

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
NINE-MONTH INTERIM PERIOD ENDED
30 SEPTEMBER 2016

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30 SEPTEMBER 2016

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 30 September 2016	Prior period (Audited) 31 December 2015
ASSETS			
Current assets		1.751.296.745	1.833.732.173
Cash and cash equivalents	26	657.182.882	954.974.093
Trade receivables	6	437.877.900	294.629.623
<i>Trade receivables from third parties</i>	6	437.877.900	294.629.623
Other receivables		81.026.053	189.515.187
<i>Other receivables from related parties</i>	5	1.484.943	278.844
<i>Other receivables from third parties</i>		79.541.110	189.236.343
Derivative financial instruments	21	10.486.472	2.341.144
Inventories		21.220.769	13.364.708
Prepaid expenses	7	536.526.261	347.664.779
Current income tax assets		2.616.873	29.034.468
Other current assets		4.359.535	2.208.171
Non-Current assets		2.961.221.788	2.264.365.079
Other receivables		17.905.153	29.274.800
<i>Other receivables from third parties</i>		17.905.153	29.274.800
Investment accounted by using the equity method	3	23.933.522	20.745.960
Property and equipment	8	2.818.742.816	2.113.308.165
Intangible assets	9	16.919.445	14.568.673
Prepaid expenses	7	77.458.589	77.827.374
Deferred tax assets		6.262.263	8.640.107
TOTAL ASSETS		4.712.518.533	4.098.097.252

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30 SEPTEMBER 2016

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 30 September 2016	Prior period (Audited) 31 December 2015
LIABILITIES			
Current liabilities		978.347.698	991.845.572
Short term financial liabilities	22	9.141.513	6.826.527
Short term portion of long term financial liabilities	22	243.282.716	201.887.265
Trade payables	6	333.358.794	245.899.093
<i>Trade payables to related parties</i>	5	2.607.077	1.013.200
<i>Trade payables to third parties</i>		330.751.717	244.885.893
Employee benefit obligations		33.111.138	12.636.938
Other payables		21.550.975	12.043.950
<i>Other payables to third parties</i>		21.550.975	12.043.950
Derivative financial instruments	21	11.296.472	178.165.534
Deferred income	7	297.811.710	300.686.908
Short term provisions		27.811.559	29.034.306
<i>Short term provisions for employee benefits</i>		20.284.002	26.058.356
<i>Other short term provisions</i>		7.527.557	2.975.950
Other current liabilities		982.821	4.665.051
Non-Current liabilities		2.125.731.114	1.653.520.051
Long term financial liabilities	22	1.565.194.078	1.206.722.990
Deferred income		7.291.131	9.831.545
Long term provisions		318.459.208	232.991.886
<i>Long term provisions for employee benefits</i>		10.949.227	10.664.601
<i>Other long term provisions</i>		307.509.981	222.327.285
Deferred tax liabilities		234.786.697	203.973.630
SHAREHOLDERS' EQUITY		1.608.439.721	1.452.731.629
Equity attributable to shareholders' of the parent		1.606.784.040	1.455.437.269
Paid-in share capital	14	102.272.000	102.272.000
Share premiums on capital stock		455.687.025	455.687.025
Effects of business acquisition		29.504.957	29.504.957
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit plans		(3.172.494)	(3.172.494)
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		490.345.359	406.940.383
Hedge fund		6.803.462	(22.138.754)
Restricted profit reserves		5.016.306	9.806.631
Retained earnings		481.327.846	363.411.817
Net income for the period		38.999.579	113.125.704
Non-controlling interest		1.655.681	(2.705.640)
TOTAL LIABILITIES AND EQUITY		4.712.518.533	4.098.097.252

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2016

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period	Prior period	Current period	Prior period
		(Not Reviewed)	(Not Reviewed)	(Not Reviewed)	(Not Reviewed)
		1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Profit or loss					
Sales	15	2.860.023.301	2.737.023.153	1.371.242.244	1.319.981.020
Cost of sales (-)	15	(2.553.531.914)	(2.269.414.386)	(948.661.905)	(880.859.314)
Gross profit		306.491.387	467.608.767	422.580.339	439.121.706
General administrative expenses (-)	16	(110.777.482)	(75.538.618)	(37.868.641)	(27.531.384)
Marketing expenses (-)	16	(133.491.552)	(118.583.113)	(42.937.195)	(35.711.116)
Other operating income	17	4.220.337	8.523.683	3.410.406	(47.566.373)
Other operating expenses (-)	17	(71.437.236)	(1.671.064)	(64.780.782)	(2.421)
Operating (loss)/income		(4.994.546)	280.339.655	280.404.127	328.310.412
Income from investing activities	18	805.485	20.527.015	190.671	8.529.623
Expenses from investing activities (-)	18	(7.140.968)	-	(6.895.391)	-
Share of investments income accounted for using the equity method	3	2.294.453	3.038.799	414.870	1.238.079
Operating (loss)/income before financial expense		(9.035.576)	303.905.469	274.114.277	338.078.114
Financial income	19	96.367.682	92.056.125	57.945.676	56.538.635
Financial expense (-)	19	(29.833.688)	(125.393.278)	(10.552.005)	(96.808.467)
Profit before tax		57.498.418	270.568.316	321.507.948	297.808.282
Tax income/(expense)		(14.219.641)	(72.717.438)	(75.271.359)	(57.806.107)
Current tax expense		-	(45.764.729)	-	(45.764.729)
Deferred tax income/(expense)		(14.219.641)	(26.952.709)	(75.271.359)	(12.041.378)
Income for the period		43.278.777	197.850.878	246.236.589	240.002.175
Net income attributable to:					
Non-controlling interest		4.279.198	3.151.471	3.405.683	6.309.081
Shareholders' of the parent		38.999.579	194.699.407	242.830.906	233.693.094
		43.278.777	197.850.878	246.236.589	240.002.175
Gain per share (TL)	20	0,38	1,90	2,37	2,29
Other comprehensive income					
Items to be reclassified to profit or loss					
Currency translation differences		83.487.098	275.699.926	73.196.643	210.568.996
Cash flow hedge		36.177.771	43.561.801	(9.046.163)	6.623.545
Deferred tax effect		(7.235.554)	(8.712.361)	1.809.233	(1.324.711)
Other comprehensive income		112.429.315	310.549.366	65.959.713	215.867.830
Total comprehensive income		155.708.092	508.400.244	312.196.302	455.870.005
Total comprehensive income attributable to:					
Non-controlling interest		4.361.321	2.145.320	3.595.794	6.204.468
Shareholders' of the parent		151.346.771	506.254.924	308.600.508	449.665.537
		155.708.092	508.400.244	312.196.302	455.870.005

