

CONVENIENCE TRANSLATION OF
REPORT AND FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

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

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2013 TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated statement of financial position of Pegasus Hava Taşımacılığı A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group") as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS") published by Public Oversight Accounting and Auditing Standards Authority ("POA"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by Capital Markets Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte

Opinion

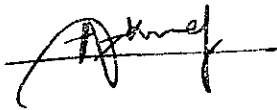
4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pegasus Hava Tařımacılıđı A.ř. and its subsidiaries as at 31 December 2013, and of their financial performance and their cash flows for the year then ended in accordance with TAS (refer to Note 2).

Reports on Other Legal and Regulatory Requirements

5. In accordance with Article 402 of Turkish Commercial Code No. 6102 ("TCC"), the Board of Directors provided us all the required information and documentation in terms of audit; and nothing has come to our attention that may cause us to believe that the Group's set of accounts prepared for the period 1 January-31 December 2013 does not comply with the code and the provisions of the Company's articles of association in relation to financial reporting.
6. In accordance with Article 378 of Turkish Commercial Code No. 6102, in publicly traded companies, the board of directors is obliged to establish a committee consisting of specialized experts, to run and to develop the necessary system for the purposes of early identification of any risks that may compromise the existence, development and continuation of the company; applying the necessary measures and remedies in this regard and managing such risks. According to paragraph 4 of Article 398 of the same code, the auditor is required to prepare a separate report explaining whether the Board of Directors has established the system and authorized committee stipulated under Article 378 to identify risks that threaten or may threaten the company and to provide risk management, and, if such a system exists, the report, the principles of which shall be announced by POA, shall describe the structure of the system and the practices of the committee. This report shall be submitted to the Board of Directors along with the auditor's report. Our audit does not include the evaluation of the operational efficiency and adequacy of the operations carried out by the management of the Group in order to manage these risks. As of the balance sheet date, POA has not announced the principles of this report, yet. Therefore, no separate report has been drawn up regarding this matter. On the other hand, the Company established the mentioned committee in 2013, and the committee is comprised of 3 members. Since the date of its establishment, the committee has held meetings for the purposes of early identification of any risks that may compromise the existence and development of the Company, applying the necessary measures and remedies in this regard and managing such risks, and has submitted the relevant reports to the Board of Directors.

İstanbul, 4 March 2014

DRT BAđIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜřAVİRLİK A.ř.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



Selçuk Ürkmez
Partner

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Audited) 31 December 2013	(Revised) Prior period (Audited) 31 December 2012
	Notes		
ASSETS			
Current assets		1.191.494.023	339.329.147
Cash and cash equivalents	4	877.401.671	210.150.238
Trade receivables	7	191.391.666	43.985.353
Other receivables	8	40.525.685	34.588.337
Derivative financial instruments	5	25.401.932	14.898.232
Inventories	11	4.035.669	1.882.592
Prepaid expenses	9	41.115.109	33.606.729
Other current assets	18	11.622.291	217.666
Non-Current assets		2.306.710.614	1.869.681.888
Other receivables	8	67.085.279	43.412.916
Investments accounted for using the equity method	12	1.376.792	1.512.211
Property and equipment	13	2.120.627.943	1.730.317.522
Intangible assets	14	11.447.742	5.013.650
Prepaid expenses	9	98.170.170	89.425.589
Deferred tax asset	25	8.002.688	-
TOTAL ASSETS		3.498.204.637	2.209.011.035

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Audited) 31 December 2013	(Revised) Prior period (Audited) 31 December 2012
LIABILITIES			
Current liabilities		677.597.387	538.075.762
Short term financial liabilities	6	3.980.899	50.722.463
Short term portion of long term financial liabilities	6	181.171.887	135.232.251
Trade payables	7	167.294.824	129.649.974
<i>Trade payables to third parties</i>	7	<i>167.179.253</i>	<i>126.170.626</i>
<i>Trade payables to related parties</i>	27	<i>115.571</i>	<i>3.479.348</i>
Employee benefit obligations	17	6.805.756	4.916.097
Other payables	8	17.079.784	6.827.091
Derivative financial instruments	5	10.939.103	3.006.145
Deferred revenue	10	248.254.755	171.171.085
Short term provisions		41.697.458	28.550.186
<i>Short term provisions for employee benefits</i>	17	<i>30.864.026</i>	<i>24.044.479</i>
<i>Other short term provisions</i>	15	<i>10.833.432</i>	<i>4.505.707</i>
Other current liabilities	18	372.921	8.000.470
Non-Current liabilities		1.674.380.165	1.343.583.125
Long term financial liabilities	6	1.441.206.556	1.240.919.331
Deferred revenue	10	6.423.264	1.546.783
Long term provisions		65.577.108	28.936.038
<i>Long term provisions for employee benefits</i>	17	<i>6.018.849</i>	<i>4.149.445</i>
<i>Other long term provisions</i>	15	<i>59.558.259</i>	<i>24.786.593</i>
Deferred tax liabilities	25	161.173.237	72.180.973
SHAREHOLDERS' EQUITY		1.146.227.085	327.352.148
Equity attributable to shareholders' of the parent		1.145.684.240	327.352.148
Paid-in share capital	19	102.272.000	75.000.000
Effects of business acquisition		29.504.957	29.504.957
Share premium on capital stock		455.687.025	-
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		308.022.092	72.735.810
Hedge fund		20.321.546	11.918.586
Retained earnings		138.192.795	11.889.279
Net profit for the year		91.683.825	126.303.516
Non-controlling interest		542.845	-
TOTAL LIABILITIES AND EQUITY		3.498.204.637	2.209.011.035

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

Profit or loss	Notes	Current period	(Revised)
		(Audited)	Prior period
		1 January -	1 January -
		31 December 2013	31 December 2012
Sales	20	2.404.060.243	1.919.446.126
Cost of sales (-)	20	(1.953.544.819)	(1.600.787.909)
Gross profit		450.515.424	318.658.217
General administrative expenses (-)	21	(69.776.244)	(50.250.429)
Marketing expenses (-)	21	(105.089.686)	(80.353.989)
Other operating income	22	6.488.899	14.578.703
Other operating expenses (-)	22	(24.047.246)	(831.638)
Operating profit		258.091.147	201.800.864
Income from investing activities	23	108.327	126.988
Expenses from investing activities	23	(4.216.608)	(7.577.464)
Share of investments' loss accounted for using equity method	12	(515.547)	(1.513.990)
Operating profit before financial income/(expense)		253.467.319	192.836.398
Financial income	24	50.762.349	12.898.711
Financial expense (-)	24	(149.556.533)	(50.415.510)
Profit before tax		154.673.135	155.319.599
Tax expense			
Current tax expense		-	-
Deferred tax expense	25	(66.361.129)	(29.016.083)
Profit for the period		88.312.006	126.303.516
Net profit attributable to:			
Shareholders' of the parent		91.683.825	126.303.516
Non-controlling interest		(3.371.819)	-
		88.312.006	126.303.516
Earnings per share (TL)	26	0,98	1,68
Other comprehensive income/(loss):			
Items to be reclassified to profit or loss			
Currency translation differences		233.296.976	3.555.138
Cash flow hedge		8.402.960	8.727.235
Loss on derivative contracts		10.503.700	10.909.044
Deferred tax effect		(2.100.740)	(2.181.809)
Other comprehensive income		241.699.936	12.282.373
Total comprehensive profit		330.011.942	138.585.889
Total comprehensive profit attributable to:			
Shareholders' of the parent		335.373.067	138.585.889
Non-controlling interest		(5.361.125)	-
		330.011.942	138.585.889

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

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

	Paid in share capital	Effects of business acquisition	Share premium on capital stock	Other comprehensive income/(loss) items to be reclassified to profit or loss		Retained earnings		Equity attributable to shareholders of the parent	Non-controlling interest	Shareholders' equity
				Currency translation differences	Hedge fund	Retained earnings	Net profit for the period			
As at 1 January 2012	75.000.000	29.504.957	-	69.180.672	3.191.351	27.212.283	(15.323.004)	188.766.259	(69.184)	188.697.075
Effect of acquisition of additional shares in a subsidiary	-	-	-	-	-	-	-	-	-	69.184
Transfer to retained earnings	-	-	-	-	-	(15.323.004)	15.323.004	-	-	-
Total comprehensive income	-	-	-	3.555.138	8.727.235	-	126.303.516	138.585.889	-	138.585.889
As at 31 December 2012	75.000.000	29.504.957	-	72.735.810	11.918.586	11.889.279	126.303.516	327.352.148	-	327.352.148
As at 1 January 2013	75.000.000	29.504.957	-	72.735.810	11,918,586	11,889,279	126,303,516	327,352,148	-	327,352,148
Effect of business combination and consolidation rate change	-	-	-	-	-	-	-	-	6,040,737	6,040,737
Increase in share capital of the Company	27.272.000	-	-	-	-	-	-	27.272.000	-	27.272.000
Increase according to the share-based transactions (*)	-	-	455.687.025	-	-	-	-	455.687.025	-	455.687.025
Dividend payment out of group by subsidiaries	-	-	-	-	-	-	-	-	(136.767)	(136.767)
Transfer to retained earnings	-	-	-	-	-	126.303.516	(126.303.516)	-	-	-
Total comprehensive income / (loss)	-	-	-	235.286.282	8.402.960	-	91.683.825	335.373.067	(5.361.125)	330.011.942
As at 31 December 2013	102.272.000	29.504.957	455.687.025	308.022.092	20.321.546	138.192.795	91.683.825	1.145.684.240	542.845	1.146.227.085

(*) The surplus of sales price over nominal value amounted to TL 455.687.025 during the initial public offering on 18-19 April 2013 was accounted as share premium.

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(Amounts are expressed in TL unless otherwise stated.)

		(Revised Current period (Audited) 1 January - 31 December 2013	Prior period (Audited) 1 January - 31 December 2012
	Notes		
Profit for the period		91.683.825	126.303.516
Adjustments reconcile net income to net cash generated from operating activities			
Depreciation and amortization	13-14	136.374.671	104.401.778
Provision for employee benefits	17	26.815.719	24.891.069
Provision for doubtful receivable	7-8	2.310.514	131.937
Current tax expense	25	66.361.129	29.016.083
Interest and commission (income)/expense	24	(22.037.280)	31.901.629
Loss on equity investments accounted for using the equity method	12	515.547	1.513.990
Gain on sales of fixed assets		(102.958)	(126.988)
Maintenance reserves and redelivery provision	15	25.729.880	12.739.780
Other provisions related to investing or financing activities		5.832.218	(2.457.436)
Provision for impairment of fixed assets	13	11.545.649	-
Legal provision	15	635.937	(92.442)
Provision for penalty and compensation	15	8.608.683	-
Cash generated from operating activities		354.273.534	328.222.916
(Increase) / Decrease in trade receivables		(147.442.398)	26.838.716
Increase in inventories		(2.153.077)	(1.303.613)
Increase in other receivables and other current assets		(46.634.231)	(2.322.489)
Increase in trade payables		37.644.850	83.343.496
Increase in deferred revenue, other payables and other current liabilities		82.464.548	28.932.793
Changes in working capital		(76.120.308)	135.488.903
Cash flows from operating activities		278.153.226	463.711.819
Payment for bonus provision and retirement pay provision	17	(18.502.526)	(1.269.663)
Net cash generated from operating activities		259.650.700	462.442.156
Cash flows from investing activities:			
Cash outflows from purchase of property, equipment and intangible assets (*)	13-14	(30.957.163)	(20.058.058)
Payments for advances on aircraft		(8.558.508)	13.918.856
Proceeds from sale of property, equipment and intangible assets		609.044	2.557.431
Net cash used in investing activities		(38.906.627)	(3.581.771)
Cash flow from financing activities:			
Net cash inflows related to the sale of shares and other equity instruments		482.959.025	-
Repayment of principal in finance lease liabilities		(144.326.826)	(117.378.591)
Interest and commission paid		(29.487.796)	(36.526.904)
Interest received		47.122.113	3.194.769
Dividend paid out of group		(136.767)	-
Increase in borrowings		6.845.780	318.010.468
Repayment of borrowings		(57.981.010)	(446.496.800)
Net cash generated from / (used in) financing activities		304.994.519	(279.197.058)
Net increase in cash and cash equivalents before translation effect		525.738.592	179.663.327
Translation differences effect on cash and cash equivalents		141.512.841	10.937.547
Cash and cash equivalents at the beginning of the year	4	210.150.238	19.549.364
Cash and cash equivalents at the end of the year	4	877.401.671	210.150.238

(*) TL 74.787.016 of tangible and intangible assets acquisitions in total of TL 124.117.738 for the period ended 31 December 2013 was financed through finance leases. (31 December 2012: TL 402.560.217 of tangible and intangible assets acquisitions in total of TL 473.131.582 was financed through finance leases).

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

NOTE 1 - GROUP ORGANIZATION AND ITS OPERATIONS

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. Group management focuses on providing high-frequency services on short- and medium-haul, point-to-point routes on its domestic and international transit network primarily from its main hub, Sabiha Gökçen airport in İstanbul. The Group also operates scheduled flights from three other domestic hubs in Adana, Antalya and İzmir. The Group operates with 49 aircraft (31 December 2012: 40) including one owned, 27 under finance lease and 21 under operating lease as of 31 December 2013.

The Group offers a number of services ancillary to the core air passenger services and generate revenue through the provision of these services. These ancillary services include, but not limited to, revenue related to in-flight sale of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees.

The Group also provides cargo services and provides various training services. These training services include crew training, type rating training (i.e., training to fly a certain aircraft type), dangerous goods training and crew resource management (CRM) training to pilots and cabin crew members.

Subsidiaries

IHY İzmir Hava Yolları A.Ş.

