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

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

Deloitte.

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(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.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pegasus Hava Taşımacılığı A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated balance sheet as at 31 December 2014, 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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"), 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

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 and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). 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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pegasus Hava Taşımacılığı A.Ş. and its subsidiaries as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2014 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

In accordance with paragraph four of the Article 398 of TCC, the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on March 4, 2015.

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

Selçuk Ürkmez
Partner

İstanbul, 4 March 2015

INDEX		PAGE

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current year (Audited) 31 December 2014	Prior year (Audited) 31 December 2013
ASSETS			
Current assets		**1.508.849.889**	**1.226.547.159**
Cash and cash equivalents	53	856.890.769	877.401.671
Trade receivables	7	233.180.223	191.073.066
Trade receivables from related parties		-	-
Trade receivables from third parties	*7*	*233.180.223*	*191.073.066*
Other receivables	9	289.309.942	40.844.285
Other receivables from related parties	*6*	*301.172*	*318.600*
Other receivables from third parties		*289.008.770*	*40.525.685*
Derivative financial instruments	46	6.576.885	31.733.900
Inventories	10	7.663.964	4.035.669
Prepaid expenses	12	106.102.556	63.593.533
Current income tax assets	40	6.934.519	6.242.744
Other current assets	29	2.191.031	11.622.291
Non-Current assets		**2.025.868.636**	**2.277.989.446**
Other receivables	9	41.943.524	67.085.279
Other receivables from related parties		-	-
Other receivables from third parties	*9*	*41.943.524*	*67.085.279*
Investment accounted by using the equity method	4	2.458.775	1.376.792
Property and equipment	14	1.931.512.646	2.120.627.943
Intangible assets	17	11.471.044	11.447.742
Prepaid expenses	12	25.081.645	69.449.002
Deferred tax assets	40	13.401.002	8.002.688
TOTAL ASSETS		**3.534.718.525**	**3.504.536.605**

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current year (Audited) 31 December 2014	Prior year (Audited) 31 December 2013
LIABILITIES			
Current liabilities		**862.779.698**	**683.929.355**
Short term financial liabilities	47	4.504.480	3.980.899
Short term portion of long term financial liabilities	47	162.765.963	181.171.887
Trade payables	7	196.386.561	167.294.824
Trade payables to related parties	*6*	*85.569*	*115.571*
Trade payables to third parties		*196.300.992*	*167.179.253*
Employee benefit obligations	27	8.641.269	6.805.756
Other payables	9	13.236.652	17.079.784
Other payables to related parties		-	-
Other payables to third parties	*9*	*13.236.652*	*17.079.784*
Derivative financial instruments	46	182.607.585	17.271.071
Deferred income	12	264.344.800	248.254.755
Short term provisions		30.061.681	41.697.458
Short term provisions for employee benefits	*27*	*27.240.263*	*30.864.026*
Other short term provisions	*25*	*2.821.418*	*10.833.432*
Other current liabilities	29	230.707	372.921
Non-Current liabilities		**1.510.778.611**	**1.674.380.165**
Long term financial liabilities	47	1.186.991.297	1.441.206.556
Derivative financial instruments	46	62.316.092	-
Deferred income	12	7.725.108	6.423.264
Long term provisions		125.104.840	65.577.108
Long term provisions for empleyee benefits	*27*	*6.192.649*	*6.018.849*
Other long term provisions	*25*	*118.912.191*	*59.558.259*
Deferred tax liabilities	40	128.641.274	161.173.237
SHAREHOLDERS' EQUITY		**1.161.160.216**	**1.146.227.085**
Equity attributable to shareholders' of the parent		**1.161.283.251**	**1.145.684.240**
Paid-in share capital	30	102.272.000	102.272.000
Effects of business acquisition		29.504.957	29.504.957
Share premiums on capital stock		455.687.025	455.687.025
Other comrehensive income/expense to be reclassified to profit or loss			
Currency translation differences	38	258.696.079	308.022.092
Hedge fund	38	(58.095.258)	20.321.546
Retained earnings		229.876.620	138.192.795
Net profit for the year		143.341.828	91.683.825
Non-controlling interest		**(123.035)**	**542.845**
TOTAL LIABILITIES AND EQUITY		**3.534.718.525**	**3.504.536.605**

