</b>             | <b>0,35</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 21 - DERIVATIVE INSTRUMENTS**

**Fair Value of Derivative Instruments**

|            | 30 June 2016      |                   | 31 December 2015 |                    |
|------------|-------------------|-------------------|------------------|--------------------|
|            | Asset             | Liability         | Asset            | Liability          |
| Short term | 19.900.192        | 50.129.374        | 2.341.144        | 178.165.534        |
|            | <b>19.900.192</b> | <b>50.129.374</b> | <b>2.341.144</b> | <b>178.165.534</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 June 2016 and 31 December 2015 are as follows:

| Short term financial liabilities                            | 30 June 2016         | 31 December 2015     |
|---|----------------------|----------------------|
| Short term bank borrowings                                  | 8.919.128            | 6.826.527            |
| Short term portion of long term financial lease obligations | 197.788.225          | 201.887.265          |
|   | <b>206.707.353</b>   | <b>208.713.792</b>   |
| Long term financial liabilities                             | 30 June 2016         | 31 December 2015     |
| Long term financial lease obligations                       | 1.088.606.180        | 1.206.722.990        |
|   | <b>1.088.606.180</b> | <b>1.206.722.990</b> |

a) Bank Borrowings

The effective interest rates, original currency and TL equivalents of the borrowings as of 30 June 2016 and 31 December 2015 are as follows:

| 30 June 2016               | Weighted average interest rate (%) | Currency | Original amount | TL equivalent    |
|----------------------------|------------------------------------|----------|-----------------|------------------|
| Short term bank borrowings | 0,00 (*)                           | TL       | 8.919.128       | 8.919.128        |
|                            |                                    |          |                 | <b>8.919.128</b> |
| 31 December 2015           | Weighted average interest rate (%) | Currency | Original amount | TL equivalent    |
| Short term bank borrowings | 0,00 (*)                           | TL       | 6.826.527       | 6.826.527        |
|                            |                                    |          |                 | <b>6.826.527</b> |

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

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### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

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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 June 2016 and 31 December 2015 are as follows:

|                                | <b>30 June 2016</b>  | <b>31 December 2015</b> |
|--------------------------------|----------------------|-------------------------|
| Less than 1 year               | 203.698.522          | 207.191.438             |
| Between 1 - 5 years            | 789.589.411          | 820.080.814             |
| Over 5 years                   | 317.029.317          | 407.230.694             |
|                                | <b>1.310.317.250</b> | <b>1.434.502.946</b>    |
| Less: Future interest expenses | (23.922.845)         | (25.892.691)            |
|                                | <b>1.286.394.405</b> | <b>1.408.610.255</b>    |

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

|                     | <b>30 June 2016</b>  | <b>31 December 2015</b> |
|---------------------|----------------------|-------------------------|
| Less than 1 year    | 197.788.225          | 201.887.265             |
| Between 1 - 5 years | 772.972.440          | 801.394.966             |
| Over 5 years        | 315.633.740          | 405.328.024             |
|                     | <b>1.286.394.405</b> | <b>1.408.610.255</b>    |

The Group purchases certain of its aircraft and handling equipment through financial lease arrangements. The average lease term is 6,56 years. For the period ended 30 June 2016, the floating interest rate applicable to Euro-denominated lease obligations is 0,20% (31 December 2015: 0,08%) and the floating rate applicable to US Dollar-denominated lease obligations is 1,81% (31 December 2015: 2,32%).