İzair, commenced its operations in 2006, operates domestic and international flights from İzmir Adnan Menderes Airport. İzair operates as a capacity provider to Pegasus. Pegasus acquired a 72,57% share in İzair from its primary shareholder Esas Holding A.Ş. (“Esas Holding”) on 28 September 2010 for TL 18.668.069. The Group increased its ownership to 96,79% in June 2011 via capital increase, and in March 2012, further increased its ownership to 97,82%. During September 2012, Pegasus sold 46,82% of its interest in İzair to Air Berlin Finance GmbH (“AirBerlin”) as part of the “AirBerlin Turkey” agreement. As of that date, İzair had been accounted for using equity method. Following of the completion of the registration of the amendment to the articles of association and the capital increase approved by İzair’s shareholders on 27 March 2013, in which AirBerlin decided not to exercise its pre-emption rights; in consequence of all other shareholders had not exercised their pre-emption rights and all the capital increase has been performed by Pegasus, the percentage of the shares and votes held in İzair has increased up to 69,12%. Therefore, the Group has fully consolidated İzair as a subsidiary as of 1 April 2013.

Air Manas

Air Manas is a limited liability company established in Kyrgyz Republic on 27 October 2006. The Group acquired 49% of Air Manas in August 2012 and has the ability to control Air Manas. The remaining shares in Air Manas are held by individuals in the Kyrgyz Republic. The Group operates scheduled flights from İstanbul to Bishkek and Bishkek to Osh under the name of Air Manas.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

NOTE 1 - GROUP ORGANIZATION AND ITS OPERATIONS (cont'd)

Subsidiaries (cont'd)

İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.Ş.

The Group, through Izair, held a 49,99% of the shares of İzmirliiler Otelcilik until May 2012. In May 2012, Izair has sold its interest in İzmirliiler Otelcilik to Pegasus. The Group's share increased to 59% in 2012 when one of the shareholders decided not to exercise its right of purchase in the statutory capital increase of İzmirliiler Otelcilik. The remaining shares are held by Turkish nationals. Based on TFRS 10, the Group included İzmirliiler Otelcilik by line by line consolidation as of 1 January 2013, which had been accounted using equity method before.

İzmirliiler Otelcilik currently operates a gas station and a hotel located within the premises leased from the State Airports Authority of Turkey (DHMI) adjacent to the Adnan Menderes Airport in İzmir. The premises also include office space currently used as Izair headquarters based on a lease agreement which will end in 2017. The hotel building has been subleased to another lessor in 2011. The leased premises will be transferred to DHMI at the end of the lease contract.

Joint ventures and associates

Pegasus Uçuş Eğitim Merkezi A.Ş.

The Group incorporated Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM") in October 2010 in Turkey, a joint venture flight training company, with SIM Industries B.V., a Dutch simulator manufacturing and marketing company. PUEM has a 737-800 "next generation" flight simulator and commenced its operations in İstanbul in January 2011. The Group owns 49,40% of the outstanding shares of PUEM

AirBerlin Turkey Agreement

During late 2011, Pegasus, Izair and AirBerlin entered into an agreement to jointly operate flights between Antalya and different German cities benefiting the touristic traffic under the brand AirBerlin Turkey. The objective of this agreement is to jointly expand the operations on these routes by utilizing the aircraft and cost structure of Izair and the customer interface of AirBerlin.

In March 2012, Pegasus agreed to sell 46,82% of Izair shares to AirBerlin and agreed to jointly control the entity. The sale of the shares was finalized on 4 September 2012 following the receipt of all regulatory approvals. This sale in September 2012 resulted in the deconsolidation of Izair and the recognition of an investment in Izair joint venture.

However, following the joint decision between Pegasus and AirBerlin regarding the suspension of operations under the AirBerlin Turkey brand in March 2013, the shareholders of Izair resolved on a capital increase on 27 March 2013 where Pegasus subscribed for all of the newly issued shares including those for which AirBerlin and the other shareholders in Izair did not exercise their preemptive rights, resulting in Pegasus increasing its stake in Izair to 69,12%. Together with the amendments to the articles of association of Izair, adopted at the same general assembly meeting, the Group, once again consolidated Izair as a subsidiary.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

NOTE 1 - GROUP ORGANIZATION AND ITS OPERATIONS (cont'd)

Joint ventures and associates (cont'd)

AirBerlin Turkey Agreement (cont'd)

The agreements relating to the joint flight operations under the AirBerlin Turkey brand provide AirBerlin two options under which it can require Pegasus to repurchase its shares in Izair. The first option allows AirBerlin to put the shares back to Pegasus if Izair fails to maintain the scheduled AOC granted by the Turkish Civil Aviation Authority on 14 November 2013. The second option allows AirBerlin to put the shares back to Pegasus if AirBerlin's shareholding in Izair is reduced to its initial level due to the result of non-controlling shareholder lawsuits resulting from capital increase and decrease in 2010 and 2011 (see Note 15). Under these put options, the Group would be required to repurchase the shares at the consideration paid by AirBerlin at the time of its initial acquisition of shares on 4 September 2012 plus the net change in the net assets of Izair between this date and the date the put option is exercised.

Pegasus further provided a call option to AirBerlin as part of the capital increase and amendments to the articles of association approved on 27 March 2013. The call option, exercisable within one year as of the date of Izair's scheduled AOC which is 14 November 2013, allows AirBerlin to restore its shareholding in Izair to the level prior to the capital increase dated 27 March 2013 by purchasing the necessary amount of shares from Pegasus. In the event of exercise of this option, AirBerlin will be required to pay the nominal value of the shares purchased from Pegasus plus the net change in the net assets of Izair between 31 March 2013 and the last day of the month during which the transfer of shares subject to call option is consummated. In accordance with the agreement between Pegasus and AirBerlin, AirBerlin must inform Pegasus of its decision to exercise the call option by 14 August 2013. If the call option is exercised, it is expected that the joint flight operations under the AirBerlin Turkey brand will recommence as of the beginning of the 2015 IATA summer season (starting from April 2015) and that Izair will be deconsolidated as of the date the shares subject to the call option are transferred to AirBerlin.

The shareholders and their respective holdings in the Company as of 31 December 2013 and 2012 are as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Esas Holding A.Ş. ("Esas Holding")	62,92%	96,50%
Publicly held	34,51%	-
Sabancı Family Members	2,57%	3,50%
Total	100,00%	100,00%

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

The Group's total number of full time employees as of 31 December 2013 is 3.105 (31 December 2012: 2.045). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtköy-Pendik İstanbul.

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 December 2013 and delegated authority for publishing it on 4 March 2014. General shareholders' meeting has the authority to modify the financial statements.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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/IFRS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

Also, the financial statements and its notes are presented in accordance with the disclosure requirements as announced by the CMB's statement on 7 June 2013.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. The accompanying 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

The Euro is the functional currency of the entities that comprise the Group as it is the currency in which the operations are primarily transacted. Presentation currency of the Group's financial statements is Turkish Lira ("TL"). Financial Statements have been translated from Euro 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 Turkish Republic ("TCMB") Euro buying rate prevailing at the balance sheet date; 31 December 2013: 1 Euro (€) = 2,9365 TL (31 December 2012: 1 Euro (€) = 2,3517 TL)
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions.

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 31 December 2013 and 2012:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership interest and proportion of voting power held</u>		<u>Country of Registration</u>
		<u>31 December 2013</u>	<u>31 December 2012</u>	
IHY İzmir Havayolları A.Ş. ("İzair")	Air transportation	69%	51%	Turkey
Air Manas	Air transportation	49%	49%	Kyrgyzstan
İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.Ş. ("İzmirliiler Otelcilik")	Hotel-gas station administration	59%	59%	Turkey

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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(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 (cont'd)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013**

(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)

Associates and Joint Ventures

The table below sets out affiliates and indicates the proportion of ownership interest of the Company in these affiliates as of 31 December 2013:

<u>Name of the Company</u>	<u>Country of Registration and Operations</u>	<u>Ownership Rate</u>	<u>Voting Power</u>	<u>Principal Activity</u>
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Turkey	49%	49%	Simulator Training

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with TFRS 5. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or a joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

2.1 Basis of Presentation (cont'd)

Associates and Joint Ventures (cont'd)

The requirements of TAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with TAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with TAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with TAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

2.2 Changes in Accounting Policies

Significant changes in the accounting policies are applied retrospectively and prior period financial statements are restated.

2.3 Changes in Accounting Estimates and Errors

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period.

In the current year, the Group revised and changed the useful lives and residual values of airframe, engine and engine LLPs of leased aircraft and estimated redelivery costs of operational lease aircraft, as statistical information is available. As a result of these changes, depreciation expenses in cost of sale increased by TL 14.903.975, maintenance expenses increased by TL 6.066.075, deferred tax expense decreased by TL 4.194.010, net profit for the year decreased by TL 16.776.040 and earnings per share decreased by TL 0,179 in the consolidated financial statements for the year ended 31 December 2013.

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

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

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

The following amendments to TAS have been applied in the current year and have affected the amounts reported in these consolidated financial statements.

Amendments to TAS 1 Presentation of Items of Other Comprehensive Income

The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to TAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to TAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to TAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to TAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

TFRS 10 Consolidated Financial Statements

TFRS 10 replaces the parts of TAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of TFRS 10. Under TFRS 10, there is only one basis for consolidation, that is control. In addition, TFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in TFRS 10 to deal with complex scenarios.

The Group has evaluated the control power over İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.Ş. based on TFRS 10, and reclassified it as a subsidiary and included in consolidation line by line method starting from January 1, 2013. Since the transaction has no material effect on the financial statements, the financial statement of the prior period has been restated.

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

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

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

TAS 27 (2011) Consolidated and Seperate Financial Statements

TAS 28 (2011) Interests in Associates and Joint Ventures

TFRS 11 – TAS 31 Interests in Joint Ventures

TFRS 12 Disclosure of Interests in Other Entities

TAS 19 Employee Benefits

Amendments to TFRS 7 Offsetting Financial Assets and Financial Liabilities and the Related Disclosures

TFRS 13 Fair Value Measurement

Amendments to TAS 1 Presentation of Financial Statements
(as part of the Annual Improvements to TFRSs 2009-2011 Cycle issued in May 2012)

Amendments to TAS 16 Property, Plant and Equipment;

Amendments to TAS 32 Financial Instruments: Presentation

Amendments to TAS 34 Interim Financial Reporting.

TFRS Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

(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>
Amendments to TAS 32	<i>Offsetting Financial Assets and Financial Liabilities¹</i>
Amendments to TFRS 10, 11, TAS 27	<i>Investment Entities¹</i>
Amendments to TAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets¹</i>
Amendments to TAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting¹</i>
TFRS Interpretation 21	<i>Levies¹</i>

¹ Effective for annual periods beginning on or after 1 January 2014.

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

2.5 Summary of Significant Accounting Policies

Revenue

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

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

The Group also receives interest income, which is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Pegasus Card and Pegasus Plus loyalty program

Pegasus Card

The Company started the Pegasus branded credit card ("Pegasus Card") program in cooperation with a bank in 2008. The holders of Pegasus Card earn and accumulate flight points for both ticket and non-ticket purchases each time they use the Pegasus Card.

If the points are earned by ticket purchases, the flight points are provided by Pegasus and recognized as a separately identifiable component of the sales transaction and measured at fair value. They are recorded as "flight liability from flight points" initially and recognized as revenue when the flight points are used. The nominal amount of the points earned approximates the fair value of the points, because 1 Flight Point = TL 1. Flight points can be redeemed at the purchase of flight tickets at minimum TL 5.

If the points are earned through non-ticket purchases, the bank funds the cost of the points through a payment to the Group. The Group defers this revenue, which it records as "flight liability from flight points" and recognizes the revenue when the points are used by the customer. Award points are valid for at least two years and expire at the last day of the second calendar year. Unused points are recognized as income based on historic usage.

Pegasus Plus loyalty program

The Group launched a new loyalty program in 2011, Pegasus Plus, which is integrated with the Pegasus Card. For each purchase of a ticket on a Pegasus flight and additional services such as excess luggage, pre-ordered meal or seat selection, customers receive 2% of the purchase price of the ticket and any additional services as flight points. The nominal amount of the points earned approximates the fair value of the points, because 1 Flight Point = TL 1. Flight points can be redeemed at the purchase of flight tickets at minimum TL 5. Flight points granted are recorded as "flight liability from flight points" initially and recognized in the statement of profit or loss when used. Award points are valid for at least two years and expire at the last day of the second calendar year. Unused points are recognized as income based on historic usage.

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(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Inventories

Inventories are composed of supplies, spares, catering stocks and other stocks and they are valued at the lower of cost or net realizable value.

Tangible assets

Tangible assets are carried at historical costs less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised over their estimated useful lives, less their residual values using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Group allocates the cost of an acquired aircraft to its service potential reflecting the maintenance condition of its engines and airframe. This cost, which can equate to a substantial element of the total aircraft cost, is depreciated over the shorter of the period to the next maintenance check or the remaining life of the aircraft. The costs of subsequent major airframe and engine maintenance checks are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

All significant components and repairable are accounted separately and depreciated over their estimated useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Acquired trademark, brands and licenses are shown at historical cost. Trademarks, brands and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives. The estimated useful life of the İzair brand is 20 years. The acquired software has a 5 year useful life.

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(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TFRS.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its aircraft to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The fleet has been determined as the lowest level cash generating unit and analysed for impairment accordingly. For determination of recoverable amounts the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used. Net selling price for the aircraft is determined according to second hand prices in international price guides.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There are no qualifying assets during the years ended 31 December 2013, and 2012 therefore no borrowing costs were capitalized during the years ended 31 December 2013, and 2012. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Maintenance and repair costs and maintenance reserve contribution receivables

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned and financial leased aircraft is described in the accounting policy for tangible assets.