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current year (Audited) 1 January - 31 December 2014	Prior year (Audited) 1 January - 31 December 2013
Sales	31	3.081.727.739	2.393.583.737
Cost of sales (-)	31	(2.618.267.190)	(1.944.855.540)
Gross profit		**463.460.549**	**448.728.197**
General administrative expenses (-)	33	(82.933.933)	(67.989.017)
Marketing expenses (-)	33	(133.117.559)	(105.089.686)
Other operating income	34	82.330.954	6.488.899
Other operating expenses (-)	34	(5.038.160)	(24.047.246)
Operating profit		**324.701.851**	**258.091.147**
Income from investing activities	35	7.426.984	108.327
Expenses from investing activities (-)	35	-	(4.216.608)
Share of investments income/(loss) accounted by using the equity method	4	1.169.612	(515.547)
Operating profit before financial income/(expense)		**333.298.447**	**253.467.319**
Financial income	37	51.162.355	50.762.349
Financial expense (-)	37	(248.786.906)	(149.556.533)
Profit before tax		**135.673.896**	**154.673.135**
Tax income expense		**7.632.694**	**(66.361.129)**
Current tax expense	40	(3.958.644)	-
Deferred tax income/(expense)	40	11.591.338	(66.361.129)
Net income for the year		**143.306.590**	**88.312.006**
Net income attributable to:			
Shareholders' of the parent		143.341.828	91.683.825
Non-controlling interest		(35.238)	(3.371.819)
		143.306.590	**88.312.006**
Profit per share (TL)	41	1,40	0,98
Other comprehensive (loss) / income			
Items to be reclassified to profit or loss			
Currency translation differences		(49.187.920)	233.296.976
Cash flow hedge		(78.416.804)	8.402.960
(Loss) / gain on derivative contracts	*38*	*(98.021.005)*	*10.503.700*
Taxes related to other comprehensive (loss)/income items to be reclassified to profit or loss			
Deferred tax effect	*38*	*19.604.201*	*(2.100.740)*
Other comprehensive (loss) / income		**(127.604.724)**	**241.699.936**
Total comprehensive income		**15.701.866**	**330.011.942**
Total comprehensive income attributable to:			
Shareholders' of the parent		15.599.011	335.373.067
Non-controlling interest		102.855	(5.361.125)
		15.701.866	**330.011.942**

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

				Other comprehensive income/(loss) items to be reclassified to profit or loss		**Retained earnings**				
	Paid in share capital	Effects of business acquisition	Share premiums on capital stock	Currency translation differences	Hedge fund	Retained earnings	Net profit for the year	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' equity
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 acquisition of additional shares in a subsidiary	-	-	-	-	-	-	-	-	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**
As at 1 January 2014	**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**
Sale of subsidiary effect (Note 54)	-	-	-	-	-	-	-	-	(768.735)	(768.735)
Transfer to retained earnings (Note 54)	-	-	-	-	-	91.683.825	(91.683.825)	-	-	-
Total comprehensive income / (loss)	-	-	-	(49.326.013)	(78.416.804)	-	143.341.828	15.599.011	102.855	15.701.866
As at 31 December 2014	**102.272.000**	**29.504.957**	**455.687.025**	**258.696.079**	**(58.095.258)**	**229.876.620**	**143.341.828**	**1.161.283.251**	**(123.035)**	**1.161.160.216**