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

(Amounts are expressed in TL unless otherwise stated.)

				Other comprehensive income items not to be reclassified to profit or loss	Other comprehensive income items to be reclassified to profit or loss		Retained earnings					
	Paid in share capital	Share premiums on capital stock	Effects of business acquisition	Actuarial gains/(losses) on defined benefit plans	Currency translation differences	Hedge fund	Restricted profit reserves	Retained earnings	Net profit/(loss) for the period	Equity attributable to shareholders' of the parent	Non- controlling interest	Shareholders' equity
As at 1 January 2015	102.272.000	455.687.025	29.504.957	-	258.696.079	(58.095.258)	-	229.876.620	143.341.828	1.161.283.251	(123.035)	1.161.160.216
Transfers	-	-	-	-	-	-	9.806.631	133.535.197	(143.341.828)	-	-	-
Total comprehensive income	-	-	-	-	276.706.077	34.849.440	-	-	194.699.407	506.254.924	2.145.320	508.400.244
As at 30 September 2015	102.272.000	455.687.025	29.504.957	-	535.402.156	(23.245.818)	9.806.631	363.411.817	194.699.407	1.667.538.175	2.022.285	1.669.560.460
As at 1 January 2016	102.272.000	455.687.025	29.504.957	(3.172.494)	406.940.383	(22.138.754)	9.806.631	363.411.817	113.125.704	1.455.437.269	(2.705.640)	1.452.731.629
Transfers	-	-	-	-	-	-	(4.790.325)	117.916.029	(113.125.704)	-	-	-
Total comprehensive income	-	-	-	-	83.404.976	28.942.216	-	-	38.999.579	151.346.771	4.361.321	155.708.092
As at 30 September 2016	102.272.000	455.687.025	29.504.957	(3.172.494)	490.345.359	6.803.462	5.016.306	481.327.846	38.999.579	1.606.784.040	1.655.681	1.608.439.721

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 1 January- 30 September 2016	Prior period (Not Reviewed) 1 January- 30 September 2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the period		43.278.777	197.850.878
Adjustments to reconcile the net profit			
Depreciation and amortization	8-9	157.704.758	130.492.153
Adjustments related with impairments		(2.447.131)	55.502
<i>Provision for doubtful receivable</i>		(2.447.131)	55.502
Adjustments related with provisions		77.076.550	75.865.511
<i>Provision for employee benefits</i>		9.933.584	23.383.919
<i>Legal provision</i>		830.183	851.990
<i>Change in maintenance reserves and redelivery provision</i>		66.312.783	51.629.602
Interest and commission income	19	8.181.162	(3.531.893)
Gain on equity investments accounted for using the equity method	3	(2.294.453)	(3.038.799)
Current tax expense		14.219.641	72.717.438
Other provisions related with investing or financing activities	24	(138.836.619)	(3.288.186)
Changes in working capital			
Increase in trade receivables		(140.707.875)	(122.787.917)
Decrease in other receivables, prepaid expenses and other current assets		144.884.833	25.812.616
Increase in inventories		(7.856.061)	(4.328.709)
Increase in trade payables		87.459.701	153.682.437
Increase in deferred income, other payables and other current liabilities		41.845.765	94.038.168
Net cash generated from operating activities		282.509.048	613.539.199
Payment for employee, executive bonus plan and retirement benefits		(15.731.478)	(20.067.349)
Payment for other provisions		(100.609)	(477.077)
		266.676.961	592.994.773
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of joint-venture share		(4.409.850)	(11.499.750)
Proceeds from sale of property, equipment and intangible assets		742.349	65.432
Cash outflows from purchase of property, equipment and intangible assets	8-9	(228.837.379)	(48.519.353)
Changes in cash advances and payables	12	(177.713.172)	(81.501.930)
		(410.218.052)	(141.455.601)
C. CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in borrowings		697.352	17.565.571
Repayment of principal in financial lease liabilities		(185.713.337)	(138.961.634)
Interest and commission paid		(28.428.786)	(27.197.372)
Interest received		22.425.845	28.874.270
		(191.018.926)	(119.719.165)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)		(334.560.017)	331.820.007
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		36.768.806	169.166.273
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(297.791.211)	500.986.280
E. CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD	26	954.974.093	856.890.769
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	26	657.182.882	1.357.877.049

(*) TL 498.924.340 of tangible and intangible assets acquisitions in total of TL 730.455.129 was financed through finance leases for the period ended 30 September 2016 (30 September 2015: TL 52.476.341 of tangible and intangible assets acquisitions in total of TL 100.995.694 was financed through finance leases).