#### 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 June 2016 and 31 December 2015 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 June 2016</b>   | <b>TL Total</b>      | <b>USD</b>         | <b>TL</b>          | <b>GBP</b>       | <b>Other</b>      |
|---|----------------------|--------------------|--------------------|------------------|-------------------|
| 1. Trade receivables  | 324.002.742          | 14.452.098         | 211.938.134        | 4.213.285        | 53.944.818        |
| 2a. Monetary financial assets   | 396.520.947          | 91.400.085         | 105.671.762        | 2.461.394        | 16.850.766        |
| 2b. Non monetary financial assets   | -                    | -                  | -                  | -                | -                 |
| 3. Other  | 545.095.013          | 186.353.269        | 2.842.958          | 18.853           | 2.947.294         |
| <b>4. CURRENT ASSETS</b>  | <b>1.265.618.702</b> | <b>292.205.452</b> | <b>320.452.854</b> | <b>6.693.532</b> | <b>73.742.878</b> |
| 5. Trade receivables  | -                    | -                  | -                  | -                | -                 |
| 6a. Monetary financial assets   | -                    | -                  | -                  | -                | -                 |
| 6b. Non monetary financial assets   | -                    | -                  | -                  | -                | -                 |
| 7. Other  | 82.756.836           | 28.137.078         | 225.083            | 19.800           | 1.037.698         |
| <b>8. NON CURRENT ASSETS</b>  | <b>82.756.836</b>    | <b>28.137.078</b>  | <b>225.083</b>     | <b>19.800</b>    | <b>1.037.698</b>  |
| <b>9. TOTAL ASSETS</b>  | <b>1.348.375.538</b> | <b>320.342.530</b> | <b>320.677.937</b> | <b>6.713.332</b> | <b>74.780.576</b> |
| 10. Trade payables  | 165.491.838          | 35.767.814         | 55.319.628         | 215.793          | 5.839.560         |
| 11. Financial liabilities   | 51.803.128           | 14.820.293         | 8.919.128          | -                | -                 |
| 12a. Other liabilities, monetary  | 59.699.286           | 2.656.498          | 51.283.473         | 76.391           | 433.414           |
| 12b. Other liabilities, non monetary  | -                    | -                  | -                  | -                | -                 |
| <b>13. CURRENT LIABILITIES</b>  | <b>276.994.252</b>   | <b>53.244.605</b>  | <b>115.522.229</b> | <b>292.184</b>   | <b>6.272.974</b>  |
| 14. Trade payables  | -                    | -                  | -                  | -                | -                 |
| 15. Financial liabilities   | 202.051.546          | 69.827.048         | -                  | -                | -                 |
| 16a. Other liabilities, monetary  | -                    | -                  | -                  | -                | -                 |
| 16b. Other liabilities, non monetary  | -                    | -                  | -                  | -                | -                 |
| <b>17. NON CURRENT LIABILITIES</b>  | <b>202.051.546</b>   | <b>69.827.048</b>  | <b>-</b>           | <b>-</b>         | <b>-</b>          |
| <b>18. TOTAL LIABILITIES</b>  | <b>479.045.798</b>   | <b>123.071.653</b> | <b>115.522.229</b> | <b>292.184</b>   | <b>6.272.974</b>  |
| 19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)                         | 241.326.240          | 83.400.000         | -                  | -                | -                 |
| 19.a Off-balance sheet foreign currency derivative assets   | 241.326.240          | 83.400.000         | -                  | -                | -                 |
| 19b. Off-balance sheet foreign currency derivative liabilities  | -                    | -                  | -                  | -                | -                 |
| 20. Net foreign currency asset/(liability) position   | 869.329.740          | 197.270.877        | 205.155.708        | 6.421.148        | 68.507.602        |
| 21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a) | 241.477.891          | (17.219.470)       | 202.087.667        | 6.382.495        | 64.522.610        |