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current year (Audited) 1 January - 31 December 2014	Prior year (Audited) 1 January - 31 December 2013
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**143.341.828**	**91.683.825**
Adjustments to reconcile the net profit			
Depreciation and amortization	28	164.775.794	136.374.671
Provision for employee benefits	27	19.805.708	26.985.080
Provision for doubtful receivable	34	2.879.389	2.310.514
Current tax expense	40	(7.632.694)	66.361.129
Interest and commission (income)/expense	37	(15.550.770)	(22.037.280)
Gain on sales of fixed assets		-	(102.958)
(Gain) / loss on equity investments accounted for using the equity method	4	(1.169.612)	515.547
Change in maintenance reserves and redelivery provision	25	51.084.087	20.941.878
Other provisions related with investing or financing activities		154.788.617	5.832.218
Legal provison	25	915.056	635.937
Provision for impairment of fixed assets	14-34	-	11.545.649
Gain on sales of subsidiary	34	(611.235)	-
Provision for penalty and compensation	25	-	8.608.683
Changes in working capital			
Increase in trade receivables		(42.661.289)	(147.442.398)
Increase in inventories		(3.840.771)	(2.153.077)
Increase in other receivables and other current assets		(218.043.150)	(40.391.487)
Increase in trade payables		29.663.697	37.644.850
Increase in deferre income, other payables and other current liabilities		15.920.008	87.816.335
Net cash generated from operating activities		**293.664.663**	**285.129.116**
Payment for employee, executive bonus plan and retirement benefits	27	(23.011.899)	(19.845.171)
Payment for litigation provisions	25	(131.655)	(412.268)
Taxes paid	40	(10.893.163)	(6.242.744)
Penalty and compensation paid	25	(7.874.348)	-
		251.753.598	**258.628.933**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflows from purchase of property, equipment and intangible assets	14-17	(59.627.162)	(30.957.163)
Changes in advances on aircraft		16.814.155	(8.558.508)
Proceeds from sale / purchase discount of property, equipment and intangible assets		3.601.460	609.044
Proceeds from sale of subsidiary	51	386.545	-
		(38.825.002)	**(38.906.627)**
C. CASH FLOWS FROM FINANCING ACTIVITIES:			
Net cash inflows related with the sale of shares and other equity instruments		-	482.959.025
Repayment of principal in finance lease liabilities		(239.583.135)	(144.326.826)
Interest and commission paid		(35.807.870)	(29.487.796)
Interest received		53.681.875	47.122.113
Net increase in borrowings		14.408.336	6.845.780
Repayment of borrowings		(3.980.895)	(57.981.010)
Dividend payment out of group		-	(136.767)
		(211.281.689)	**304.994.519**
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)		**1.646.907**	**524.716.825**
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		(22.157.809)	142.534.608
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**(20.510.902)**	**667.251.433**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	53	877.401.671	210.150.238
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	**53**	**856.890.769**	**877.401.671**

(*) None of tangible and intangible assets acquisitions for the period ended 31 December 2014 was financed through finance leases. (31 December 2013: TL 74.787.016 of tangible and intangible assets acquisitions in total of TL 124.117.738 was financed through finance leases).

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

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 55 aircraft (31 December 2013: 49) including 3 owned, 25 under finance lease and 27 under operating lease as of 31 December 2014.

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.

<u>Subsidiaries</u>

IHY İzmir Havayolları 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, Izair 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 holded in İzair has increased up to 69,12%. Therefore, the Group has fully consolidated İzair as a subsidary 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 domestic and international scheduled flights under the name of Air Manas in Kyrgyz Republic.

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

Subsidiaries (cont'd)

İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş.

The Group, through Izair, held a 49,99% of the shares of İzmirliler Otelcilik until May 2012. In May 2012, İzair has sold its interest in İzmirliler 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 İzmirliler Otelcilik. The remaining shares are held by Turkish nationals. Based on TFRS 10, the Group included İzmirliler Otelcilik by line by line consolidation as of 1 January 2013, which had been accounted using equity method before.

İzmirliler Otelcilik currently operates a gas station and a hotel located within the premises leased from the State Airports Authority of Turkey (DHMİ) adjacent to the Adnan Menderes Airport in İzmir. The premises also include office space currently used as İzair 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 DHMİ at the end of the lease contract.

Total shares of İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş., line by line consolidated subsidiary of The Group, sold on 26 December 2014 in consideration for a charge of TL 1.738.275.

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 pre-emptive 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.

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 (Note 25). 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. However, in accordance with the agreement between Pegasus and AirBerlin, AirBerlin did not give notice to Pegasus of its decision to exercise the call option by the expiration date of 14 August 2014.