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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 September 2016 and 31 December 2015 are as follows:

	30 September 2016	31 December 2015
Esas Holding A.Ş. (“Esas Holding”)	62,92%	62,92%
Publicly held	34,51%	34,51%
Sabancı Family Members	2,57%	2,57%
Total	100,00%	100,00%

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

The Group’s total number of full time employees as of 30 September 2016 is 5.592 (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 September 2016 and delegated authority for publishing it on 9 November 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 September 2016 in accordance with TAS 34 “Interim Financial Reporting”.

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

Statement of Compliance with TAS (cont'd)

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

Functional and Presentation Currency

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

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

- Assets and liabilities are translated using the Central Bank of the Republic of Turkey ("TCMB") Euro buying rate prevailing at the balance sheet date; 30 September 2016: 1 Euro (€) = TL 3,3608, 1 US Dollar (\$) = TL 2,9959 (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 made several reclassifications in the prior period consolidated financial statements in order to maintain consistency with current year consolidated financial statements. There is no effect of these reclassifications in the prior period equity and statement of profit or loss. The nature, amount and reasons for each of the reclassifications are described below:

- In the statement of profit or loss, TL 1.699.376 that was previously presented in other expenses under cost of sales has been reclassified and reported in IT expenses under general administrative expenses.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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 September 2016 and 31 December 2015:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration</u>
		<u>30 September 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 support and maintenance	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 September 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 September 2016.

The table below sets out affiliates and joint ventures then indicates the proportion of ownership interest of the Company in these affiliates and joint ventures as of 30 September 2016 and 31 December 2015:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration</u>
		<u>30 September 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 September 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 September 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 SEPTEMBER 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> ¹
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> ¹
Amendments to TFRS 11 and TFRS 1	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹
Annual Improvements to 2011-2013 Cycle	<i>TFRS 1</i> ²
Amendments to TAS 1	<i>Disclosure Initiative</i> ²
Annual Improvements to 2012-2014 Cycle	<i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> ²
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ²
TFRS 14	<i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015.

² 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>
TFRS 15	<i>Revenue from Contracts with Customers</i> ¹

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

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

2.5 Seasonality on Operations

Due to seasonality of air passenger transportation, Company expected to incur higher sales revenue in the second and third quarter compared to the first and fourth quarter. As a result of increasing sales and flights with the effect of summer season and growth of the Company, trade receivables & payables increased as of 30 September 2016 compared to last year-end.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	30 September 2016	31 December 2015
Joint ventures		
Hitit Bilgisayar	19.652.589	17.332.163
PUEM	4.280.933	3.413.797
	23.933.522	20.745.960

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

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Hitit Bilgisayar	1.642.005	2.594.932	177.809	1.182.489
PUEM	652.448	443.867	237.061	55.590
Net profit	2.294.453	3.038.799	414.870	1.238.079

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

Pegasus Uçuş Eğitim Merkezi A.Ş.

	30 September 2016	31 December 2015
Current assets	1.132.322	1.405.528
Non-current assets	16.777.378	16.496.379
Current liabilities	(6.676.934)	(6.285.656)
Non-current liabilities	(2.566.910)	(4.705.731)
Net assets of joint venture	8.665.856	6.910.520
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	4.280.933	3.413.797
	1 January- 30 September 2016	1 January- 30 September 2015
Revenue	4.799.625	4.306.770
Profit for the period	1.320.746	898.516
Group's ownership interest	49,40%	49,40%
Group's share in the net assets of the joint venture	652.448	443.867

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

Hitit Bilgisayar Hizmetleri A.Ş.

	30 September 2016	31 December 2015
Current assets	15.488.239	13.861.790
Non-current assets	29.951.868	32.891.666
Current liabilities	(7.801.230)	(5.496.308)
Non-current liabilities	(118.724)	(158.021)
Net assets of joint venture	37.520.153	41.099.127
Group's ownership interest in the joint venture	50%	40%
Goodwill	892.512	892.512
Group's share in the net assets of the joint venture	19.652.589	17.332.163
	1 January- 30 September 2016	1 April- 30 September 2015
Revenue	25.677.584	14.943.328
Profit for the period	3.518.196	6.487.330
Group's weighted average ownership interest (*)	44,5%	40%
Group's share in the net assets of the joint venture	1.642.005	2.594.932

(*) 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 September 2016, participation rate has increased to 50% and weighted average participation rate has increased to 44,5% 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.