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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 2015</b>   | <b>TL Total</b>      | <b>USD</b>         | <b>TL</b>          | <b>GBP</b>       | <b>Other</b>      |
|---|----------------------|--------------------|--------------------|------------------|-------------------|
| 1. Trade receivables  | 226.687.234          | 10.031.702         | 151.034.836        | 3.267.090        | 32.433.447        |
| 2a. Monetary financial assets   | 916.249.777          | 219.569.098        | 260.544.132        | 910.080          | 13.372.555        |
| 2b. Non monetary financial assets   | -                    | -                  | -                  | -                | -                 |
| 3. Other  | 375.633.399          | 128.322.141        | 272.995            | 16.456           | 2.180.175         |
| <b>4. CURRENT ASSETS</b>  | <b>1.518.570.410</b> | <b>357.922.941</b> | <b>411.851.963</b> | <b>4.193.626</b> | <b>47.986.177</b> |
| 5. Trade receivables  | -                    | -                  | -                  | -                | -                 |
| 6a. Monetary financial assets   | -                    | -                  | -                  | -                | -                 |
| 6b. Non monetary financial assets   | -                    | -                  | -                  | -                | -                 |
| 7. Other  | 78.541.837           | 26.641.085         | 206.007            | 19.800           | 789.057           |
| <b>8. NON CURRENT ASSETS</b>  | <b>78.541.837</b>    | <b>26.641.085</b>  | <b>206.007</b>     | <b>19.800</b>    | <b>789.057</b>    |
| <b>9. TOTAL ASSETS</b>  | <b>1.597.112.247</b> | <b>384.564.026</b> | <b>412.057.970</b> | <b>4.213.426</b> | <b>48.775.234</b> |
| 10. Trade payables  | 147.330.836          | 29.835.970         | 57.519.641         | 132.890          | 2.488.609         |
| 11. Financial liabilities   | 49.774.224           | 14.770.841         | 6.826.527          | -                | -                 |
| 12a. Other liabilities, monetary  | 36.906.314           | 177.205            | 32.655.077         | -                | 3.735.996         |
| 12b. Other liabilities, non monetary  | -                    | -                  | -                  | -                | -                 |
| <b>13. CURRENT LIABILITIES</b>  | <b>234.011.374</b>   | <b>44.784.016</b>  | <b>97.001.245</b>  | <b>132.890</b>   | <b>6.224.605</b>  |
| 14. Trade payables  | -                    | -                  | -                  | -                | -                 |
| 15. Financial liabilities   | 224.872.496          | 77.339.557         | -                  | -                | -                 |
| 16a. Other liabilities, monetary  | -                    | -                  | -                  | -                | -                 |
| 16b. Other liabilities, non monetary  | -                    | -                  | -                  | -                | -                 |
| <b>17. NON CURRENT LIABILITIES</b>  | <b>224.872.496</b>   | <b>77.339.557</b>  | <b>-</b>           | <b>-</b>         | <b>-</b>          |
| <b>18. TOTAL LIABILITIES</b>  | <b>458.883.870</b>   | <b>122.123.573</b> | <b>97.001.245</b>  | <b>132.890</b>   | <b>6.224.605</b>  |
| 19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)                         | 408.227.040          | 140.400.000        | -                  | -                | -                 |
| 19.a Off-balance sheet foreign currency derivative assets   | 408.227.040          | 140.400.000        | -                  | -                | -                 |
| 19b. Off-balance sheet foreign currency derivative liabilities  | -                    | -                  | -                  | -                | -                 |
| 20. Net foreign currency asset/(liability) position   | 1.138.228.377        | 262.440.453        | 315.056.725        | 4.080.536        | 42.550.629        |
| 21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a) | 684.053.141          | 107.477.227        | 314.577.723        | 4.044.280        | 39.581.397        |

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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 June 2016 and 31 December 2015 are as follows:

| 30 June 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        | (4.982.626)                         | 4.982.626                           | -                                   | -                                   |
| Part of hedged from USD risk     | 24.132.624                          | (24.132.624)                        | -                                   | -                                   |
| <b>USD net effect</b>            | <b>19.149.998</b>                   | <b>(19.149.998)</b>                 | -                                   | -                                   |
| Effect of 10% change in TL rate  |                                     |                                     |                                     |                                     |
| TL net asset / liability         | 20.208.767                          | (20.208.767)                        | 128.220.303                         | (128.220.303)                       |
| Part of hedged from TL risk      | -                                   | -                                   | -                                   | -                                   |
| <b>TL net effect</b>             | <b>20.208.767</b>                   | <b>(20.208.767)</b>                 | <b>128.220.303</b>                  | <b>(128.220.303)</b>                |