The shareholders and their respective holdings in the Company as of 31 December 2014 and 2013 are as follows:

	31 December 2014	**31 December 2013**
Esas Holding A.Ş. ("Esas Holding")	62,92%	62,92%
Publicly held	34,51%	34,51%
Sabancı Family Members	2,57%	2,57%
Total	**100,00**%	**100,00**%

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

The Group's total number of full time employees as of 31 December 2014 is 3.608 (31 December 2013: 3.105). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 December 2014 and delegated authority for publishing it on 4 March 2015. General shareholders' meeting has the authority to modify the financial statements.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance with TAS

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation.

Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles and the local currency in their registered countries

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards / Turkish Financial Reporting Standards and interpretations ("TAS/TFRS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

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.

<u>Functional and Presentation Currency</u>

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 2014: 1 Euro (€) = 2,8207 TL (31 December 2013: 1 Euro (€) = 2,9365 TL)
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions.

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

Comparative Information and Reclassification of Prior Period Financial Statements

Consolidated financial statements of Group are prepared in comparison to prior period in order to identify financial position and performance trends. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current period, the Group has made several reclassifications in the prior period consolidated financial statements in order to maintain consistency with current year consolidated financial statements. There is no effect of these reclassifications in the prior period equity and statement of profit or loss. The nature, amount and reasons for each of the reclassifications are described below:

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

2.1 Basis of Presentation (cont'd)

Comparative Information and Reclassification of Prior Period Financial Statements (cont'd)

- In the balance sheet, TL 318.600 that was previously presented under trade receivables has been reclassified and reported in other receivables from related parties.
- In the balance sheet, TL 6.331.968 that was previously presented in current liabilities under derivative financial instruments has been reclassified and reported in derivative financial instruments in current assets.
- In the balance sheet, TL 28.721.168 that was previously presented under long term prepaid expenses has been reclassified and reported in short term prepaid expenses.
- In the balance sheet, TL 6.242.744 that was previously presented under short term prepaid expenses has been reclassified and reported in current tax assets.
- In the statement of profit or loss, TL 3.214.555 that was previously presented in handling fees and TL 113.990 presented in landing expenses under cost of sales have been reported by netting off scheduled flights revenue.
- In the statement of profit or loss, TL 5.360.734 that was previously presented in other expenses under cost of sales has been reported by netting off scheduled flights revenue.
- In the statement of profit or loss, TL 1.787.227 that was previously presented in travel expenses under general administration expenses has been reported by netting off scheduled flights revenue.

Basis of Consolidation

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 31 December 2014 and 2013:

		Participation rate		Country of
Name of the company	Principal activity	31 December 2014	31 December 2013	registration and operation
IHY İzmir Havayolları A.Ş. ("İzair")	Air transportation	69%	69%	Turkey
Air Company "Air Manas" LTD ("Air Manas")	Air transportation	49%	49%	Kyrgyzstan
İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş. ("İzmirliler Otelcilik")(*)	Hotel-gas station administration	-	59%	Turkey

(*) Total shares of İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş., line by line consolidated subsidiary of the Group were sold on 26 December 2014 in consideration for TL 1.738.275.

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.

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

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.

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.

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

Changes in the Group's Ownership Interests in Existing Subsidiaries (cont'd)

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.

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 2014 and 2013:

		Participation rate		Country of
Name of the company	Principal activity	31 December 2014	31 December 2013	registration and operation
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Simulator Training	49%	49%	Turkey

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.

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

2.1 Basis of Presentation (cont'd)

Associates and Joint Ventures (cont'd)

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 retroprospectively and prior period financial statements are restated.

2.3 Changes in Accounting Estimates

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. Significant errors identified by the Group in the accounting estimates are applied retroprospectively and prior period financial statements are restated.

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

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

None.