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NOTE 5 - RELATED PARTY TRANSACTIONS

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

(i) Balances with Related Parties:

a) Other receivables from related parties

	30 September 2016	31 December 2015
Balances with other related parties:		
Air Berlin Plc&Co Luftverkehrs Kg	981.669	278.844
PUEM	503.274	-
	1.484.943	278.844

b) Trade payables to related parties

Balances with parent company:		
Esas Holding	-	190.421
Balances with joint ventures and subsidiaries:		
Hitit Bilgisayar	2.479.702	595.265
PUEM	-	179.953
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	94.248	47.561
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	33.127	-
	2.607.077	1.013.200

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NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

(ii) Significant Transactions with Related Parties:

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

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

The Group 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- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Balances with joint ventures and subsidiaries:				
PUEM	495.535	424.699	168.499	152.006
Balances with other related parties:				
Air Berlin Plc&Co Luftverkehrs Kg	4.704.260	12.418.188	2.483.143	3.317.485
Doğan Burda	-	606.850	-	156.850
	5.199.795	13.449.737	2.651.642	3.626.341

b) Purchases of goods or services

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Balances with joint ventures and subsidiaries:				
PUEM	4.799.625	4.146.659	1.554.196	1.345.644
Hitit Bilgisayar	8.572.481	3.637.769	3.875.097	1.915.392
Balances with other related parties:				
Callpex Çağrı Merkezi ve Müşteri Hizmetleri A.Ş.(*)	-	5.964.725	-	2.220.025
Esasburda	1.056.876	217.351	288.441	77.781
Other	50.135	22.897	-	19.087
	14.479.117	13.989.401	5.717.734	5.577.929

(*) 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.

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NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

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

c) Rent expenses

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Esasburda	3.802.604	3.068.689	1.281.908	1.141.470
	3.802.604	3.068.689	1.281.908	1.141.470

d) Surety commission expenses

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Esas Holding (Note 19)	8.924.904	9.086.361	2.823.870	3.216.633
	8.924.904	9.086.361	2.823.870	3.216.633

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 September 2016 and 2015 are as follows:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Salaries and other short term benefits	9.777.727	5.356.905	2.115.566	1.788.277
Other long term benefits	3.523.737	1.496.387	-	-
	13.301.464	6.853.292	2.115.566	1.788.277

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

Short term trade receivables

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

	30 September 2016	31 December 2015
Trade receivables	96.862.849	66.728.316
Credit card receivables	303.412.595	220.177.025
Income accruals	39.905.466	10.899.930
	440.180.910	297.805.271
Less: Allowance for doubtful receivables	(2.303.010)	(3.175.648)
	437.877.900	294.629.623

Short term trade payables

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

	30 September 2016	31 December 2015
Trade payables	201.968.754	173.295.633
Accrued direct operational costs	104.256.654	60.336.067
Other accrued expenses	24.526.309	11.254.193
Due to related parties (Note 5)	2.607.077	1.013.200
	333.358.794	245.899.093

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

The details of prepaid expenses as of 30 September 2016 and 31 December 2015 are as follows:

Short term prepaid expenses

	30 September 2016	31 December 2015
Advances on aircraft purchases	395.989.048	206.989.481
Advances to suppliers	85.437.574	93.557.209
Prepaid aircraft operating lease expenses	40.174.352	29.726.231
Prepaid insurance expenses	8.763.946	11.984.253
Prepaid advertising expenses	1.153.644	1.819.674
Other prepaid expenses	5.007.697	3.587.931
	536.526.261	347.664.779

Long term prepaid expenses

	30 September 2016	31 December 2015
Advances on aircraft purchases	63.321.922	62.324.466
Other prepaid expenses	14.136.667	15.502.908
	77.458.589	77.827.374

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

Short term deferred income

	30 September 2016	31 December 2015
Passenger flight liabilities	257.600.826	272.748.385
Deferred income from sale of subsidiary (*)	16.980.002	16.054.408
Advances received from customers	14.698.737	8.727.433
Other deferred income	8.532.145	3.156.682
	297.811.710	300.686.908

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

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

	30 September 2016	31 December 2015
Flight liability from ticket sales	165.112.723	187.347.110
Passenger airport fees received from customers	61.653.105	61.623.605
Flight liability from flight points	30.834.998	23.777.670
	257.600.826	272.748.385

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

30 September 2016	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in process	Total
Cost:								
Opening	9.746.987	11.637.132	54.184.095	37.279.765	112.911.844	2.706.657.545	55.291.499	2.987.708.867
Additions	2.573.564	1.634.646	6.582.505	152.039	158.097.891	529.255.334	26.532.410	724.828.389
Disposals	-	(1.509.569)	(210.343)	(12.161)	(23.166)	-	-	(1.755.239)
Transfers	16.351.473	38.355.079	1.731.124	3.173.170	-	-	(59.610.846)	-
Currency translation differences	964.555	1.489.295	3.333.763	2.224.782	10.838.838	166.717.492	2.591.079	188.159.804
Closing	29.636.579	51.606.583	65.621.144	42.817.595	281.825.407	3.402.630.371	24.804.142	3.898.941.821
Accumulated depreciation:								
Opening	(2.585.198)	(4.687.833)	(29.952.719)	(18.985.851)	(33.930.943)	(784.258.158)	-	(874.400.702)
Depreciation for the period	(1.028.190)	(1.872.006)	(5.064.455)	(4.359.771)	(14.023.461)	(127.312.176)	-	(153.660.059)
Disposals	-	909.572	96.066	6.791	461	-	-	1.012.890
Currency translation differences	(171.660)	(294.455)	(1.861.993)	(1.212.657)	(2.310.232)	(47.300.137)	-	(53.151.134)
Closing	(3.785.048)	(5.944.722)	(36.783.101)	(24.551.488)	(50.264.175)	(958.870.471)	-	(1.080.199.005)
Net book value	25.851.531	45.661.861	28.838.043	18.266.107	231.561.232	2.443.759.900	24.804.142	2.818.742.816