For aircraft held under operating lease agreements, the Group pays monthly supplemental amount called "Maintenance Reserve Contribution" to operating lease companies with respect to heavy maintenance expenditures. This reserve contribution is calculated based on the actual flight hours or the actual number of landings of the aircraft. These maintenance reserve payments are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term. However, when the Group incurs such heavy maintenance expenditures on behalf of the operating lease company, it claims these costs back and recognise an agreed maintenance reserve contribution receivable until it is collected. All other maintenance and repair costs are expensed as incurred.

Redelivery provision

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year.

The Group has entered into operating lease agreements with operating lease companies where the Group has transferred its right to buy the new aircraft and it is liable to perform the heavy maintenance expenditures after the end of the lease term (8 years). The total maintenance reserve has been estimated by Group management in line with the estimates used in the componentisation of the acquired aircraft and they are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term.

Taxation and deferred income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Taxation and deferred income taxes (cont'd)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised in the statement of profit or loss or directly to equity, in which case current and deferred tax are also recognized in other the statement of profit or loss or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Investment Incentives

The Turkish government has an investment incentive program which became effective upon the issuance of the Council of Ministers' resolution "Government Assistance for Investments" No:2009/15199 ("Incentive Program") on 14 July 2009.

The Incentive Program aims to provide support to companies which make investments by providing a credit against taxable income related to those investments. The amount of credit is determined based on a "contribution rate" in the Incentive Program. An entity must obtain an investment certificate related to the associated incentives.

The Company obtained incentive certificates from the Undersecretariat of Treasury on 21 March 2011 for 11 aircraft delivered between years 2011-2012 and for 1 aircraft delivered in 2013 on 25 December 2013. According to the incentive certificate the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of these aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 10% instead of 20%) taxable income attributable to the operation of these aircraft. As the Company did not have any taxable profits during the year ended 31 December 2013 and 2012 it has not recognized any benefit associated with the Incentive Program.

When recognized, the Company management considers that the accounting for the related investment assistance will be classified as deferred income which is recognized as income on a consistent basis over the useful life of the related assets.

Employee benefits

Termination benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation. In consideration of the calculated actuarial gains and losses are immaterial, it is accounted under the statement of profit or loss.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Employee benefits (cont'd)

Employee bonus plan

The Group recognizes a liability and an expense for employee bonus, based on current year performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Executive bonus plan

The Group recognizes a liability and an expense for executive bonus plan, based on a formula that takes into consideration the budget compared to actual performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Foreign currency transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Based on the nature of the Group's business, there are various transactions entered into that are in currencies other than the functional currency. In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognized either as finance income or finance costs in the period in which they arise.

Leasing - the Company as Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Leasing - the Company as Lessee (cont'd)

The Group enters into sale and leaseback transactions that result in operating leases. If the sale price in the leaseback transaction is equal to the fair value any profit or loss on sale are recognised immediately as other income/expense. If the sale price is above the fair value, the difference between fair value and the carrying amount is recognised immediately but the excess of proceeds over fair value is deferred and amortised over the period for which the asset is expected to be used. If the sale price is below the fair value, the loss may be deferred and amortised in proportion to the rent payments over the period for which the asset is expected to be used.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and advances on aircraft purchases) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For loans and receivables, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The Group's cash and cash equivalents are classified under the category of "Loans and Receivables".

Financial liabilities

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial liabilities (cont'd)

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the statement of profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group is exposed to foreign exchange risk through the impact of currency rate changes on translation into the Euro of its foreign currency denominated assets and liabilities and non-Euro denominated currency transactions. To monitor the risk, the Group enters into forward transactions where to Group is liable to pay a certain amount of Euro and receive a certain amount of foreign currency (mainly US Dollars) at a specified date. Since most of these forward transactions do not qualify for hedge accounting under the specific provisions of TAS 39, the change in the fair value of these derivative financial assets are recognized immediately in profit or loss.

Fuel costs which are predominantly determined in US Dollars constitute a substantial portion of the Group's cost base. The Group enters into forward transactions with financial institutions based on acquisition of jet fuel or Brent oil on specified prices. These commodity forward transactions qualify for hedge accounting and they are accounted as cash flow hedges under equity as at 31 December 2013 and 2012.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as using the basis of recent market transactions on arm's length terms, using the fair value of similar financial instruments and using discounted cash flow analysis (Note 29).

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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

2.5 Summary of Significant Accounting Policies (cont'd)

Events after the balance sheet date

Events after the reporting period comprise any event between the balance sheet date and the date of authorization of the financial statements, even if the event after balance sheet date occurred subsequent to an announcement on the Group's profit or following any financial information that are released.

In the case of events requiring adjustments, the Group adjusts the amounts recognized in its financial statements to reflect the events. For non-adjusting events, disclosure is made in the notes to the financial statements.

Contingent liabilities and contingent assets

Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group's contingent liabilities are probable but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes to the financial statements.

Earnings per Share

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to shareholders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

Cash flow Statement

Cash flows for the period are classified and presented as operating, investing and financing activities in the cash flow statement.

Cash flows from operating activities present cash generated from the Group's airline operation.

Cash flows from investing activities present cash used in, generated from investing activities (Capital investments and financial investments) of the Group.

Cash flows from financing activities present the funds used in financing operations and repayment regarding these operations.

Cash and cash equivalents are short term investments that are cash on hand, demand deposits, time deposits of with maturities not exceeding three months from purchase date and free of detoration of value with high liquidity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

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

2.5 Summary of Significant Accounting Policies (cont'd)

Capital and Dividends

Common shares are classified as equity. Dividends distributed over common shares are accounted by deduction from retained earnings in the period decision for dividend payment is undertaken.

2.6 Critical accounting estimates and assumptions

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. The Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations. Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period were given below:

Useful lives and residual values of tangible assets and aircraft

The Group has allocated depreciation over tangible assets by taking into consideration the useful lives and residual values which were explained in Note 13. While determining estimated useful lives and residual values, the Group makes estimations and assumptions by taking past experience and business plans into consideration.

Income taxes

The Group recognizes deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. Based on the available evidence, it is the Group's belief that sufficient taxable profit will be available to utilize these deferred tax assets as at 31 December 2013.

Redelivery provision

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year. The provision also incorporates management expectation on the cost of the maintenance and component compensation at the time of the redelivery.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

(Amounts are expressed in TL unless otherwise stated.)

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

2.6 Critical accounting estimates and assumptions (cont'd)

Litigation provisions

The Group, within its normal course of business, is party to various lawsuits, fines and claims that have been filed against it. These lawsuits and fines have been evaluated by the Group's management and provisions are provided where necessary. The Group has provided a provision at an amount of TL 1.303.682 as of 31 December 2013 (Note 15).

Tax Audit

During 2012 The Inspection Officers of Ministry of Finance has audited the accounts and transactions of the Company for 2009, 2010, 2011 and until January 2012. The tax auditor has challenged the applied VAT tax rates remitted on behalf of the non-resident aircraft lessor company that is party the Company's finance lease structure and has penalised Pegasus for a liability of TL 30.872.430 and an additional tax penalty of TL 46.308.645.

The Group has obtained opinions from legal advisers and tax experts. The Group also evaluated the private rulings issued by the Revenue Administration of Republic of Turkey which confirms the rates promulgated by Cabinet Decrees that the Group has applied. Based on the opinions of the tax experts and the evaluation of the rulings, the Group concluded that the payment is not probable including the period which is not inspected and has not provided for this contingent liability. (Note 15)

Company's accounts and tax returns pertaining to year 2010 have been audited in accordance with Turkish Tax Code; 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 have been issued to the Company.

It is believed that as a result of the said lawsuits filed for the reports mentioned above, the principal and any fines and penalty interest are anticipated by the management to be dismissed in the court of law. Therefore, in parallel to the opinions of the Company's lawyers as well as tax advisors, no provision has been provided on the accompanied consolidated financial statements, including the period not inspected.

Fair value of derivatives and other financial instruments

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date.

NOTE 3 - SEGMENTAL INFORMATION

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 made 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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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Cash on hand	129.535	75.657
Cash at banks	877.272.136	210.074.581
- Demand deposits	36.274.682	24.779.531
- Time deposits	840.997.454	185.295.050
	877.401.671	210.150.238

Exposure to interest rate risk and a sensitivity analysis for cash and cash equivalents are disclosed in Note 28.

The effective interest rates of denominated time deposits are as presented below.

31 December 2013	Effective interest rates	Total
TL deposits	9,25%	723.549.539
USD deposits	2,81%	104.233.665
EUR deposits	2,40%	13.214.250
		840.997.454

31 December 2012	Effective interest rates	Total
TL deposits	7,68%	140.210.693
USD deposits	3,96%	31.914.189
Euro deposits	1,80%	13.170.168
		185.295.050

All of the time deposits as of 31 December 2013 and 2012 mature within 45 days.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2013		31 December 2012	
	Assets	Liabilities	Assets	Liabilities
Fair value of derivative instruments (Note 29)	25.401.932	10.939.103	14.898.232	3.006.145
	25.401.932	10.939.103	14.898.232	3.006.145

NOTE 6 - FINANCIAL LIABILITIES

The details of financial liabilities as of 31 December 2013 and 2012 are as follows:

Short term financial liabilities	31 December 2013	31 December 2012
Short term bank borrowings	3.980.899	50.722.463
Short term portion of long term finance lease obligations	181.171.887	135.232.251
	185.152.786	185.954.714
Long term financial liabilities	31 December 2013	31 December 2012
Long term finance lease obligations	1.441.206.556	1.240.919.331
	1.441.206.556	1.240.919.331

Fair value of the Group's financial liabilities approximates their book value.

The effective interest rates, original currency and TL equivalents of the borrowings as of 31 December 2013 and 2012 are as follows:

31 December 2013

	Weighted average effective interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	0,00 (*)	TL	3.980.899	3.980.899
Total loans				3.980.899

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

NOTE 6 - FINANCIAL LIABILITIES (cont'd)

31 December 2012

	Weighted average effective interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	5,00	EUR	20.400.000	47.974.680
	0,00 (*)	TL	2.747.783	2.747.783
Total loans				50.722.463

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

All of the short term bank borrowings as of 31 December 2012 bear interest at fixed rates.

The details of financial lease obligations as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Less than a year	191.326.331	141.385.690
Between 1 - 5 years	749.158.042	582.282.296
Over 5 years	733.864.601	705.874.234
	1.674.348.974	1.429.542.220
Less: Future interest expenses	(51.970.531)	(53.390.638)
	1.622.378.443	1.376.151.582

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

	31 December 2013	31 December 2012
Less than a year	181.171.887	135.232.251
Between 1 - 5 years	719.090.090	552.291.771
Over 5 years	722.116.466	688.627.560
	1.622.378.443	1.376.151.582

The Group purchases certain of its aircraft through finance lease arrangements. The average lease term is 12 years. For the period ended 31 December 2013, the floating interest rate applicable to Euro-denominated lease obligations is 0,62% (31 December 2012: 0,58%) and the floating rate applicable to US Dollar-denominated lease obligations is 0,54% (31 December 2012: 0,82%).

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FOR THE PERIOD ENDED 31 DECEMBER 2013**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 6 - FINANCIAL LIABILITIES (cont'd)

The Group's obligations under finance leases of aircraft are guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank").

The aircraft manufacturer, the Group, the lender, Ex-Im Bank, Special Purpose Vehicle Company ("SPV") and orphan trust which managed the SPV and a security trustee with whom the orphan trusts securities are pledged enter into a Participation Agreement to structure the financing deal. The Lender enters into a commitment with the Group and loan documentation with a SPV as borrower, owner and lessor. The SPV draws down the loan from lender and purchases the aircraft from Boeing on the delivery date. The equity interests in the SPV are indirectly beneficially owned by an unrelated orphan trust which in turn its shares are pledged to a security trustee in favor of Ex-Im Bank.

The Group indemnifies the SPV against all of their obligations under the finance lease, with Esas Holding providing a guarantee for the full obligation.

All Ex-Im Bank supported credit facilities also contain cross-default and cross-collateralization provisions. These provisions provide for mandatory pre-payment of Ex-Im Bank guaranteed loans (without penalties, but with applicable breakage costs) in the event of total loss or seizure of any of the Group's aircraft in the event of default which had not been cured or equivalent events affecting the aircraft, including the sale or disposal of such aircraft before the pay down of the debt to lender and extinguishment of US Ex-Im Bank guarantee. The termination of Esas Holding's ownership of the Group may also result in the acceleration of the finance leases. Additionally, Ex-Im Bank documentation governing these guaranteed loans also imposes restrictive covenants on the SPV in respect of their liabilities and the nature of their business and a restriction on other pledges of interests on the aircraft and other assets of the SPV, and imposes on the Group a restriction on mergers, consolidations and sale of substantially all of the Group's assets.

In respect of the aircraft purchased by the Group through financial lease without using US Ex-Im guarantee, the same method of finance is used as in under US Ex-Im structure only to the extent that all rights on SPV as the proprietor of the aircraft are pledged by the bank providing the financing.

There are no guarantees provided by Esas Holding in connection with the subject matter aircraft.

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Short Term Trade Receivables

The details of short term trade receivables as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Trade receivables	46.286.707	39.090.468
Credit card receivables	145.128.195	5.678.335
Income accruals	1.761.827	2.113.993
	193.176.729	46.882.796
Less: Allowance for doubtful receivables	(1.785.063)	(2.897.443)
	191.391.666	43.985.353

The average credit period on sales of services is approximately 23 days (31 December 2012: 19 days).

The movement of provision for doubtful receivables for the years ended 31 December 2013 and 2012 is as follows:

	1 January - 31 December 2013	1 January - 31 December 2012
1 January	2.897.443	3.192.012
Disposal of subsidiary	-	(26.992)
Charge for the year	804.451	131.937
Collections and reversal of provision	(2.685.197)	(282.924)
Currency translation differences	768.366	(116.590)
31 December	1.785.063	2.897.443

Risk related to trade receivables is disclosed in Note 28.