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

Amendments to TFRS 10, 12, TAS 27	*Investment Entities*[1]
Amendments to TAS 32	*Offsetting Financial Assets and Financial Liabilities*[1]
Amendments to TAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*[1]
Amendments to TAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*[1]
TFRS Interpretation 21	*Levies*[1]
Amendments to TAS 21	*The Effects of Changes in Foreign Exhange Rates*[2]

[1] Effective for annual periods beginning on or after 1 January 2014.
[2] Effective from 12 November 2014 when the amendment was published.

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

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

(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	*Financial Instruments*
Amendments to TFRS 9 and TFRS 7	*Mandatory Effective Date of TFRS 9 and Transition Disclosures*
Amendments to TAS 19	*Defined Benefit Plans: Employee Contributions* [1]
Annual Improvements to 2010-2012 Cycle	*TFRS 2, TFRS 3, TFRS 8, TFRS 13, TAS 16 and TAS 38, TAS 24, TFRS 9, TAS 37, TAS 39*[1]
Annual Improvements to 2011-2013 Cycle	*TFRS 3, TFRS 13, TAS 40* [1]
Amendments to TAS 16 and TAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [2]
Amendments to TAS 16 and TAS 41	*Agriculture: Bearer Plants* [2]
Amendments to TAS 1, TAS 17, TAS 23, TAS 36, TAS 40	
Amendments to TFRS 11 and TFRS 1	*Accounting for Acquisition of Interests in Joint operations* [2]

[1] Effective for annual periods beginning on or after 30 June 2014.
[2] Effective for annual periods beginning on or after 30 December 2015.

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

2.5 Summary of Significant Accounting Policies

Related Parties

Related parties comprise of any person or entity related to the entity preparing the financial statements (reporting entity).

a) Any individual or any one of the close family members of such individual are considered as being related with the reporting entity: In the event the subject matter individual,

(i) is in possession of control or joint control over the reporting entity,
(ii) is entitled to a crucial influence on the reporting entity,
(iii) is a member of the key management staff of the reporting entity or one of the major shareholders of the reporting entity.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Related Parties (cont'd)

(b) In the event any of the following circumstances is present in existence, the entity is considered to be in relation with the reporting entity:

(i) If the entity and the reporting entity are members of the same group (in other words, each major partnership, associated partnership and other associated partnership is related to the others).
(ii) If the entity is an affiliate or business partnership of the other entity (or a member of the group that such other entity is also a member of).
(iii) If both entities are business partnerships of the same third party.
(iv) If one of the entities is a business partnership of any third entity and the other entity is an affiliate of the subject matter third entity.
(v) If there are benefit plans for the post-retirement stage with respect to the employees of the entity, reporting entity or any other entity related to the reporting entity. In the event the reporting entity is itself in possession of such a plan, the sponsoring employers are likewise related to the reporting entity.
(vi) If the entity is controlled by any individual identified under article (a) or under joint control.
(vii) If any individual identified under item (i) of article (a) is in possession of a substantial influence on the entity or is a member of the key management personnel of the subject matter entity (or of the major shareholder of any such entity).

Consists of the transfer of sources, services or obligations between the related party and any party related to the reporting entity of the transaction performed, regardless of whether the same is in consideration for a charge or otherwise.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Tangible Assets (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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 2014, and 2013. Therefore, no borrowing costs were capitalized during the years ended 31 December 2014, and 2013. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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 calculated based on the present value of the estimated future cost by Group management in line with the accounting policies used in the aircraft held under operating lease agreements 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 current tax 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.

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.

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 (cont'd)

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.

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

Taxes are recognised as an expense or income in profit or loss, except when they related to transactions that are recognised in equity. Otherwise taxes are also recognized in equity with other related transactions.

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. As a financing instrument, governmet grants, rather than to be recognized in profit or loss to offset the expenses they are financing, are to be recognized in the balance sheet as deferred income and be recognized in profit or loss on a systematic basis over the economical life of the related assets. 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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Government Grants (cont'd)

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 Group obtained incentive certificates from the Undersecretariat of Treasury for 13 aircraft. According to the incentive certificate the Group 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 Group has taxable profits during the year ended 31 December 2014 it has recognized the benefit in the financial statements associated with the Incentive Program (Note 23). As the Group did not have taxable profits during the year ended 31 December 2013 it had not recognized any benefit in the financial statements.