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NOTE 8 - PROPERTY AND EQUIPMENT (cont'd)

30 September 2015	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft	Construction in process	Total
Cost:								
Opening	7.016.010	7.310.207	40.779.927	28.184.960	67.289.792	2.392.480.349	1.529.477	2.544.590.722
Additions	1.726.771	3.367.070	4.584.610	1.421.826	33.215.782	-	52.805.263	97.121.322
Disposals	(2.063)	(32.676)	(247.508)	-	(8.474)	-	-	(290.721)
Transfers	-	-	57.085	330.740	-	-	(387.825)	-
Currency translation differences	1.792.179	2.094.493	9.312.916	5.903.320	19.538.096	518.315.341	12.028	556.968.373
Closing	10.532.897	12.739.094	54.487.030	35.840.846	120.035.196	2.910.795.690	53.958.943	3.198.389.696
Accumulated depreciation:								
Opening	(1.900.821)	(3.757.948)	(21.909.947)	(12.388.565)	(22.916.369)	(550.204.426)	-	(613.078.076)
Depreciation for the period	(412.916)	(925.818)	(3.731.310)	(3.461.882)	(7.527.088)	(111.459.914)	-	(127.518.928)
Disposals	30	22.467	200.873	-	1.919	-	-	225.289
Currency translation differences	(496.489)	(955.243)	(5.213.252)	(3.181.996)	(6.026.041)	(137.811.401)	-	(153.684.422)
Closing	(2.810.196)	(5.616.542)	(30.653.636)	(19.032.443)	(36.467.579)	(799.475.741)	-	(894.056.137)
Net book value	7.722.701	7.122.552	23.833.394	16.808.403	83.567.617	2.111.319.949	53.958.943	2.304.333.559

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NOTE 9 - INTANGIBLE ASSETS

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

30 September 2015	Brand	Software	Total
Cost:			
Opening	1.988.594	23.204.104	25.192.698
Additions	-	3.874.372	3.874.372
Currency translation differences	423.353	5.546.412	5.969.765
Closing	2.411.947	32.624.888	35.036.835
Accumulated amortization:			
Opening	(770.579)	(12.951.075)	(13.721.654)
Amortization for the period	(78.176)	(2.895.049)	(2.973.225)
Currency translation differences	(176.321)	(3.210.543)	(3.386.864)
Closing	(1.025.076)	(19.056.667)	(20.081.743)
Net book value	1.386.871	13.568.221	14.955.092

Remaining average useful life of intangible assets as of 30 September 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.

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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 8.568.689 as of 30 September 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 3.094.456 (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 September 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), 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.

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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.

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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.

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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.

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NOTE 12 - COMMITMENTS

Purchase Commitments

	30 September 2016	31 December 2015
Commitments to purchase aircraft	27.220.652.485	26.485.177.805
	27.220.652.485	26.485.177.805

As of 30 September 2016, the Group holds firm orders for 76 aircraft. The expected deliveries are: 5 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 459.310.970 (31 December 2015: TL 269.313.947) and TL 395.989.048 of this amount is reclassified under short term, TL 63.321.922 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:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Minimum lease payments	321.025.194	232.920.929	113.915.193	90.006.851
	321.025.194	232.920.929	113.915.193	90.006.851

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

The non-cancellable operating lease liabilities as of 30 September 2016 and 31 December 2015 are as follows:

	30 September 2016	31 December 2015
Less than 1 year	471.319.483	400.006.430
Between 1 - 5 years	1.442.421.384	1.311.457.028
Over 5 years	343.411.231	327.309.414
	2.257.152.098	2.038.772.872

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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 September 2016 is as follows:

30 September 2016	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	475.746.132	144.662.033	6.423.248	12.250.944	8.514.951
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	43.046.521	8.238.000	-	18.366.297	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	6.529.189	2.179.375	-	-	-
-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	-	-	-	-	-
	525.321.842	155.079.408	6.423.248	30.617.241	8.514.951

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

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

The other CPMs given by the Company constitute 0% of the Company's equity as of 30 September 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:

31 December 2015	TL TOTAL	USD	EUR	TL	Other
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	-	-	-	-	-
	451.851.628	135.115.322	7.894.099	24.823.737	9.082.290

(*) 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.