Short Term Trade Payables

The details of short term trade payables as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Trade payables	130.997.834	85.059.227
Accrued direct operational costs	30.696.256	32.092.227
Other expense accruals	5.485.163	9.019.172
Due to related parties (Note 27)	115.571	3.479.348
	167.294.824	129.649.974

The average credit period on sales of services is approximately 27 days (31 December 2012: 28 days).

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NOTE 8 - OTHER RECEIVABLES AND PAYABLES

Short Term Other Receivables

	31 December 2013	31 December 2012
Incentive receivables from suppliers (*)	22.841.484	18.681.961
Maintenance reserve		
contribution receivables	7.239.050	9.406.798
Deposits given	5.387.632	1.862.817
Due from related parties (Note 27)	-	198.076
Other receivables	6.807.450	4.438.685
Less: Allowance for doubtful receivables	(1.749.931)	-
	40.525.685	34.588.337

The movement of provision for doubtful other receivables for the years ended 31 December 2013 and 2012 is as follows:

	1 January - 31 December 2013	1 January - 31 December 2012
1 January	-	-
Charge for the year	1.506.063	-
Currency translation differences	243.868	-
31 December	1.749.931	-

Long Term Other Receivables

	31 December 2013	31 December 2012
Incentive receivables from suppliers (*)	53.149.950	40.109.509
Deposits given	13.927.145	3.070.749
Other receivables	8.184	232.658
	67.085.279	43.412.916

(*) Incentive receivables are accounted under statement of profit or loss in connection with the accounting of related costs.

Short Term Other Payables

	31 December 2013	31 December 2012
Deposits received	11.192.787	616.762
Taxes payable	5.886.997	6.210.329
	17.079.784	6.827.091

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NOTE 9 - PREPAID EXPENSES

Short term prepaid expenses

	31 December 2013	31 December 2012
Advances given to suppliers	15.010.872	16.789.339
Prepaid aircraft operating lease expense	8.896.859	6.679.399
Prepaid insurance expense	7.558.557	6.258.255
Prepaid taxes and funds	6.242.744	466.241
Prepaid advertising expense	2.577.188	2.053.827
Other prepaid expenses	828.889	1.359.668
	41.115.109	33.606.729

Long term prepaid expenses

	31 December 2013	31 December 2012
Advances given for aircraft purchases	98.006.204	89.263.443
Other prepaid expenses	163.966	162.146
	98.170.170	89.425.589

NOTE 10 - DEFERRED REVENUE

Short term deferred revenue

	31 December 2013	31 December 2012
Passenger flight liabilities (*)	217.820.400	151.197.500
Advances received from customers	15.268.074	8.091.932
Deferred revenue from sale of subsidiary (**)	14.836.281	11.881.653
Other deferred revenue	330.000	-
	248.254.755	171.171.085

(*) Details of passenger flight liabilities are presented below.

(**) Deferred revenue from sale of subsidiary interest is composed of consideration received from AirBerlin with regard to the sale of İzair shares. The Group management has not recognized the consideration as income due to the call option of AirBerlin as described at Note 1.

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NOTE 10 - DEFERRED REVENUE (cont'd)

The details of passenger flight liabilities as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Flight liability from ticket sales	150.852.035	98.399.265
Passenger airport fees received from customers	42.162.767	25.689.738
Flight liability from flight points	24.805.598	27.108.497
	217.820.400	151.197.500

Long term deferred revenue

	31 December 2013	31 December 2012
Deferred revenue	6.423.264	1.546.783
	6.423.264	1.546.783

NOTE 11 - INVENTORIES

	31 December 2013	31 December 2012
Consumables, spare parts and other inventory	3.747.172	1.693.819
Catering inventory	288.497	188.773
	4.035.669	1.882.592

NOTE 12 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	31 December 2013	31 December 2012
Joint ventures		
Pegasus Uçuş Eğitim Merkezi A.Ş.	1.376.792	379.771
Associates		
İzmirliler Otelcilik A.Ş.	-	1.132.440
KPA LLC.(*)	-	69.141
Impairment provision	-	(69.141)
	1.376.792	1.512.211

(*) KPA LLC was not consolidated as its effects on the Group's net profit, financial position and related generated results are immaterial and according to decision of the Group's management, an impairment provision was provided.

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NOTE 12 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

Total (loss)/profit from investments accounted for using the equity method is as follows:

	1 January - 31 December 2013	1 January - 31 December 2012
İzair (*)	(1.292.307)	(2.628.508)
Pegasus Uçuş Eğitim Merkezi A.Ş.	776.760	(96.296)
İzmirliiler Otelcilik A.Ş.	-	1.210.814
Net loss	(515.547)	(1.513.990)

(*) Amount is due from the period Izair had been accounted using the equity method before 1 April 2013.

The summary financial information of the subsidiary accounted for using equity method is as follows:

Pegasus Uçuş Eğitim Merkezi A.Ş.

	31 December 2013	31 December 2012
Total assets	17.716.173	13.998.733
Total liabilities	(14.929.145)	(13.229.965)
Net assets	2.787.028	768.768
Ownership interest	49,40%	49,40%
The Group's share in net assets	1.376.792	379.771

	2013	2012
Revenue	5.206.380	3.219.545
Net Income / (Loss)	1.572.389	(194.931)
Ownership interest	49,40%	49,40%
The Group's share in net profit / (loss)	776.760	(96.296)

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NOTE 13 - PROPERTY AND EQUIPMENT

31 December 2013	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components and repairables	Owned and leased aircraft	Construction in progress	Total
Cost:								
Opening	1,308.815	4,565.586	21,327.972	12,427.509	21,992.362	1,981.499.673	-	2,043,121,917
Addition of subsidiary	156.697	99.145	1,175.960	2,995.189	2,275.307	-	-	6,702,298
Additions	297.089	1,048.042	7,476.218	2,220.086	12,489.459	93,160.575	2,975.003	119,666,472
Disposals	(49.516)	-	-	-	(1,381.264)	-	-	(1,430,780)
Currency translation differences	392.890	1,317.274	6,789.327	3,706.890	7,873.404	484,245,981	-	504,325,766
Closing	2,105,975	7,030,047	36,769,477	21,349,674	43,249,268	2,558,906,229	2,975,003	2,672,385,673
Accumulated depreciation:								
Opening	(896.053)	(1,466.777)	(10,961.339)	(4,722.131)	(14,344.305)	(280,413,790)	-	(312,804,395)
Addition of subsidiary	(153.321)	(66.606)	(886.062)	(1,940.840)	(2,216.246)	-	-	(5,263,075)
Depreciation for the year	(163.329)	(755.699)	(3,112.128)	(2,340.595)	(2,045.397)	(125,777,093)	-	(134,194,241)
Disposals	10,545	-	-	-	914,149	-	-	924,694
Impairment provision (*)	-	-	-	-	-	(11,545,649)	-	(11,545,649)
Currency translation differences	(286.944)	(498,895)	(3,444,203)	(1,767,687)	(4,340,442)	(78,536,893)	-	(88,875,064)
Closing	(1,489,102)	(2,787,977)	(18,403,732)	(10,771,253)	(22,032,241)	(496,273,425)	-	(551,757,730)
Net book value	616,873	4,242,070	18,365,745	10,578,421	21,217,027	2,062,632,804	2,975,003	2,120,627,943

(*) Pegasus Hava Taşımacılığı A.Ş., has taken the decision to sell its owned Boeing 737-400 type aircraft to its subsidiary Air Manas and the contract regarding the sale of the respective aircraft was mutually signed on 26 September 2013. Sales amount has been determined based on an expert appraisal analysis and the negative difference between the book value and the selling price generated from the sales transaction, has been recorded as impairment provision.

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NOTE 13 - PROPERTY AND EQUIPMENT (cont'd)

31 December 2012	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components and repairables	Owned and leased aircraft	Total
Cost:							
Opening	1.500.241	3.471.523	17.184.579	6.990.104	25.312.410	1.578.680.920	1.633.139.777
Disposal of subsidiary	(151.723)	(72.031)	(1.090.311)	(1.031.265)	(2.397.791)	-	(4.743.121)
Additions	10.897	1.617.260	5.705.853	6.559.451	2.832.191	453.073.524	469.799.176
Disposals	-	(348.916)	(4.644)	-	(2.889.689)	-	(3.243.249)
Currency translation differences	(50.600)	(102.250)	(467.505)	(90.781)	(864.759)	(50.254.771)	(51.830.666)
Closing	1.308.815	4.565.586	21.327.972	12.427.509	21.992.362	1.981.499.673	2.043.121.917
Accumulated depreciation:							
Opening	(928.238)	(1.212.677)	(9.822.133)	(4.778.477)	(15.659.411)	(188.035.239)	(220.436.175)
Disposal of subsidiary	123.062	33.966	695.547	996.447	2.073.677	-	3.922.699
Depreciation for the year	(118.799)	(493.819)	(2.135.216)	(1.060.994)	(1.889.953)	(97.476.845)	(103.175.626)
Disposals	-	167.976	58	-	644.772	-	812.806
Currency translation differences	27.922	37.777	300.405	120.893	486.610	5.098.294	6.071.901
Closing	(896.053)	(1.466.777)	(10.961.339)	(4.722.131)	(14.344.305)	(280.413.790)	(312.804.395)
Net book value	412.762	3.098.809	10.366.633	7.705.378	7.648.057	1.701.085.883	1.730.317.522

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NOTE 13 - PROPERTY AND EQUIPMENT (cont'd)

The useful lives of the depreciable assets are as follows:

	<u>Useful life</u>
Aircraft	23 years
Engine and Engine LLP's	8 years
Airframe and maintenance	7-8 years
Repairables and components	3-7 years
Machinery and equipment	7 years
Furniture and fixtures	7 years
Motor vehicles	5 years
Leasehold improvements	5 years or lease term

The Group has determined the residual value of the aircraft as 15% of current market value of a new aircraft in the same model.

Depreciation and amortisation expense charged to cost of sales, general administrative expenses, and marketing expenses is summarized below:

	2013	2012
Current year depreciation	134.194.241	103.175.626
Current year amortization (Note 14)	2.180.430	1.226.152
	136.374.671	104.401.778
	2013	2012
Cost of sales (Note 20)	128.068.719	99.366.795
General administrative expenses (Note 21)	6.716.520	4.027.991
Marketing expenses (Note 21)	1.589.432	1.006.992
	136.374.671	104.401.778

The Group leases various property, plant and equipment under non-cancellable finance lease agreements. The net carrying amount of each class of asset is as follows:

	31 December 2013	31 December 2012
Net carrying value of leased assets		
Aircraft	2.052.186.149	1.679.346.757

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NOTE 14 - INTANGIBLE ASSETS

31 December 2013	Brand	Software	Total
Cost:			
Opening	-	10.588.220	10.588.220
Addition of subsidiary	1.634.825	1.694.647	3.329.472
Additions	-	4.451.266	4.451.266
Currency translation differences	435.408	3.771.134	4.206.542
Closing	2.070.233	20.505.267	22.575.500
Accumulated amortization:			
Opening	-	(5.574.570)	(5.574.570)
Addition of subsidiary	(490.447)	(836.746)	(1.327.193)
Amortization for the year	(68.359)	(2.112.071)	(2.180.430)
Currency translation differences	(130.622)	(1.914.943)	(2.045.565)
Closing	(689.428)	(10.438.330)	(11.127.758)
Net book value	1.380.805	10.066.937	11.447.742
31 December 2012			
	Brand	Software	Total
Cost:			
Opening	1.722.879	9.186.839	10.909.718
Disposal of subsidiary	(1.722.879)	(1.640.693)	(3.363.572)
Additions	-	3.332.406	3.332.406
Currency translation differences	-	(290.332)	(290.332)
Closing	-	10.588.220	10.588.220
Accumulated amortization:			
Opening	(409.183)	(4.868.094)	(5.277.277)
Disposal of subsidiary	409.183	369.192	778.375
Amortization for the year	-	(1.226.152)	(1.226.152)
Currency translation differences	-	150.484	150.484
Closing	-	(5.574.570)	(5.574.570)
Net book value	-	5.013.650	5.013.650

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short term provisions

	31 December 2013	31 December 2012
Provision for litigation claims	1.303.682	995.188
Redelivery provision	921.067	3.510.519
Provision for penalty and compensation	8.608.683	-
	10.833.432	4.505.707

Long term provisions

	31 December 2013	31 December 2012
Redelivery provision	59.558.259	24.786.593
	59.558.259	24.786.593

Redelivery Provision

The detail of redelivery provision is as follows:

	31 December 2013	31 December 2012
Short term	921.067	3.510.519
Long term	59.558.259	24.786.593
	60.479.326	28.297.112

The movement of redelivery provision is as follows:

	2013	2012
1 January	28.297.112	29.017.577
Disposal of subsidiary	-	(10.778.764)
Addition of subsidiary	1.105.039	-
Charge for the year	25.729.880	12.739.780
Reversals / Utilisation	(4.788.002)	(2.024.248)
Currency translation differences	10.135.297	(657.233)
31 December	60.479.326	28.297.112

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Litigation

The movement of litigation provision is as follows:

	2013	2012
1 January	995.188	1.652.389
Disposal of subsidiary	-	(127.453)
Addition of subsidiary	84.825	-
Charge for the year	888.833	527.771
Payments	(412.268)	(437.306)
Reversal of provision	(252.896)	(620.213)
31 December	1.303.682	995.188

The Group is party to various lawsuits and claims that have been filed against it, which total TL 2.728.147 as of 31 December 2013 (31 December 2012: TL 3.211.251). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 1.303.682 (31 December 2012: TL 995.188) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist primarily of customer complaints and claims by the Group's former employees, in addition to which these lawsuits include a limited number of commercial claims for contractual payments or indemnity related to termination of contracts.

Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate fined the Group in the amount of TL 544.366 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 931.366. 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 reversal of the liquidation request in September 2011. The Customs Directorate later appealed the reversal decision of the tax court. As of 31 December 2013 both lawsuits are under the review of the Court of Appeals. The Group management believes that cash outflow is not probable and has not provided any provision for this fine.

Furthermore, a series of lawsuits have been filed by certain non-controlling shareholders of İzair requesting cancellation of the General Assembly decisions to increase İzair share capital from TL 15.500.000 to TL 52.500.000 at 30 April 2010, to decrease İzair share capital from TL 52.500.000 to TL 2.000.000 at 23 May 2011 and from TL 2.000.000 to TL 24.500.000 at 29 June 2011. These lawsuits have been dismissed by the relevant commercial courts in December 2013, May 2012 and October 2012, respectively. Following the plaintiffs' appeal, in October 2013, the Court of Appeals has dismissed the plaintiffs' claims regarding the capital increase dated 23 May 2011, while, as of 31 December 2013, the appeal relating to the capital increase dated 29 June 2011 is pending review of the Court of Appeals and the lawsuit relating to the capital increase dated 30 April 2010, dismissed by the court of first instance, may be subject to appeal by the plaintiffs. The Group management believes that cash outflow is not probable and has not provided any provision for this fine.

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax audit

The Auditors of Ministry of Finance have audited the accounts and transactions of the Company for 2009, 2010, 2011 and until January 2012. As a result of this audit, the tax auditor has challenged the VAT tax remitted on behalf of the non-resident aircraft lessor company that is party to the Company's finance lease structure. The VAT rates applied by the Group were based on the rates promulgated by Cabinet Decrees which are as follows:

- VAT rate in Financial Leasing for Period of 1 August 2002 – 30 December 2007 is 1% (as promulgated by Cabinet Decree 2002/4480)
- VAT rate in Financial Leasing for Period of 31 December 2007-31 July 2008 is 18% (as promulgated by Cabinet Decree 2007/13033)
- VAT rate in Financial Leasing for Period after 1 August 2008 is 1% (as promulgated by Cabinet Decree 2008/13902)

The tax auditors have 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 auditors have challenged the applicability of the Cabinet Decree to the Group's transactions.

On the hand, in order to mitigate any risk associated with future periods, the Group has begun to apply the 18% VAT rate from December 2012 and had filed the monthly VAT Tax Return "with objection" with the Tax Authorities based on the 18% rate and filed a lawsuit against Istanbul Tax Courts for the cancellation of the difference of 17%. The application 18% VAT on behalf of the non-resident aircraft lessors are deductible from the Group's VAT liability, hence does not create any additional cash outflow. This allows the Group to avoid any future penalties in the very unlikely event, that the Company does not prevail in the court of law.

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 an individual circular order, which has been given to a taxpayer dated 21.05.2013 and number 64597866-130 [28-2013]- 74. The aforesaid individual circular order includes an opinion that, with reference to the aircraft leasing transactions executed via financial leasing abroad, the ratio of the value added tax to be calculated over the financial leasing amount shall be 1%, pursuant to the decree nr.2007/13033. The opinion, which has been made available to public by this individual circular order is clear and according to this individual circular order, based on the official view of the Revenues Administration, the ratio of the value added tax to be calculated for the aircraft leasing transactions is 1%.

In addition to the above individual circular, Revenue Administration published another ruling number 64597866-130[28-2013]-93 dated 08.07.2013 indicating that aircraft financial leasing transactions from abroad shall be applied a 1% VAT rate in accordance with the same decree above. The management believes that the opinion is clear and the VAT rate to be applied for aircraft financial leasing transactions is 1%.

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax audit (cont'd)

General communiqué of the Tax Law Procedure (Row nr.425) has been issued in the Official Gazette number 28600 dated 27.03.2013. According to this communiqué, Tax Inspection Reports Review Commissions of the Ministry of Finance shall conform to the individual circular orders given by the Directorate General of Revenues. While reviewing the reports in accordance with the conformity criterion to individual circular orders, the Reports Review Commissions shall consider other relevant/similar individual circular orders given by the Directorate General of Revenues and shall not be limited only to the report the individual circular order issued in the taxpayer's name (if any). The Reports Review Commissions shall make their assessments for the conformity criterion to the individual circular orders given to the taxpayer and also other individual circular orders as described above.

Within the scope of considerations above that the Company filed in 2013 by filing declarations "with objection" regarding aircraft financial leasing transactions from abroad were withdrawn in January 2014 and VAT rate calculated over aircraft leasing was applied as 1% for December 2013 onwards.

Management believes that the Group acted in full compliance with the Cabinet Decrees of Republic of Turkey and intends to vigorously defend its position. Accordingly the Group has obtained opinions from legal advisers and tax experts. The Group also evaluated the private rulings issued by the Revenue Administration of Republic of Turkey which confirms the rates promulgated by Cabinet Decrees. Based on the opinions of the tax experts and the evaluation of the rulings, the Group has not provided for any provision in the accompanying consolidated financial statements.

Company's accounts and tax returns pertaining to year 2010 have been audited in accordance with Turkish Tax Code; 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 have been issued to the Company.

Under such Corporation Tax Inspection Report number 2013-B-228/3, it is allegedly stated that deducted portion in the 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.

The Major Taxpayers Tax Office that we are affiliated to the Company notified by basing on such Tax Inspection Report that Corporation Tax Return for Year 2010 is required to be corrected and 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.

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax audit (cont'd)

Under decrees of the 4th Department of the Supreme Court of State, dated 28.02.2007, numbers E:2006/2738 E., K:2007/610 and dated 31.03.2005, 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 our 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.

A lawsuit has been filed before Istanbul Taxation Courts with the legal time granted, for waiver of such accruals specified under the said Tax Inspection Reports and release of the fines charged. As alleged on the said Report, any financial leasing payments made to business entities with legal and principal place of business domiciled abroad are in the character of commercial income obtained by such companies, and according to Article 30 of Corporation Tax Law, such types of commercial income obtained in Turkey by those companies with legal and principal places of business domiciled abroad are not subject to corporation tax withholding. As a matter of fact, on such Judgment Number E:2008/1169 K:2009/438 Dated 17.02.2009 made by Istanbul 6th Taxation Court , it is expressed that rental amounts payable in relation to the aircraft leased are in commercial income character in terms of the companies at such countries, which are to be subjected to further taxation at their own countries, and thus making any deduction over the charges payable to the companies at the said countries would give rise to double taxation, and upon accepting the action, it is decided that the tax accrual so made is not lawful.

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax audit (cont'd)

Whereas yet another issue for criticism on the said report is with respect to failing to have been made any corporation tax withholding over such package computer software purchased by the Company in year 2010 from a business entity with legal and principal places of business domiciled abroad, and 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 its such capacity and in parallel to the relevant opinions of Company's legal advisors and taxation specialists, no provision has been provided therefor, including the period 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.

Based on the legal justifications of the action filed against the Corporation Tax Withholding Inspection Report, a lawsuit is filed by the Company before Istanbul Taxation Courts within the legal time granted, claiming revocation of value added tax in the total amount of TL 82.378,38 set forth to be accrued as per the relevant months of year 2010 on such Value Added Tax Withholding Report Number 2013-B-228/6, as well as fine for loss of tax in the total amount of TL 123.568 charged in connection with the foregoing amount.

It is believed that as a result of the said lawsuits filed for the reports mentioned above, the principal and any fines and penalty interest are anticipated by the management to be dismissed in the court of law. Therefore, in parallel to the opinions of the Company's lawyers as well as tax advisors, no provision has been provided on the accompanied consolidated financial statements, including the period not inspected.

NOTE 16 - COMMITMENTS

Purchase commitments

	31 December 2013	31 December 2012
Commitments to purchase aircraft	17.263.069.600	16.291.577.121
	17.263.069.600	16.291.577.121

As of 31 December 2013 the Group holds firm orders for 78 aircraft. The expected deliveries are: 1 aircraft in 2014, 2 aircraft in 2015, 7 aircraft in 2016, 5 aircraft in 2017, 10 aircraft in 2018, 14 aircraft in 2019, 13 aircraft in 2020, 13 aircraft in 2021, 13 aircraft in 2022. The purchase commitments for these aircraft were calculated based on their list prices and actual prices would be typically lower than the list prices.

The Group has provided advances on aircraft purchases amounting TL 98.006.204 (31 December 2012: TL 89.263.443) and the amount is reclassified under long term prepaid expenses.

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NOTE 16 - COMMITMENTS (cont'd)

The Company as Lessee

Operating lease agreements:

Payments recognised as expense:

	31 December 2013	31 December 2012
Minimum lease payments	116.137.080	84.761.760
	116.137.080	84.761.760

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

The non-cancellable operating lease liabilities as of 31 December 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Less than 1 year	149.922.590	68.153.772
Between 1 - 5 years	531.204.714	247.059.444
Over 5 years	159.064.094	90.856.996
	840.191.398	406.070.212

The non-cancellable lease agreements of İzmirliler Otelcilik due its obligation in relation to leased land of the General Directorate of State Airports Authority is as follows:

	31 December 2013	31 December 2012
Less than 1 year	185.143	185.143
Between 1 - 5 years	524.571	709.713
	709.714	894.856

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NOTE 16 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages("CPM")

The details of the CPMs given by the Group as of 31 December 2013 is as follows:

31 December 2013	TL Equivalent	USD	EUR	TL	Other (*)
A. Total amounts of CPM given on the behalf of its own legal entity					
-Collateral	238.401.730	91.190.323	6.617.026	20.281.479	4.825.455
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
-Collateral	20.671.500	5.000.000	-	10.000.000	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	7.846.754	-	-	-	-
-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	-	-	-	-	-
	266.919.984	96.190.323	6.617.026	30.281.479	4.825.455

(*) 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 other CPMs given by the Company constitute 0% of the Company's equity as of 31 December 2013.

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NOTE 16 - COMMITMENTS (cont'd)

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

The details of the CPMs given by the Group as of 31 December 2012 is as follows:

31 December 2012	TL Equivalent	USD	EUR	TL	Other (*)
A. Total amounts of CPM given on the behalf of its own legal entity					
-Collateral	143.345.633	63.263.651	5.812.716	14.814.986	2.087.099
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-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	-	-	-	-	-
	143.345.633	63.263.651	5.812.716	14.814.986	2.087.099

The other CPMs given by the Company constitute 0% of the Company's equity as of 31 December 2012.

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

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NOTE 17 - EMPLOYEE BENEFITS

Employee benefit obligations

The details of employee benefit obligations as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Social security premiums payable	3.909.281	2.750.148
Accrual of employee wages	2.896.475	2.165.949
	6.805.756	4.916.097

Short term provisions for employee benefits

The details of short term provisions for employee benefits as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Employee bonus plan	22.906.316	18.513.234
Unused vacation accrual	5.767.081	4.355.395
Executive bonus plan	2.190.629	1.175.850
	30.864.026	24.044.479

Long term provisions for employee benefits

The details of long term provisions for employee benefits as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Employee termination benefits	915.212	621.895
Executive bonus plan	5.103.637	3.527.550
	6.018.849	4.149.445

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NOTE 17 - EMPLOYEE BENEFITS (cont'd)

Executive bonus plan

The composition of executive bonus plan provision is as follows:

	31 December 2013	31 December 2012
Short term	2.190.629	1.175.850
Long term	5.103.637	3.527.550
	7.294.266	4.703.400

The movement of executive bonus plan provision is as follows:

	2013	2012
1 January	4.703.400	-
Charge for the year	2.889.516	4.703.400
Payment during the period / reversal of provisions	(1.159.450)	-
Currency translation differences	860.800	-
31 December	7.294.266	4.703.400

Employee bonus plan provision

The movement of employee bonus plan provision is as follows:

	2013	2012
1 January	18.513.234	-
Charge for the year	22.906.316	18.513.234
Payment during the year	(18.028.192)	-
Currency translation differences	(485.042)	-
31 December	22.906.316	18.513.234

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

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NOTE 17 - EMPLOYEE BENEFITS (cont'd)

Employee termination benefits

According to the articles of Turkish Labor Law in force, there is an obligation to pay legal employee termination benefits to each employee whose employment contracts are ended properly entitling them to receive employee termination benefits. Also, in accordance with the effective laws of the Social Insurance Act No:506 No: 2422 on 6 March 1981 and No: 4447 on 25 August 1999 and with the amended Article 60 of the related act, it is obliged to pay the employees their legal employee termination benefits, who are entitled to terminate. Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of TL 3.254,44 for each period of service at 31 December 2013 (31 December 2012: TL 3.033,98).

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2013, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6,00% (2012: 5,00%) and a discount rate of 8,97% (2012: 7,38%), resulting in a real discount rate of approximately 3,78% (2012: 2,27%) and anticipated turnover rate of 82,19% (2012: 89,5%). As the maximum liability is revised semi - annually, the maximum amount of TL 3.438,22 effective from 1 January 2014 has been taken into consideration in calculation of provision from employee termination benefits.

The movement of employee termination benefits is as follows:

	2013	2012
1 January	621.895	625.339
Disposal of subsidiary	-	(128.742)
Addition of subsidiary	151.517	-
Service cost	584.124	1.365.502
Interest cost	32.010	29.459
Retirement benefits paid	(474.334)	(1.269.663)
31 December	915.212	621.895

Service cost and interest expenses are recognized in payroll expenses. Calculated actuarial gains and losses are accounted under statement of profit or loss as they are immaterial.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18 - OTHER ASSETS AND LIABILITIES

Other current assets

The details of other current assets as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
VAT receivables	11.478.451	-
Other	143.840	217.666
	11.622.291	217.666

Other short term liabilities

The details of other short term liabilities as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Allowance for the loss from associates and joint ventures (*)	-	7.086.037
Other	372.921	914.433
	372.921	8.000.470

(*) The net liability of İzair as at 31 December 2012 has been recognized as an allowance for the loss from associates and joint ventures.