| 31 December 2015                 | 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        | 31.250.079                          | (31.250.079)                        | -                                   | -                                   |
| Part of hedged from USD risk     | 40.822.704                          | (40.822.704)                        | -                                   | -                                   |
| <b>USD net effect</b>            | <b>72.072.783</b>                   | <b>(72.072.783)</b>                 | -                                   | -                                   |
| Effect of 10% change in TL rate  |                                     |                                     |                                     |                                     |
| TL net asset / liability         | 31.457.772                          | (31.457.772)                        | 121.925.547                         | (121.925.547)                       |
| Part of hedged from TL risk      | -                                   | -                                   | -                                   | -                                   |
| <b>TL net effect</b>             | <b>31.457.772</b>                   | <b>(31.457.772)</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 June 2016</b>                           | <b>Loans and<br/>receivables</b> | <b>Derivative instruments<br/>which are reflected at fair<br/>value in shareholders'<br/>equity</b> | <b>Derivative instruments<br/>which are reflected at<br/>fair value in profit/loss</b> | <b>Financial<br/>liabilities at<br/>amortized cost</b> | <b>Carrying<br/>amount (*)</b> | <b>Note</b> |
|---|----------------------------------|---|--|--|--------------------------------|-------------|
| <b>Financial assets</b>                       |                                  |   |  |  |                                |             |
| Cash and cash equivalents                     | 426.708.114                      | -   | -  | -  | 426.708.114                    | 26          |
| Trade receivables                             | 405.618.964                      | -   | -  | -  | 405.618.964                    | 6           |
| - <i>Related party</i>                        | -                                | -   | -  | -  | -                              |             |
| - <i>Other</i>                                | 405.618.964                      | -   | -  | -  | 405.618.964                    | 6           |
| Other receivables                             | 144.862.717                      | -   | -  | -  | 144.862.717                    |             |
| - <i>Related party</i>                        | 325.327                          | -   | -  | -  | 325.327                        | 5           |
| - <i>Other</i>                                | 144.537.390                      | -   | -  | -  | 144.537.390                    |             |
| Pre-delivery payment for purchase of aircraft | 507.003.983                      | -   | -  | -  | 507.003.983                    | 7           |
| Derivative financial assets                   | -                                | 19.900.192  | -  | -  | 19.900.192                     | 21          |
| <b>Financial liabilities</b>                  |                                  |   |  |  |                                |             |
| Bank borrowings                               | -                                | -   | -  | 8.919.128  | 8.919.128                      | 22          |
| Obligations under financial leases            | -                                | -   | -  | 1.286.394.405  | 1.286.394.405                  | 22          |
| Trade payables                                | -                                | -   | -  | 278.842.415  | 278.842.415                    | 6           |
| - <i>Related party</i>                        | -                                | -   | -  | 344.505  | 344.505                        | 5           |
| - <i>Other</i>                                | -                                | -   | -  | 278.497.910  | 278.497.910                    |             |
| Passenger airport fees liability              | -                                | -   | -  | 76.715.351   | 76.715.351                     | 7           |
| Derivative financial liabilities              | -                                | 2.349.701   | 47.779.673   | -  | 50.129.374                     | 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 2015</b>                       | <b>Loans and<br/>receivables</b> | <b>Derivative instruments<br/>which are reflected at fair<br/>value in shareholders'<br/>equity</b> | <b>Derivative instruments<br/>which are reflected at<br/>fair value in profit/loss</b> | <b>Financial<br/>liabilities at<br/>amortized cost</b> | <b>Carrying<br/>amount (*)</b> | <b>Note</b> |
|---|----------------------------------|---|--|--|--------------------------------|-------------|
| <b>Financial assets</b>                       |                                  |   |  |  |                                |             |
| Cash and cash equivalents                     | 954.974.093                      | -   | -  | -  | 954.974.093                    | 26          |
| Trade receivables                             | 294.629.623                      | -   | -  | -  | 294.629.623                    | 6           |
| - <i>Related party</i>                        | -                                | -   | -  | -  | -                              |             |
| - <i>Other</i>                                | 294.629.623                      | -   | -  | -  | 294.629.623                    | 6           |
| Other receivables                             | 218.789.987                      | -   | -  | -  | 218.789.987                    |             |
| - <i>Related party</i>                        | 278.844                          | -   | -  | -  | 278.844                        | 5           |
| - <i>Other</i>                                | 218.511.143                      | -   | -  | -  | 218.511.143                    |             |
| Pre-delivery payment for purchase of aircraft | 269.313.947                      | -   | -  | -  | 269.313.947                    | 7           |
| Derivative financial assets                   | -                                | 2.341.144   | -  | -  | 2.341.144                      | 21          |
| <b>Financial liabilities</b>                  |                                  |   |  |  |                                |             |
| Bank borrowings                               | -                                | -   | -  | 6.826.527  | 6.826.527                      | 22          |
| Obligations under financial leases            | -                                | -   | -  | 1.408.610.255  | 1.408.610.255                  | 22          |
| Trade payables                                | -                                | -   | -  | 245.899.093  | 245.899.093                    | 6           |
| - <i>Related party</i>                        | -                                | -   | -  | 1.013.200  | 1.013.200                      | 5           |
| - <i>Other</i>                                | -                                | -   | -  | 244.885.893  | 244.885.893                    |             |
| Passenger airport fees liability              | -                                | -   | -  | 61.623.605   | 61.623.605                     | 7           |
| Derivative financial liabilities              | -                                | 30.014.587  | 148.150.947  | -  | 178.165.534                    | 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)**