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NOTE 13 - EXPENSES BY NATURE

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

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Jet fuel expenses	720.249.470	856.217.891	287.979.654	334.002.169
Personnel expenses	493.143.892	326.354.841	180.049.364	120.254.527
Operating lease expenses	321.025.194	232.920.929	113.915.193	90.006.851
Maintenance expenses	254.710.219	192.051.067	81.789.625	67.230.842
Handling and station fees	229.734.055	200.184.106	82.439.060	82.701.447
Navigation expenses	190.031.146	181.934.933	73.019.643	74.717.089
Depreciation and amortisation expenses	157.704.758	130.492.153	57.300.760	47.179.241
Landing expenses	92.006.691	76.256.144	36.217.892	32.826.215
Commission expenses	54.168.780	45.754.301	21.824.741	17.495.371
Advertising expenses	51.640.252	53.128.997	10.846.066	11.234.358
Passenger service and catering expenses	35.845.414	30.433.783	14.151.163	12.531.929
Other expenses	197.541.077	137.806.972	69.934.580	53.921.775
	2.797.800.948	2.463.536.117	1.029.467.741	944.101.814

NOTE 14 - SHAREHOLDERS' EQUITY

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

	30 September 2016		31 December 2015	
Shareholders:	(%)	TL	(%)	TL
Esas Holding	62,92	64.353.570	62,92	64.353.570
Publicly held	34,51	35.294.000	34,51	35.294.000
Emine Kamyşlı	0,86	874.810	0,86	874.810
Ali İsmail Sabancı	0,86	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
TL historic capital	100,0	102.272.000	100,0	102.272.000

The Company's share capital consists of 102.272.000 shares of par value TL 1 each (31 December 2015: 102.272.000 shares). All issued shares are fully paid in cash.

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NOTE 15 - SALES AND COST OF SALES

The details of sales and cost of sales for the periods ended 30 September 2016 and 2015 are as follows:

Sales:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Scheduled flights	2.117.098.833	2.111.668.438	1.045.123.461	1.050.138.544
<i>International scheduled flights</i>	<i>1.244.800.524</i>	<i>1.304.256.583</i>	<i>637.741.569</i>	<i>665.209.700</i>
<i>Domestic scheduled flights</i>	<i>872.298.309</i>	<i>807.411.855</i>	<i>407.381.892</i>	<i>384.928.844</i>
Ancillary revenue	610.912.864	488.966.386	240.103.130	196.845.339
Charter flights	89.261.575	94.029.773	71.238.528	58.895.981
Other revenue	42.750.029	42.358.556	14.777.125	14.101.156
	2.860.023.301	2.737.023.153	1.371.242.244	1.319.981.020

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

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Domestic	872.298.309	807.411.855	407.381.892	384.928.844
Europe	912.451.413	1.017.065.489	488.032.864	512.376.401
Other	332.349.111	287.191.094	149.708.705	152.833.299
	2.117.098.833	2.111.668.438	1.045.123.461	1.050.138.544

Cost of sales:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Jet fuel expenses	720.249.470	856.217.891	287.979.654	334.002.169
Personnel expenses	439.640.633	287.443.691	161.958.428	106.751.513
Operating lease expenses	321.025.194	232.920.929	113.915.193	90.006.851
Maintenance expenses	254.710.219	192.051.067	81.789.625	67.230.842
Handling and station fees	229.734.055	200.184.106	82.439.060	82.701.447
Navigation expenses	190.031.146	181.934.933	73.019.643	74.717.089
Depreciation and amortisation expenses	140.778.859	118.755.282	51.273.378	42.822.038
Landing expenses	92.006.691	76.256.144	36.217.892	32.826.215
Passenger service and catering expenses	35.845.414	30.433.783	14.151.163	12.531.929
Other expenses	129.510.233	93.216.560	45.917.869	37.269.221
	2.553.531.914	2.269.414.386	948.661.905	880.859.314

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NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Marketing expenses	133.491.552	118.583.113	42.937.195	35.711.116
General administrative expenses	110.777.482	75.538.618	37.868.641	27.531.384
	244.269.034	194.121.731	80.805.836	63.242.500

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

General administrative expenses:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Personnel expenses	41.429.199	30.139.386	13.739.007	10.617.383
IT expenses	15.870.637	8.790.275	4.923.276	3.447.674
Depreciation and amortisation expenses	13.683.558	9.500.908	4.871.148	3.524.804
Rent expenses	11.846.964	8.779.944	3.914.992	3.299.661
Consultancy expenses	6.290.554	3.364.275	2.932.737	1.256.870
Legal and notary expenses	4.337.106	3.858.045	1.953.248	1.622.057
Travel expenses	2.387.994	2.389.943	669.393	1.069.248
Office utility expenses	1.767.394	1.058.149	643.081	379.466
Training expenses	1.457.131	656.181	324.593	266.269
Communication expenses	1.251.805	1.092.762	440.611	396.361
Other expenses	10.455.140	5.908.750	3.456.555	1.651.591
	110.777.482	75.538.618	37.868.641	27.531.384

Marketing expenses:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Advertising expenses	51.640.252	53.128.997	10.846.066	11.234.358
Commission expenses	54.168.780	45.754.301	21.824.741	17.495.371
Personnel expenses	12.074.060	8.771.764	4.351.929	2.885.631
Call center expenses	8.113.611	6.271.838	2.933.000	2.373.909
Depreciation and amortisation expenses	3.242.341	2.235.963	1.156.234	832.399
Other expenses	4.252.508	2.420.250	1.825.225	889.448
	133.491.552	118.583.113	42.937.195	35.711.116

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NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

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

Other operating income:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Reversal of doubtful provision	2.447.131	-	2.698.127	-
Foreign exchange gain/(loss) from operating activities	-	6.978.972	-	(47.702.040)
Reversal of discounts	10.438	138.795	(1.168)	31.235
Other income	1.762.768	1.405.916	713.447	104.432
	4.220.337	8.523.683	3.410.406	(47.566.373)

Other operating expenses:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Foreign exchange loss from operating activities	69.920.243	-	64.185.712	-
Other expense	1.516.993	1.671.064	595.070	2.421
	71.437.236	1.671.064	64.780.782	2.421