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NOTE 19 - CAPITAL

The Company's shareholding structure as of 31 December 2013 and 2012 is as follows:

Shareholders:	31 December 2013		31 December 2012	
	(%)	TL	(%)	TL
Esas Holding	62,92	64.353.570	96,50	72.375.570
Publicly held	34,51	35.294.000	-	-
Emine Kamışlı	0,86	874.810	1,17	874.810
Ali İsmail Sabancı	0,86	874.810	1,17	874.810
Kazım Köseoğlu	0,43	437.405	0,58	437.405
Can Köseoğlu	0,43	437.405	0,58	437.405
TL historic capital	100,0	102.272.000	100,0	75.000.000

The Company's share capital consists of 102.272.000 shares of par value TL 1 each. (31 December 2012: 75.000.000 shares).

Dividend Distribution

Shares of the Company has been started to be traded in İstanbul Stock Exchange ("ISE") since 26 April 2013, after the demand collection between the dates of 18-19 April 2013. Companies whose shares are traded at ISE are subject to the dividend rules determined by Capital Markets Board. At the end of all periods presented the Company has an accumulated loss in its accounts prepared in accordance with Turkish Tax Legislation and has no available funds for distribution.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 20 - SALES AND COST OF SALES

The details of sales and cost of sales as of the periods ended 31 December 2013 ve 2012 are as follows:

Sales:

	1 January- 31 December 2013	1 January- 31 December 2012
Scheduled flights	1.877.183.481	1.429.924.400
<i>International scheduled flights</i>	<i>1.096.836.854</i>	<i>807.313.588</i>
<i>Domestic scheduled flights</i>	<i>780.346.627</i>	<i>622.610.812</i>
Ancillary revenue	340.330.955	230.155.947
Charter flights	127.496.112	106.689.046
Other revenue	50.145.746	24.543.353
AirBerlin Turkey operation revenue	8.903.949	128.133.380
	2.404.060.243	1.919.446.126

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

	1 January- 31 December 2013	1 January- 31 December 2012
Domestic	780.346.627	622.610.812
Europe	928.933.809	680.485.177
Other	167.903.045	126.828.411
	1.877.183.481	1.429.924.400

Cost of sales:

	1 January- 31 December 2013	1 January- 31 December 2012
Jet fuel expenses	867.362.055	702.382.938
Personnel expenses	235.661.307	168.809.612
Handling fees	156.241.305	111.189.844
Navigation expenses	143.093.289	103.234.544
Depreciation and amortisation expenses	128.068.719	99.366.795
Operating lease expenses	116.137.080	84.761.760
Maintenance expenses	108.282.864	69.973.272
Landing expenses	60.404.747	39.721.507
Passenger service and catering expenses	25.242.525	20.061.038
Other expenses	101.306.472	63.376.899
AirBerlin Turkey operation cost of sales	11.744.456	137.909.700
	1.953.544.819	1.600.787.909

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 21 - MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

The details of marketing expenses and general administrative expenses as of the periods ended 31 December 2013 ve 2012 are as follows (there is no research & development expenses in the periods ended in respective dates):

Marketing expenses:

	1 January- 31 December 2013	1 January- 31 December 2012
Advertising expenses	47.967.919	36.845.431
Commission expenses	34.838.294	25.299.061
Personnel expenses	10.234.980	7.608.744
Call center expenses	7.817.024	7.383.975
Depreciation and amortisation expenses	1.589.432	1.006.992
Other expenses	2.642.037	2.209.786
	105.089.686	80.353.989

General administrative expenses:

	1 January- 31 December 2013	1 January- 31 December 2012
Personnel expenses	28.450.420	21.195.796
Rent expenses	7.765.159	4.589.543
Depreciation and amortisation expense	6.716.520	4.027.991
Travel expenses	4.634.031	3.733.317
IT expenses	4.220.829	2.973.074
Consultancy expenses	3.171.605	3.216.613
Legal and notary expenses	2.821.494	1.756.710
Office utility expenses	1.715.769	958.986
Communication expenses	1.640.775	1.534.744
Insurance expenses	892.544	670.951
Training expenses	660.515	469.503
Subscription expenses	622.114	428.102
Office repair expenses	407.060	308.067
Other expenses	6.057.409	4.387.032
	69.776.244	50.250.429

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NOTE 22 - OTHER OPERATING INCOME / EXPENSES

The details of other operating income/expenses as of the periods ended 31 December 2013 ve 2012 are as follows:

Other operating income:

	1 January- 31 December 2013	1 January- 31 December 2012
Income from sale and leaseback transactions	5.153.875	4.124.992
Foreign exchange gain from operating activities	-	8.859.138
Rent income	177.634	-
Discount cancellation income	-	379.802
Other income	1.157.390	1.214.771
	6.488.899	14.578.703

Other operating expenses:

	1 January- 31 December 2013	1 January- 31 December 2012
Foreign exchange loss from operating activities	1.115.873	-
Provision expense for impairment of fixed assets	11.545.649	-
Penalty and compensation expenses	7.247.500	453.710
Receivable discount expense	60.054	-
Doubtful receivable expense	2.310.514	131.937
Other expense	1.767.656	245.991
	24.047.246	831.638

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NOTE 23 - INCOME / EXPENSES FROM INVESTING ACTIVITIES

The details of other operating income/expenses as of the periods ended 31 December 2013 ve 2012 are as follows:

Income from investing activities:

	1 January- 31 December 2013	1 January- 31 December 2012
Other income	108.327	126.988
	108.327	126.988

Expenses from investing activities:

	1 January- 31 December 2013	1 January- 31 December 2012
Foreign exchange loss from investing activities	4.216.608	7.577.464
	4.216.608	7.577.464

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NOTE 24 - FINANCIAL INCOME / EXPENSES

The details of financial income and expenses as of the periods ended 31 December 2013 ve 2012 are as follows:

Financial income:

	1 January- 31 December 2013	1 January- 31 December 2012
Interest income	50.762.349	3.194.769
Foreign exchange gain (realized and unrealized) on derivative contracts	-	9.703.942
	50.762.349	12.898.711

Financial expenses:

	1 January- 31 December 2013	1 January- 31 December 2012
Foreign exchange loss	116.448.571	15.319.112
Surety commission expenses	12.474.324	11.692.202
Other commission expenses	8.269.034	7.409.604
Interest on obligations under finance leases	5.599.508	8.471.983
Interest expense on bank loans	2.382.203	7.522.609
Other interest expenses	1.917.887	-
Foreign exchange losses (realized and unrealized) on derivative contracts	2.465.006	-
	149.556.533	50.415.510

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NOTE 25 - TAXATION ON INCOME

	1 January 2013 - 31 December 2013	1 January 2012 - 31 December 2012
Income tax expense		
- Current tax	-	-
- Deferred tax	(66.361.129)	(29.016.083)
Taxation on income	(66.361.129)	(29.016.083)

Corporate tax:

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate in 2013 is 20% (2012: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2013 is 20%. (2012: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 - 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Minister's' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

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NOTE 25 - TAXATION ON INCOME (cont'd)

Inflation Adjusted Statutory Tax Calculation:

The Group has adjusted its statutory financial statements as of 31 December 2004 in accordance with Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 which requires the application of inflation accounting in Turkey in 2005 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in TAS 29. Inflation adjusted balances as at 31 December 2004 were taken as opening balances as of 1 January 2005. However, as inflation did not meet the required thresholds as at 31 December 2005, no further inflation adjustment made to the Company's statutory financial statements in 2005-2013.

Deferred Tax:

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and they are given below.

For calculation of deferred income tax asset and liabilities, the rate of 20% is used (2012: 20%).

In Turkey, companies cannot declare a consolidated tax return, therefore their deferred tax balances are not netted off and are disclosed separately.

The consolidated deferred asset / (liability) position as of 31 December 2013 and 2012 is as follows:

	31 December 2013		31 December 2012	
	Deferred tax asset / (liability)	Deferred tax asset / (liability)	Deferred tax asset / (liability)	Deferred tax asset / (liability)
Difference between tax base and carrying value of tangible assets and intangible assets	357.245	(221.090.467)	-	(142.633.996)
Provision for employee termination benefits	34.419	148.623	-	124.379
Provision for litigation claims	24.000	236.736	-	199.038
Unused vacation and bonus plans provision	(195.624)	5.930.303	-	4.573.726
Carry forward tax losses	12.297.760	37.326.105	-	55.522.708
Deferred revenue from flight points	-	4.961.120	-	5.421.699
Redelivery provisions for the leased aircraft	899.748	11.196.116	-	5.659.422
Derivative contract fair value	-	(2.892.566)	-	(2.378.417)
Other	1.302.136	3.010.793	-	1.330.468
Deferred tax provision (*)	(6.716.996)	-	-	-
Deferred tax asset / (liability)	8.002.688	(161.173.237)	-	(72.180.973)

(*) Deferred tax provision has been provided for the carried forward tax losses of Izair.

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NOTE 25 - TAXATION ON INCOME (cont'd)

Deferred Tax: (cont'd)

The Group's carryforward tax losses subject to recognition of deferred tax asset as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
2014	6.012.458	-
2015	6.613.704	387.725
2016	193.905.598	277.225.815
2017 and after	8.002.583	-
	214.534.343	277.613.540

The Group's deferred tax movement of as of 31 December 2013 and 2012 is as follows:

	2013	2012
1 January	(72.180.973)	(24.651.556)
Additon of subsidiary	12.582.283	-
Charge for the year	(66.361.129)	(29.016.083)
Deferred tax recognized in other reserves - hedge accounting	(2.100.740)	(2.181.809)
Disposal effect of Izair	-	(17.008.875)
Currency translation difference	(25.109.990)	677.350
31 December	(153.170.549)	(72.180.973)

Tax effects related to other comprehensive income as of 31 December 2013 and 2012 is as follows:

	1 January - 31 December 2013		
	Amount before tax	Tax (expense)/ income	Amount after tax
Foreign currency translation adjusment	233.296.976	-	233.296.976
Change in cash flow hedge reserve	10.503.700	(2.100.740)	8.402.960
Other comprehensive income	243.800.676	(2.100.740)	241.699.936

	1 January - 31 December 2012		
	Amount before tax	Tax (expense)/ income	Amount after tax
Foreign currency translation adjusment	3.555.138	-	3.555.138
Change in cash flow hedge reserve	10.909.044	(2.181.809)	8.727.235
Other comprehensive income	14.464.182	(2.181.809)	12.282.373

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NOTE 25 - TAXATION ON INCOME (cont'd)

Deferred Tax: (cont'd)

Reconciliation of tax expense in consolidated statement of profit or loss for the years ending 31 December 2013 and 2012 is as follows:

	2013	2012
Profit before tax	154.673.135	155.319.599
Enacted local tax rate	20%	20%
Tax calculated at the enacted tax rate	30.934.627	31.063.920
Disallowable expenses and incentives (net)	(2.704.603)	(118.090)
Tax-exempt revenue	23.876	-
Tax losses over which deferred tax asset was not recognized	6.716.996	-
Translation effect and other	31.390.233	(1.929.747)
Taxation expense	66.361.129	29.016.083

NOTE 26 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 31 December 2013 and 2012 is as follows:

	1 January- 31 December 2013	1 January- 31 December 2012
Net profit – attributable to equity holders of the parent	91.683.825	126.303.516
Weighted average number of shares issued in the period	93.730.769	75.000.000
Earning per share	0,98	1,68

Shares of the Company has been started to be traded in İstanbul Stock Exchange (“ISE”) since 26 April 2013, after the demand collection between the dates of 18-19 April 2013. Companies whose shares are traded at ISE are subject to the dividend rules determined by Capital Markets Board. At the end of all periods presented the Company has an accumulated loss in its accounts prepared in accordance with Turkish Tax Legislation and has no available funds for distribution.

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NOTE 27 - 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 receivable and payables resulting from operating activities are generally settled in normal course of business.

(i) **Balances with related parties:**

a) **Due from related parties**

	31 December 2013	31 December 2012
Balances with joint ventures and subsidiaries:		
PUEM	-	181.718
İzair	-	16.358
	-	198.076

b) **Due to related parties**

	31 December 2013	31 December 2012
Balances with parent company:		
Esas Holding	-	2.434.041
Balances with joint ventures and subsidiaries:		
PUEM	46.569	-
İzair	-	825.016
Balances with other related parties:		
EAG Turizm ve İnşaat Sanayi Ticaret A.Ş.	65.822	216.535
RM Arşiv Yönetim Hizmetleri A.Ş.	3.180	3.756
	115.571	3.479.348

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NOTE 27 - 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 its head office building from Esas Holding A.Ş. and EAG Turizm ve İnşaat Sanayi Ticaret A.Ş., another Esas Holding subsidiary, and records rent expense as disclosed below.

The Group has significant transactions with Callpex Çağrı Merkezi ve Müşteri Hizmetleri A.Ş. ("Callpex") that provide call center services to Pegasus. The Company's chairman is a shareholder in Callpex.

The Group provides maintenance services to İzair. The Group also receives simulator training services from PUEM for its pilots.

(a) Sale of services to related parties

	1 January- 31 December 2013	1 January- 31 December 2012
Balances with parent company:		
Esas Holding	139.588	116.858
Balances with joint ventures and subsidiaries:		
İzair	1.064.038	4.923.631
PUEM	406.006	347.541
	1.609.632	5.388.030

(b) Purchases of goods or services from related parties

	1 January- 31 December 2013	1 January- 31 December 2012
Balances with joint ventures and subsidiaries:		
PUEM	4.975.463	3.187.075
İzair (*)	1.091.086	957.444
İzmirliler Otelcilik	-	109.981
Purchases from other related parties:		
Callpex	7.289.365	6.841.288
EAG Turizm ve İnşaat Sanayi Ticaret A.Ş.	666.381	206.833
RM Arşiv Yönetim Hizmetleri A.Ş.	28.384	26.137
Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş.	47.000	-
Other	226.820	140.451
	14.324.499	11.469.209

(*) Amount is due to the period during that İzair was accounted for using the equity method from 1 January to 31 March 2013.