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 /<br>Financial liabilities | Fair value as at                       |                                   | Fair value hierarchy             | Valuation technique                 |                     |
|---|--|-----------------------------------|----------------------------------|-------------------------------------|---------------------|
|   | 30 June 2016                           | 31 December 2015                  |                                  |                                     |                     |
| Fuel purchase forward contracts             | 19.900.192                             | (30.014.587)                      | Level 2                          | Discounted cash flow method         |                     |
| Currency forward contracts                  | (2.349.701)                            | 2.341.144                         | Level 2                          | Discounted cash flow method         |                     |
| Chooser forward contracts                   | (44.695.340)                           | (148.115.834)                     | Level 2                          | Discounted cash flow method         |                     |
| Interest rate swap contracts                | (3.084.333)                            | (35.113)                          | Level 2                          | Discounted cash flow method         |                     |
|   | <b>Fuel purchase forward contracts</b> | <b>Currency forward contracts</b> | <b>Chooser forward contracts</b> | <b>Interest rate swap contracts</b> | <b>Total</b>        |
| <b>30 June 2016</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                         | 49.914.779                             | (4.690.845)                       | -                                | -                                   | 45.223.934          |
| Reflected at profit or loss                 | -                                      | -                                 | 103.420.494                      | (3.049.220)                         | 100.371.274         |
| <b>Closing</b>                              | <b>19.900.192</b>                      | <b>(2.349.701)</b>                | <b>(44.695.340)</b>              | <b>(3.084.333)</b>                  | <b>(30.229.182)</b> |
| Assets                                      | 19.900.192                             | -                                 | -                                | -                                   | 19.900.192          |
| Liabilities                                 | -                                      | (2.349.701)                       | (44.695.340)                     | (3.084.333)                         | (50.129.374)        |
| <b>Total net assets and liabilities</b>     | <b>19.900.192</b>                      | <b>(2.349.701)</b>                | <b>(44.695.340)</b>              | <b>(3.084.333)</b>                  | <b>(30.229.182)</b> |

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2016

(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 2015</b>                 | <b>Fuel purchase<br/>forward<br/>contracts</b> | <b>Currency<br/>forward<br/>contracts</b> | <b>Chooser<br/>forward<br/>contracts</b> | <b>Interest rate<br/>swap<br/>contracts</b> | <b>Total</b>         |
|---|--|---|--|---|----------------------|
| <b>Fair value:</b>                      |  |   |  |   |                      |
| Opening                                 | (72.619.073)                                   | 5.925.404                                 | (172.304.604)                            | 651.481                                     | (238.346.792)        |
| Fair value increase / (decrease)        |  |   |  |   |                      |
| Reflected at equity                     | 42.604.486                                     | 2.341.144                                 | -  | -   | 44.945.630           |
| Reflected at profit or loss             | -  | (5.925.404)                               | 24.188.770                               | (686.594)                                   | 17.576.772           |
| <b>Closing</b>                          | <b>(30.014.587)</b>                            | <b>2.341.144</b>                          | <b>(148.115.834)</b>                     | <b>(35.113)</b>                             | <b>(175.824.390)</b> |
| Assets                                  | -  | 2.341.144                                 | -  | -   | 2.341.144            |
| Liabilities                             | (30.014.587)                                   | -   | (148.115.834)                            | (35.113)                                    | (178.165.534)        |
| <b>Total net assets and liabilities</b> | <b>(30.014.587)</b>                            | <b>2.341.144</b>                          | <b>(148.115.834)</b>                     | <b>(35.113)</b>                             | <b>(175.824.390)</b> |

**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 2016**

(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 2016 and 31 December 2015 are as follows:

|                   | <b>30 June 2016</b> | <b>31 December 2015</b> |
|-------------------|---------------------|-------------------------|
| Cash on hand      | 145.596             | 142.151                 |
| Cash at banks     | 426.562.518         | 954.831.942             |
| - Demand deposits | 44.581.329          | 48.690.232              |
| - Time deposits   | 381.981.189         | 906.141.710             |
|                   | <b>426.708.114</b>  | <b>954.974.093</b>      |

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

| <b>30 June 2016</b> | <b>Weighted average<br/>interest rates</b> | <b>Total</b>       |
|---------------------|--|--------------------|
| USD deposits        | 0,22%                                      | 253.816.377        |
| TL deposits         | 11,60%                                     | 103.852.126        |
| EUR deposits        | 0,32%                                      | 14.516.251         |
| GBP deposits        | 0,87%                                      | 8.589.388          |
| CHF deposits        | 0,20%                                      | 1.207.047          |
|                     |  | <b>381.981.189</b> |

| <b>31 December 2015</b> | <b>Weighted average<br/>interest rates</b> | <b>Total</b>       |
|-------------------------|--|--------------------|
| USD deposits            | 2,61%                                      | 618.556.817        |
| TL deposits             | 13,46%                                     | 259.118.343        |
| EUR deposits            | 1,19%                                      | 24.754.305         |
| GBP deposits            | 1,00%                                      | 2.365.450          |
| CHF deposits            | 0,30%                                      | 1.346.795          |
|                         |  | <b>906.141.710</b> |

All of the time deposits as of 30 June 2016 and 31 December 2015 have maturities less than 90 days.