NOTE 18 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

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

Income from investing activities:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Foreign exchange gain from investing activities	-	20.496.785	-	8.520.196
Other income	805.485	30.230	190.671	9.427
	805.485	20.527.015	190.671	8.529.623

Expenses from investing activities:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Foreign exchange loss from investing activities	7.140.968	-	6.895.391	-
	7.140.968	-	6.895.391	-

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NOTE 19 - FINANCIAL INCOME AND EXPENSES

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

Financial income:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Interest income	21.652.526	30.716.472	5.256.002	12.930.239
Gain on derivative contracts	3.365.653	-	(11.717.708)	-
Foreign exchange gain	71.349.503	61.339.653	64.407.382	43.608.396
	96.367.682	92.056.125	57.945.676	56.538.635

Financial expenses:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Other commission expenses	14.953.011	12.031.386	4.680.747	4.879.389
Surety commission expenses	8.924.904	9.086.361	2.823.870	3.216.633
Interest expense on financial lease	5.955.773	6.066.832	3.047.388	2.076.999
Losses from derivative contracts	-	98.208.699	-	86.635.446
	29.833.688	125.393.278	10.552.005	96.808.467

NOTE 20 - EARNINGS / LOSS PER SHARE

Earnings/loss per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 30 September 2016 and 2015 are as follows:

	1 January- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2016	1 July - 30 September 2015
Net income attributable to the shareholders of the parent	38.999.579	194.699.407	242.830.906	233.693.094
Weighted average number of shares issued in the period	102.272.000	102.272.000	102.272.000	102.272.000
Gain per share	0,38	1,90	2,37	2,29

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NOTE 21 - DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments

	30 September 2016		31 December 2015	
	Asset	Liability	Asset	Liability
Short term	10.486.472	11.296.472	2.341.144	178.165.534
	10.486.472	11.296.472	2.341.144	178.165.534

Explanations related to derivative instruments are disclosed in Note 24.

NOTE 22 - FINANCIAL INSTRUMENTS

Financial Liabilities

The details of financial liabilities as of 30 September 2016 and 31 December 2015 are as follows:

Short term financial liabilities	30 September 2016	31 December 2015
Short term bank borrowings	9.141.513	6.826.527
Short term portion of long term financial lease obligations	243.282.716	201.887.265
	252.424.229	208.713.792
Long term financial liabilities	30 September 2016	31 December 2015
Long term financial lease obligations	1.565.194.078	1.206.722.990
	1.565.194.078	1.206.722.990

a) Bank Borrowings

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

30 September 2016	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	0,00 (*)	TL	9.141.513	9.141.513
				9.141.513
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
				6.826.527

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

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NOTE 22 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Financial Lease Liabilities

The details of financial lease liabilities as of 30 September 2016 and 31 December 2015 are as follows:

	30 September 2016	31 December 2015
Less than 1 year	261.756.098	207.191.438
Between 1 - 5 years	1.022.790.883	820.080.814
Over 5 years	659.743.652	407.230.694
	1.944.290.633	1.434.502.946
Less: Future interest expenses	(135.813.839)	(25.892.691)
	1.808.476.794	1.408.610.255

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

	30 September 2016	31 December 2015
Less than 1 year	243.282.716	201.887.265
Between 1 - 5 years	958.596.473	801.394.966
Over 5 years	606.597.605	405.328.024
	1.808.476.794	1.408.610.255

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 September 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 2,76% (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 September 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)

30 September 2016	TL Total	USD	TL	GBP	Other
1. Trade receivables	364.779.005	24.389.375	214.442.654	3.802.889	62.471.562
2a. Monetary financial assets	618.648.151	138.584.937	172.156.858	1.338.576	26.096.415
2b. Non monetary financial assets	-	-	-	-	-
3. Other	376.542.588	124.207.334	1.036.880	60.362	3.158.094
4. CURRENT ASSETS	1.359.969.744	287.181.646	387.636.392	5.201.827	91.726.071
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	170.461.987	56.366.746	582.906	19.800	932.907
8. NON CURRENT ASSETS	170.461.987	56.366.746	582.906	19.800	932.907
9. TOTAL ASSETS	1.530.431.731	343.548.392	388.219.298	5.221.627	92.658.978
10. Trade payables	180.085.246	35.642.011	63.994.951	135.418	8.783.496
11. Financial liabilities	79.237.454	23.397.290	9.141.513	-	-
12a. Other liabilities, monetary	63.256.608	2.886.178	54.214.767	28.178	285.503
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	322.579.308	61.925.479	127.351.231	163.596	9.068.999
14. Trade payables	-	-	-	-	-
15. Financial liabilities	531.683.511	177.470.380	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	531.683.511	177.470.380	-	-	-
18. TOTAL LIABILITIES	854.262.819	239.395.859	127.351.231	163.596	9.068.999
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	131.819.600	44.000.000	-	-	-
19.a Off-balance sheet foreign currency derivative assets	131.819.600	44.000.000	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	676.168.912	104.152.533	260.868.067	5.058.031	83.589.979
21. Net foreign currency asset / (liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	129.164.337	(76.421.547)	259.248.281	4.977.869	79.498.978