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial assets (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Liabilities (cont'd)

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.

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. Similarly, the Group enters into chooser forward option transactions to purchase US Dollars or brent oil on specified periods in order to monitor both foreign exchange and fuel price risk. Since these forward and chooser 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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Derivative Financial Instruments and Hedge Accounting (cont'd)

Inherently, the Group is exposed financial risks related to interest rate fluctuations. The most significant source of the interest rate risk is the financial lease liabilities. The policy of the Group is to transform a part of its floating rate financial liabilities into fixed rate financial liabilities by using derivative financial instruments. Derivative financial instruments procured for this purpose do not qualify for hedge accounting and 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 2014 and 2013.

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 49).

Events After the Reporting 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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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.

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

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 14. 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 2014.

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.

Litigation Provision

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 2.087.083 as of 31 December 2014 (Note 25).

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

2.6 Critical Accounting Estimates and Assumptions (cont'd)

Tax Audit

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

The Group has not put aside and reserved any provision, in parallel to the relevant opinions of its legal advisors as well as experts on taxation matters, taking into consideration several specific communiqués and the explanations under such Value Added Tax General Implementation Circular provided by the Revenues Administration to different taxpayers in relation with the subject matter, confirming the VAT rates applied at the different periods referred to hereinbefore, including the periods not reviewed and inquired on the attached consolidated financial statements (Note 25).

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 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 25).

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 - BUSINESS COMBINATIONS

None (31 December 2013: None).

NOTE 4 - INVESTMENT ACCOUNTED BY USING THE EQUITY METHOD

The details of investment accounted by using the equity method are as follows:

	31 December 2014	31 December 2013
Joint ventures		
PUEM	2.458.775	1.376.792
	2.458.775	**1.376.792**

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

	1 January - 31 December 2014	1 January - 31 December 2013
PUEM	1.169.612	776.760
İzair (*)	-	(1.292.307)
Net profit / (loss)	**1.169.612**	**(515.547)**

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

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

Pegasus Uçuş Eğitim Merkezi A.Ş.

	31 December 2014	31 December 2013
Current assets	1.275.485	1.118.309
Non-current assets	15.091.235	16.597.864
Current liabilities	(4.918.632)	(5.601.408)
Non-current liabilities	(6.470.810)	(9.327.737)
Net assets of joint venture	**4.977.278**	**2.787.028**
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	**2.458.775**	**1.376.792**

	2014	2013
Revenue	6.241.622	5.206.380
Net Income	2.367.636	1.572.389
Group's ownership interest	49,40%	49,40%
Group's share in the net assets of the joint venture	**1.169.612**	**776.760**

NOTE 5 - 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.

NOTE 6 - 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) Other receivables from related parties

	31 December 2014	31 December 2013
Balances with other related parties:		
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	265.501	318.600
PUEM	35.671	-
	301.172	**318.600**

b) Trade payables to related parties

	31 December 2014	31 December 2013
Balances with joint ventures and subsidiaries:		
PUEM	-	46.569
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş. (*)	85.569	65.822
RM Arşiv Yönetim Hizmetleri A.Ş. (**)	-	3.180
	85.569	**115.571**

(*) The trade name of EAG Turizm ve İnşaat Sanayi Ticaret A.Ş. has been changed as Esasburda İnşaat Sanayi ve Ticaret A.Ş. ("Esasburda").

(**) RM Arşiv Yönetim Hizmetleri A.Ş. ("RM Arşiv") has been delisted from related parties list as of 19 August 2014.

NOTE 6 - RELATED PARTY TRANSACTIONS (cont'd)

(ii) Significant Transactions with Related Parties:

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

The Group also leases their head office building from Esas Holding A.Ş. and Esasburda, another Esas Holding subsidiary, and records rent expense as disclosed below.

The Group generates advertising revenue by renting ad space via Doğan Burda.