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NOTE 27 - RELATED PARTY TRANSACTIONS (cont'd)

(ii) Significant transactions with related parties (cont'd)

(c) Rent expenses

	1 January- 31 December 2013	1 January- 31 December 2012
EAG Turizm ve İnşaat Sanayi Ticaret A.Ş.	2.254.894	759.616
Esas Holding	-	359.633
İzmirliler Otelcilik	-	141.816
	2.254.894	1.261.065

(d) Surety commission expenses

	1 January- 31 December 2013	1 January- 31 December 2012
Esas Holding	12.474.324	11.692.202
	12.474.324	11.692.202

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.

(e) Other income

	1 January- 31 December 2013	1 January- 31 December 2012
İzmirliler Otelcilik	-	1.077
	-	1.077

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NOTE 27 - RELATED PARTY TRANSACTIONS (cont'd)

(iii) Compensation of key management personnel:

Key management personnel include General Manager, Vice Presidents and Directors. The remuneration of directors and other members of key management during the period ended 31 December 2013 and 2012 are as follows:

	1 January- 31 December 2013	1 January- 31 December 2012
Salaries and other short term benefits	5.524.733	2.564.952
	5.524.733	2.564.952

NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital with the goal of ensuring that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the financial liabilities and obligations under finance leases disclosed in Note 6, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings respectively. The Group meets working capital requirement with the cash generated from its operations and through credit lines from Turkish and foreign banks, if needed.

The Group's management reviews the cost of capital together with the risk associated with each class in the capital structure. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital and obtains approval from Board of Directors in the form of a resolution. Based on evaluations of management and Board of Directors, the Group balances its overall capital structure from time to time through capital increases as well as the issue of new debt or the redemption of existing debt. The Group's overall capital risk management strategy remains unchanged from prior periods.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management plan focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Credit risk management

31 December 2013	Receivables						
	Trade receivables		Other receivables			Bank deposits	Derivative instruments
	Related party	Other	Related party	Other	Other		
Maximum exposed credit risk as of reporting date							
Secured portion of the maximum credit risk by guarantees, etc.	-	191.391.666	-	107.610.964	877.272.136	25.401.932	
A. Net book value of financial asset either are not due or not impaired	-	4.498.226	-	-	-	-	-
- Secured portion by guarantees, etc.	-	190.821.430	-	107.610.964	877.272.136	25.401.932	
B. Financial assets with renegotiated conditions	-	4.368.283	-	-	-	-	-
- Secured portion by guarantees, etc.	-	-	-	-	-	-	-
C. Net book value of overdue but not impaired financial assets	-	570.236	-	-	-	-	-
- Secured portion by guarantees, etc.	-	129.943	-	-	-	-	-
D. Net book value of the impaired assets	-	1.785.063	-	-	-	-	-
- Overdue (gross book value)	-	(1.785.063)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-	-	-

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Credit risk management (cont'd)

31 December 2012	Receivables					
	Trade receivables			Other receivables		
	Related party	Other	Related party	Other	Bank deposits	Derivative instruments
Maximum exposed credit risk as of reporting date	-	43.985.353	198.076	77.803.177	210.074.581	14.898.234
Secured portion of the maximum credit risk by guarantees, etc.	-	6.785.386	-	-	-	-
A. Net book value of financial asset either are not due or not impaired	-	42.624.235	198.076	77.803.177	210.074.581	14.898.234
- Secured portion by guarantees, etc.	-	6.744.433	-	-	-	-
B. Financial assets with renegotiated conditions	-	-	-	-	-	-
- Secured portion by guarantees, etc.	-	-	-	-	-	-
C. Net book value of overdue but not impaired financial assets	-	1.361.118	-	-	-	-
- Secured portion by guarantees, etc.	-	40.953	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
- Overdue (gross book value)	-	2.897.443	-	-	-	-
- Impairment (-)	-	(2.897.443)	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-	-

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL
INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Credit risk management (cont'd)

Aging of the overdue receivables is as follows:

31 December 2013	Trade receivables	Other receivables	Bank deposits	Total
0-2 months	320.178	-	-	320.178
2-4 months	152.003	-	-	152.003
4-12 months	98.055	-	-	98.055
Over 1 year	1.785.063	-	-	1.785.063
Receivables secured by guarantees	(129.943)	-	-	(129.943)
	2.225.356	-	-	2.225.356

31 December 2012	Trade receivables	Other receivables	Bank deposits	Total
0-2 months	401.075	-	-	401.075
2-4 months	834.682	-	-	834.682
4-12 months	125.361	-	-	125.361
Over 1 year	2.897.443	-	-	2.897.443
Receivables secured by guarantees	(40.953)	-	-	(40.953)
	4.217.608	-	-	4.217.608

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL
INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Liquidity risk management

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables show the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

31 December 2013	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Short term financial liabilities (non-derivative):						
Financial liabilities	3.980.899	3.980.899	3.980.899	-	-	-
Obligations under financial leases	181.171.887	191.326.331	52.549.942	138.776.389	-	-
Trade payables	167.294.824	167.294.824	167.294.824	-	-	-
Passenger airport fees liability	42.162.767	42.162.767	29.717.533	12.445.234	-	-
	394.610.377	404.764.821	253.543.198	151.221.623	-	-
Long term financial liabilities (non-derivative):						
Financial liabilities	-	-	-	-	-	-
Obligations under financial leases	1.441.206.556	1.483.022.643	-	-	749.158.042	733.864.601
	1.441.206.556	1.483.022.643	-	-	749.158.042	733.864.601
	1.835.816.933	1.887.787.464	253.543.198	151.221.623	749.158.042	733.864.601

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL
INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Liquidity risk management (cont'd)

31 December 2012	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Short term financial						
liabilities (non-derivative):						
Financial liabilities	50.722.463	51.378.748	2.747.783	48.630.965	-	-
Obligations under financial leases	135.232.251	141.385.690	35.445.653	105.940.037	-	-
Trade payables	129.649.974	129.649.974	129.649.974	-	-	-
Passenger airport fees liability	25.689.738	25.689.738	18.980.652	6.709.086	-	-
	341.294.426	348.104.150	186.824.062	161.280.088	-	-
Long term financial						
liabilities (non-derivative):						
Financial liabilities	-	-	-	-	-	-
Obligations under financial leases	1.240.919.331	1.288.156.529	-	-	582.282.296	705.874.233
	1.240.919.331	1.288.156.529	-	-	582.282.296	705.874.233
	1.582.213.757	1.636.260.679	186.824.062	161.280.088	582.282.296	705.874.233

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL
INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Liquidity risk management (cont'd)

31 December 2013	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Derivative cash inflows outflows, net	14.462.829	46.558.135	21.956.160	24.601.975	-	-
	14.462.829	46.558.135	21.956.160	24.601.975	-	-

31 December 2012	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Derivative cash inflows outflows, net	11.892.087	14.744.848	3.950.246	10.794.602	-	-
	11.892.087	14.744.848	3.950.246	10.794.602	-	-

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

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 dollars 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 31 December 2013 and 2012 is as follows:

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2013	TL Total	USD	TL	GBP	Other
1. Trade receivables	132.042.592	6.765.139	95.839.304	2.427.215	13.241.529
2a. Monetary financial assets	851.794.413	53.852.854	726.676.441	966.175	6.787.199
2b. Non monetary financial assets	-	-	-	-	-
3. Other	55.882.858	20.861.494	11.218.322	14.815	87.828
4. CURRENT ASSETS	1.039.719.863	81.479.487	833.734.067	3.408.205	20.116.556
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	111.098.944	51.867.626	168.571	19.800	159.773
8. NON CURRENT ASSETS	111.098.944	51.867.626	168.571	19.800	159.773
9. TOTAL ASSETS	1.150.818.807	133.347.113	833.902.638	3.428.005	20.276.329
10. Trade payables	93.132.717	25.265.013	34.947.122	402.233	2.850.077
11. Financial liabilities	35.169.880	14.613.213	3.980.899	-	-
12a. Other liabilities, monetary	79.534.626	5.322.871	68.153.661	188	19.701
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	207.837.223	45.201.097	107.081.682	402.421	2.869.778
14. Trade payables	-	-	-	-	-
15. Financial liabilities	227.623.955	106.650.403	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	227.623.955	106.650.403	-	-	-
18. TOTAL LIABILITIES	435.461.178	151.851.500	107.081.682	402.421	2.869.778
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	617.101.529	229.118.338	203.263.650	(17.800.000)	(12.666.470)
19.a Off-balance sheet foreign currency derivative assets	854.333.069	279.618.338	257.543.650	-	-
19.b. Off-balance sheet foreigncurrency derivative liabilities	237.231.540	50.500.000	54.280.000	17.800.000	12.666.470
20. Net foreign currency asset/(liability) position	715.357.629	(18.504.387)	726.820.956	3.025.584	17.406.551
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	548.375.827	(91.233.507)	715.434.063	2.990.969	17.158.950

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2012	TL Total	USD	TL	GBP	Other
1. Trade receivables	15.354.781	1.226.777	9.722.129	578.822	758.650
2a. Monetary financial assets	186.086.903	19.037.272	143.250.547	1.287.167	2.213.427
2b. Non monetary financial assets	-	-	-	-	-
3. Other	45.432.013	23.944.219	1.547.633	107.015	380.234
4. CURRENT ASSETS	246.873.697	44.208.268	154.520.309	1.973.004	3.352.311
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	91.930.609	51.464.420	132.302	19.800	421
8. NON CURRENT ASSETS	91.930.609	51.464.420	132.302	19.800	421
9. TOTAL ASSETS	338.804.306	95.672.688	154.652.611	1.992.804	3.352.732
10. Trade payables	73.044.159	19.892.845	35.235.071	68.540	914.801
11. Financial liabilities	28.674.388	14.544.264	2.747.783	-	-
12a. Other liabilities, monetary	72.384.230	17.932.480	40.271.815	50.376	577
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	174.102.777	52.369.589	78.254.669	118.916	915.378
14. Trade payables	-	-	-	-	-
15. Financial liabilities	216.117.349	121.237.153	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	216.117.349	121.237.153	-	-	-
18. TOTAL LIABILITIES	390.220.126	173.606.742	78.254.669	118.916	915.378
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	273.739.149	208.318.597	(73.312.500)	(5.327.693)	(4.654.779)
19.a Off-balance sheet foreign currency derivative assets	371.348.731	208.318.597	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	97.609.582	-	73.312.500	5.327.693	4.654.779
20. Net foreign currency asset/(liability) position	(51.415.820)	(77.934.054)	76.397.942	1.873.888	2.437.354
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(188.778.442)	(153.342.693)	74.718.007	1.747.073	2.056.699

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(Amounts are expressed in TL unless otherwise stated.)

NOTE 28 - 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 Dollars, 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 monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Foreign currency sensitivity tables as of 31 December 2013 and 2012 are as follows:

31 December 2013	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	(3.949.391)	3.949.391	-	-
Part of hedged from USD risk	48.900.727	(48.900.727)	-	-
USD net effect	44.951.336	(44.951.336)	-	-
Effect of 10% change in TL rate				
TL net asset / liability	72.682.096	(72.682.096)	112.590.554	(112.590.554)
Part of hedged from TL risk	20.326.365	(20.326.365)	-	-
TL net effect	93.008.461	(93.008.461)	112.590.554	(112.590.554)
31 December 2012	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	(13.892.524)	13.892.524	-	-
Part of hedged from USD risk	37.134.873	(37.134.873)	-	-
USD net effect	23.242.349	(23.242.349)	-	-
Effect of 10% change in TL rate				
TL net asset / liability	7.639.794	(7.639.794)	31.543.356	(31.543.356)
Part of hedged from TL risk	(7.331.250)	7.331.250	-	-
TL net effect	308.544	(308.544)	31.543.356	(31.543.356)

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial risk factors (cont'd)

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

Interest rate sensitivity

The Group's distribution of interest rate-sensitive financial instruments is as follows:

	2013		2012	
	Floating rate	Fixed rate	Floating rate	Fixed rate
Bank loans	-	-	-	47.974.680
Finance leases	1.622.378.443	-	1.376.151.582	-

For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0,5% lower/higher as at 31 December 2013 and 0,5% lower/higher for all other comparative periods, keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 8.157.722 (2012: TL 6.792.472). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases

Price risk management

Fuel price risk management

The Group is exposed to commodity risk due to the significant of fuel purchases to its business. Fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on the cost of sales, and results of operations of the Group.

The Group manages its risk to fuel prices through the use of derivative financial instruments. The Group's policy since 2011 includes a primary non-discretionary program for the first 30% of anticipated fuel consumption and a supplemental discretionary program for an additional 30% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Fuel price sensitivity

The Group entered into fuel purchase contracts in order to manage the cash flow risks arising from fuel purchases. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 1% increase in fuel prices, the shareholders' equity of the Group will increase by TL 3.215.387 (2012: TL 2.167.117) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 3.215.387 (2012: TL 2.167.117) excluding deferred tax effect.