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

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2015	TL Total	USD	TL	GBP	Other
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
4. CURRENT ASSETS	1.518.570.410	357.922.941	411.851.963	4.193.626	47.986.177
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
8. NON CURRENT ASSETS	78.541.837	26.641.085	206.007	19.800	789.057
9. TOTAL ASSETS	1.597.112.247	384.564.026	412.057.970	4.213.426	48.775.234
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	-	-	-	-	-
13. CURRENT LIABILITIES	234.011.374	44.784.016	97.001.245	132.890	6.224.605
14. Trade payables	-	-	-	-	-
15. Financial liabilities	224.872.496	77.339.557	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	224.872.496	77.339.557	-	-	-
18. TOTAL LIABILITIES	458.883.870	122.123.573	97.001.245	132.890	6.224.605
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 September 2016 and 31 December 2015 are as follows:

30 September 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)	(22.895.131)	22.895.131	-	-
Part of hedged from USD risk	13.181.960	(13.181.960)	-	-
USD net effect	(9.713.171)	9.713.171	-	-
Effect of 10% change in TL rate				
TL net asset / (liability)	25.924.828	(25.924.828)	160.163.626	(160.163.626)
Part of hedged from TL risk	-	-	-	-
TL net effect	25.924.828	(25.924.828)	160.163.626	(160.163.626)
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)	-	-
USD net effect	72.072.783	(72.072.783)	-	-
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	-	-	-	-
TL net effect	31.457.772	(31.457.772)	121.925.547	(121.925.547)

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

Fair Value of Financial Instruments

30 September 2016	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected at fair value in profit/loss	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	657.182.882	-	-	-	657.182.882	26
Trade receivables	437.877.900	-	-	-	437.877.900	6
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	437.877.900	-	-	-	437.877.900	6
Other receivables	98.931.206	-	-	-	98.931.206	
- <i>Related party</i>	1.484.943	-	-	-	1.484.943	5
- <i>Other</i>	97.446.263	-	-	-	97.446.263	
Pre-delivery payment for purchase of aircraft	459.310.970	-	-	-	459.310.970	7
Derivative financial assets	-	10.486.472	-	-	10.486.472	21
Financial liabilities						
Bank borrowings	-	-	-	9.141.513	9.141.513	22
Obligations under financial leases	-	-	-	1.808.476.794	1.808.476.794	22
Trade payables	-	-	-	333.358.794	333.358.794	6
- <i>Related party</i>	-	-	-	2.607.077	2.607.077	5
- <i>Other</i>	-	-	-	330.751.717	330.751.717	
Passenger airport fees liability	-	-	-	61.653.105	61.653.105	7
Derivative financial liabilities	-	1.982.144	9.314.328	-	11.296.472	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)

31 December 2015	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected at fair value in profit/loss	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	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
Financial liabilities						
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 / (Financial liabilities)	Fair value as at		Fair value hierarchy	Valuation technique	
	30 September 2016	31 December 2015			
Fuel purchase forward contracts	10.486.472	(30.014.587)	Level 2	Discounted cash flow method	
Currency forward contracts	(1.982.144)	2.341.144	Level 2	Discounted cash flow method	
Chooser forward contracts	(7.083.226)	(148.115.834)	Level 2	Discounted cash flow method	
Interest rate swap contracts	(2.231.102)	(35.113)	Level 2	Discounted cash flow method	
	Fuel purchase forward contracts	Currency forward contracts	Chooser forward contracts	Interest rate swap contracts	Total
30 September 2016					
Fair value:					
Opening	(30.014.587)	2.341.144	(148.115.834)	(35.113)	(175.824.390)
Fair value increase / (decrease)					
Reflected at equity	40.501.059	(4.323.288)	-	-	36.177.771
Reflected at profit or loss	-	-	141.032.608	(2.195.989)	138.836.619
Closing	10.486.472	(1.982.144)	(7.083.226)	(2.231.102)	(810.000)
Assets	10.486.472	-	-	-	10.486.472
Liabilities	-	(1.982.144)	(7.083.226)	(2.231.102)	(11.296.472)
Total net assets and liabilities	10.486.472	(1.982.144)	(7.083.226)	(2.231.102)	(810.000)

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

Fair Value of Financial Instruments (cont'd)

31 December 2015	Fuel purchase forward contracts	Currency forward contracts	Chooser forward contracts	Interest rate swap contracts	Total
Fair value:					
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
Closing	(30.014.587)	2.341.144	(148.115.834)	(35.113)	(175.824.390)
Assets	-	2.341.144	-	-	2.341.144
Liabilities	(30.014.587)	-	(148.115.834)	(35.113)	(178.165.534)
Total net assets and liabilities	(30.014.587)	2.341.144	(148.115.834)	(35.113)	(175.824.390)

NOTE 25 - EVENTS AFTER THE REPORTING PERIOD

None.

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NOTE 26 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 30 September 2016 and 31 December 2015 are as follows:

	30 September 2016	31 December 2015
Cash on hand	146.164	142.151
Cash at banks	657.036.718	954.831.942
- Demand deposits	88.291.545	48.690.232
- Time deposits	568.745.173	906.141.710
	657.182.882	954.974.093

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

30 September 2016	Weighted average interest rates	Total
USD deposits	3,19%	393.216.028
TL deposits	10,74%	168.135.218
EUR deposits	0,85%	7.393.927
		568.745.173

31 December 2015	Weighted average interest rates	Total
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
		906.141.710

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