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NOTE 29 - FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

31 December 2013	Loans and receivables	Derivative financial instruments for hedging purposes	Derivative financial instruments accounted through profit or loss	Financial liabilities at amortized cost	Carrying amount	Note
Financial assets						
Cash and cash equivalents	877.401.671	-	-	-	877.401.671	4
Trade receivables	191.391.666	-	-	-	191.391.666	7
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	191.391.666	-	-	-	191.391.666	7
Other receivables	83.230.484	-	-	-	83.230.484	8
Advances given for purchase of aircraft	98.006.204	-	-	-	98.006.204	9
Derivative financial assets	-	25.401.932	-	-	25.401.932	5
Financial liabilities						
Bank borrowings	-	-	-	3.980.899	3.980.899	6
Obligations under financial leases	-	-	-	1.622.378.443	1.622.378.443	6
Trade payables	-	-	-	167.294.824	167.294.824	7
- <i>Related party</i>	-	-	-	115.571	115.571	27
- <i>Other</i>	-	-	-	167.179.253	167.179.253	7
Passenger airport fees liability	-	-	-	42.162.767	42.162.767	10
Derivative financial liabilities	-	-	10.939.103	-	10.939.103	5

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NOTE 29 - FINANCIAL INSTRUMENTS (cont'd)

Fair Value of Financial Instruments (cont'd)

31 December 2012	Loans and receivables	Derivative financial instruments for hedging purposes	Derivative financial instruments accounted through profit or loss	Financial liabilities at amortized cost	Carrying amount	Note
Financial assets						
Cash and cash equivalents	210.150.238	-	-	-	210.150.238	4
Trade receivables	43.985.353	-	-	-	43.985.353	7
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	43.985.353	-	-	-	43.985.353	
Other receivables	68.434.068	-	-	-	68.434.068	8
Advances given for purchase of aircraft	89.263.443	-	-	-	89.263.443	9
Derivative financial assets	-	14.898.232	-	-	14.898.232	5
Financial liabilities						
Bank borrowings	-	-	-	50.722.463	50.722.463	6
Obligations under financial leases	-	-	-	1.376.151.582	1.376.151.582	6
Trade payables	-	-	-	129.649.974	129.649.974	7
- <i>Related party</i>	-	-	-	3.479.348	3.479.348	27
- <i>Other</i>	-	-	-	126.170.626	126.170.626	7
Passenger airport fees liability	-	-	-	25.689.738	25.689.738	10
Derivative financial liabilities	-	-	3.006.145	-	3.006.145	5

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NOTE 29 - FINANCIAL INSTRUMENTS (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 the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Financial assets / Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique
	31 December 2013	31 December 2012		
Forward fuel purchase contracts	25.401.932	14.898.232	Level 2	Discounted cash flow method
Foreign currency contracts	(10.939.103)	(3.006.145)	Level 2	Discounted cash flow method

Derivative Instruments Risk Management

31 December 2013	Positive fair value	Negative fair value	Total
Forward fuel purchase contracts for hedging against risk of fuel price	25.401.932	-	25.401.932
Fair values of derivative instruments for hedging purposes	25.401.932	-	25.401.932
Foreign currency contracts not subject to hedge accounting	-	(10.939.103)	(10.939.103)
Fair values of derivative instruments not for hedging purposes	-	(10.939.103)	(10.939.103)
Total	25.401.932	(10.939.103)	14.462.829

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NOTE 29 - FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments Risk Management (cont'd)

31 December 2012	Positive fair value	Negative fair value	Total
Forward fuel purchase contracts for hedging against risk of fuel price	14.898.232	-	14.898.232
Fair values of derivative instruments for hedging purposes	14.898.232	-	14.898.232
Foreign currency contracts not subject to hedge accounting	-	(3.006.145)	(3.006.145)
Fair values of derivative instruments not for hedging purposes	-	(3.006.145)	(3.006.145)
Total	14.898.232	(3.006.145)	11.892.087

NOTE 30 - SUBSEQUENT EVENTS

Aircraft lease agreement

The board of directors of company resolved for the lease of a Boeing 737-800 aircraft from BBAM Aircraft Management LP for a lease term of 68 months and fully authorized the Chairman of the Board of Directors and the Company General Manager for the execution of the definitive lease agreement in this respect.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

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NOTE 31 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE

Rearrangement of the prior year financial statements

The Company has rearranged the prior year consolidated financial statements in accordance with the format of the financial statements and disclosures announced by Capital Markets Board of Turkey on 7 June 2013, in order to ensure comparability due to the changes of presentation and reclassification of items in the financial statements. These reclassifications have no effect over the prior period's equity and net profit/(loss).

Balance sheet changes

- Under the current assets, the trade receivables reclassification (TL 2.113.993) consists of other income accruals that was previously classified under other current assets.
- Under the current assets, the other receivables reclassification (TL 3.722.701) consists of other receivables that was previously classified under other current assets.
- Under the current assets, the derivative financial instruments reclassification (TL 14.898.232) consists of the fair value of derivative asset that was previously shown as financial investments.
- Under the current assets, the prepaid expenses reclassifications (TL 33.606.729) consist of given advances to suppliers (TL 16.789.339), prepaid aircraft operating lease expense (TL 6.679.399), prepaid insurance expense (TL 6.258.255), prepaid advertising expense (TL 2.053.827), prepaid taxes and funds (TL 466.241) and other prepaid expenses (TL 1.359.668) that were previously classified under other current assets.
- Under the non-current assets, the prepaid expenses reclassifications (TL 89.425.589) consist of advances on aircraft purchases (TL 89.263.443) and other prepaid expenses (TL 162.146) that were previously classified under non-current other receivables.
- Under the current liabilities, short term portion of long term financial liabilities reclassification (TL 135.232.251) consists of short term portion of long term finance lease obligations that was previously classified under short term financial liabilities.
- Under the current liabilities, other trade payables reclassifications (TL 41.111.399) consist of accrued direct operational costs (TL 32.092.227), commission expense accruals (TL 6.088.344) and other expense accruals (TL 2.930.828) that were previously classified under other current liabilities.
- Under the current liabilities, employee benefit obligation reclassifications (TL 4.916.097) consist of social security premiums payable (TL 2.728.085) that was previously classified under other current liabilities, payables to personnel (TL 2.165.949) that was classified under provision for employee benefits and other payables (TL 22.063) that was classified under other current liabilities.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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**NOTE 31 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR
NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE
AND UNDERSTANDABLE (cont'd)**

Rearrangement of the prior year financial statements (cont'd)

Balance sheet changes (cont'd)

- Under the current liabilities, the derivative financial instruments reclassification (TL 3.006.145) consists of the fair value of derivative instruments that was previously shown as other financial liabilities.
- Under the current liabilities, the deferred revenue reclassifications (TL 171.171.085) consist of the passenger flight liabilities (TL 125.507.762), liabilities from passenger airport fees received (TL 25.689.738), deferred income from sale of subsidiary interest (TL 11.881.653) and advances received from customers (TL 8.091.932) that were previously classified under other current payables and liabilities.
- Under the current liabilities, the other short term provisions reclassifications (TL 4.505.707) consist of redelivery provision (TL 3.510.519) and provision for litigation claims (TL 995.188) that were previously classified under other current payables and liabilities.
- Under the non-current liabilities, the deferred revenue classifications (TL 1.546.783) consist of income relating to future periods (TL 407.403) and other non-current liabilities (TL 1.139.380) that were previously classified under other non-current liabilities.
- Under the non-current liabilities, the other long term provisions reclassification (TL 24.786.593) consists of redelivery provision that was previously classified under other non-current liabilities.

Profit or loss and other comprehensive income changes

- The other operating income reclassifications (TL 14.578.703) consist of foreign exchange gain from operating activities (TL 8.859.138), discount cancellation income (TL 379.802) that were previously netted off under finance expenses; income from sale and lease back transactions (TL 4.124.992) and other income (TL 1.214.771) that were previously classified under other income/expense (net).
- The other operating expense reclassifications (TL 831.638) consist of penalty expense (TL 453.710), doubtful receivable expense (TL 131.937) and other expense (TL 245.991) that were previously netted off under other income/expense (net).
- The income from investing activities reclassification (TL 126.988) consists of gain on sales of fixed assets that was previously classified under revenue.
- The expenses from investing activities reclassification (TL 7.577.464) consists of foreign exchange loss from investing activities that was previously netted off under finance expenses.

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**NOTE 31 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR
NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE
AND UNDERSTANDABLE (cont'd)**

Rearrangement of the prior year financial statements (cont'd)

ASSETS	Previously reported 31 December 2012	Reclassifications	Revised 31 December 2012
Current assets	339.329.147		339.329.147
Cash and cash equivalents	210.150.238	-	210.150.238
Financial investments	14.898.232	(14.898.232)	-
Trade receivables	41.871.360	2.113.993	43.985.353
Other receivables	30.865.636	3.722.701	34.588.337
Derivative financial instruments	-	14.898.232	14.898.232
Inventories	1.882.592	-	1.882.592
Prepaid expenses	-	33.606.729	33.606.729
Other current assets	39.661.089	(39.443.423)	217.666
Non-Current assets	1.869.681.888	-	1.869.681.888
Other receivables	132.838.505	(89.425.589)	43.412.916
Investments accounted for using the equity method	1.512.211	-	1.512.211
Property and equipment	1.730.317.522	-	1.730.317.522
Intangible assets	5.013.650	-	5.013.650
Prepaid expenses	-	89.425.589	89.425.589
TOTAL ASSETS	2.209.011.035	-	2.209.011.035

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**NOTE 31 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR
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AND UNDERSTANDABLE (cont'd)**

Rearrangement of the prior year financial statements (cont'd)

LIABILITIES	Previously reported 31 December 2012	Reclassifications	Revised 31 December 2012
Current liabilities	538.075.762	-	538.075.762
Short term financial liabilities	185.954.714	(135.232.251)	50.722.463
Short term portion of long term financial liabilities	-	135.232.251	135.232.251
Other financial liabilities	3.006.145	(3.006.145)	-
Trade payables	88.538.575	41.111.399	129.649.974
<i>Trade payables to third parties</i>	<i>85.059.227</i>	<i>41.111.399</i>	<i>126.170.626</i>
<i>Trade payables to related parties</i>	<i>3.479.348</i>	-	<i>3.479.348</i>
Employee benefit obligations	-	4.916.097	4.916.097
Other payables	9.555.176	(2.728.085)	6.827.091
Derivative financial instruments	-	3.006.145	3.006.145
Deferred revenue	-	171.171.085	171.171.085
Short term provisions	26.210.428	2.339.758	28.550.186
<i>Short term provisions for employee benefits</i>	<i>26.210.428</i>	<i>(2.165.949)</i>	<i>24.044.479</i>
<i>Other short term provisions</i>	-	<i>4.505.707</i>	<i>4.505.707</i>
Other current liabilities	224.810.724	(216.810.254)	8.000.470
Non-Current liabilities	1.343.583.125	-	1.343.583.125
Financial liabilities	1.240.919.331	-	1.240.919.331
Deferred revenue	-	1.546.783	1.546.783
Long term provisions	4.149.445	24.786.593	28.936.038
<i>Long term provisions for employee benefits</i>	<i>4.149.445</i>	-	<i>4.149.445</i>
<i>Other long term provisions</i>	-	<i>24.786.593</i>	<i>24.786.593</i>
Deferred tax liabilities	72.180.973	-	72.180.973
Other non-current liabilities	26.333.376	(26.333.376)	-
SHAREHOLDERS' EQUITY	327.352.148	-	327.352.148
Equity attributable to shareholders' of the parent	327.352.148	-	327.352.148
Paid-in share capital	75.000.000	-	75.000.000
Effects of business acquisition	29.504.957	-	29.504.957
Premiums on capital stock	-	-	-
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences	72.735.810	-	72.735.810
Hedge fund	11.918.586	-	11.918.586
Retained earnings	11.889.279	-	11.889.279
Net profit for the year	126.303.516	-	126.303.516
Non-controlling interest	-	-	-
TOTAL LIABILITIES AND EQUITY	2.209.011.035	-	2.209.011.035

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NOTE 31 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR
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AND UNDERSTANDABLE (cont'd)

Rearrangement of the prior year financial statements (cont'd)

	Previously reported 1 January - 31 December 2012	Reclassifications	Revised 1 January - 31 December 2012
Sales (net)	1.919.892.223	(446.097)	1.919.446.126
Cost of sales (-)	(1.600.787.909)	-	(1.600.787.909)
Gross profit	319.104.314	(446.097)	318.658.217
General administrative expenses (-)	(50.250.429)	-	(50.250.429)
Marketing expenses (-)	(80.353.989)	-	(80.353.989)
Other income (net)	4.189.016	(4.189.016)	-
Other operating income	-	14.578.703	14.578.703
Other operating expenses (-)	-	(831.638)	(831.638)
Operating profit	192.688.912	9.111.952	201.800.864
Income from investing activities	-	126.988	126.988
Expenses from investing activities	-	(7.577.464)	(7.577.464)
Share of investments' (loss) / profit accounted for using equity method	(1.513.990)	-	(1.513.990)
Operating profit before financial inc./(exp.)	191.174.922	1.661.476	192.836.398
Financial income	13.278.513	(379.802)	12.898.711
Financial expense (-)	(49.133.836)	(1.281.674)	(50.415.510)
Profit before tax	155.319.599	-	155.319.599
Tax income expense	-	-	-
Current tax expense	-	-	-
Deferred tax expense	(29.016.083)	-	(29.016.083)
Profit for the year	126.303.516	-	126.303.516
Net profit attributable to:			
Shareholders' of the parent	126.303.516	-	126.303.516
Non-controlling interest	-	-	-
	126.303.516	-	126.303.516
Earnings per share (TL)			
Other comprehensive income/(loss)			
Items to be reclassified to profit or loss			
Currency translation differences	3.555.138	-	3.555.138
Cash flow hedge	8.727.235	-	8.727.235
Loss on derivative contracts	14.898.232	(3.989.188)	10.909.044
(Gains)/losses, included in net profit/(loss)	(3.191.351)	3.191.351	-
Deferred tax effect	(2.979.646)	797.837	(2.181.809)
Other comprehensive income	12.282.373	-	12.282.373
Total comprehensive profit	138.585.889	-	138.585.889
Total comprehensive profit / (loss) attributable to:			
Shareholders' of the parent	138.585.889	-	138.585.889
Non-controlling interest	-	-	-
	138.585.889	-	138.585.889