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 their pilots.

a) Sale of services

	1 January- 31 December 2014	1 January- 31 December 2013
Balances with parent company:		
Esas Holding	-	139.588
Balances with joint ventures and subsidiaries:		
PUEM	525.844	406.006
İzair (*)	-	1.064.038
Balances with other related parties:	-	-
Doğan Burda	879.724	758.700
	1.405.568	**2.368.332**

b) Purchases of goods or services

	1 January- 31 December 2014	1 January- 31 December 2013
Balances with joint ventures and subsidiaries:		
PUEM	5.867.160	4.975.463
İzair (*)	-	1.091.086
Purchases from other related parties:		
Callpex	7.544.340	7.289.365
Esasburda	465.624	666.381
RM Arşiv (**)	19.476	28.384
Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş.	-	47.000
Other	28.109	226.820
	13.924.709	**14.324.499**

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

(**) Amount is due from the period up to 19 August 2014, the date RM Arşiv has been delisted from related parties list.

NOTE 6 - RELATED PARTY TRANSACTIONS (cont'd)

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

c) Rent expenses

	1 January- 31 December 2014	1 January- 31 December 2013
Esasburda	3.090.034	2.572.517
	3.090.034	**2.572.517**

d) Surety commission expenses

	1 January- 31 December 2014	1 January- 31 December 2013
Esas Holding	13.172.235	12.474.324
	13.172.235	**12.474.324**

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,575% of the 115% of the amount guaranteed.

(iii) Compensation of Key Management Personnel:

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the year ended 31 December 2014 and 2013 are as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
Salaries and other short term benefits	6.736.860	4.781.199
Other long term benefits	1.176.268	563.534
	7.913.128	**5.344.733**

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Short term trade receivables

The details of short term trade receivables as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Trade receivables	47.705.241	45.968.107
Credit card receivables	185.703.124	145.128.195
Income accruals	1.633.595	1.761.827
	235.041.960	**192.858.129**
Less: Allowance for doubtful receivables	(1.861.737)	(1.785.063)
	233.180.223	**191.073.066**

The average credit period on sales of services is approximately 25 days (31 December 2013: 23 days).

The movement of provision for doubtful receivables for the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	1.785.063	2.897.443
Charge for the year	172.356	804.451
Collections and written off allowances	(80.112)	(2.685.197)
Currency translation differences	(15.570)	768.366
31 December	**1.861.737**	**1.785.063**

Risk related to trade receivables is disclosed in Note 48.

Short term trade payables

The details of short term trade payables as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Trade payables	150.396.070	130.997.834
Accrued direct operational costs	32.902.644	30.696.256
Other accrued expenses	13.002.278	5.485.163
Due to related parties (Note 6)	85.569	115.571
	196.386.561	**167.294.824**

The average credit period on sales of services is approximately 25 days (31 December 2013: 27 days).

NOTE 8 - RECEIVABLES AND PAYABLES FROM FINANCE SECTOR OPERATIONS

None (31 December 2013: None).

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Short Term Other Receivables

	31 December 2014	31 December 2013
Deposits and guarantees given (*)	249.379.149	5.387.632
Incentive receivables from suppliers	21.961.366	22.841.484
Maintenance reserve contribution receivables	20.627.169	7.239.050
Due from related parties (Note 6)	301.172	318.600
Other receivables	1.813.748	6.807.450
Less: Allowance for doubtful receivables	(4.772.662)	(1.749.931)
	289.309.942	**40.844.285**

(*) The amount of TL 234.868.424 in deposits and gurantees given, consists of guarantee deposits given to banks related to valuation of derivative contracts.

The movement of provision for doubtful other receivables for the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	1.749.931	-
Charge for the year	2.707.033	1.506.063
Currency translation differences	315.698	243.868
31 December	**4.772.662**	**1.749.931**

Long Term Other Receivables

	31 December 2014	31 December 2013
Incentive receivables from suppliers	29.515.070	53.149.950
Deposits given	12.428.454	13.927.145
Other receivables	-	8.184
	41.943.524	**67.085.279**

Short Term Other Payables

	31 December 2014	31 December 2013
Taxes payables	7.315.631	5.886.997
Deposits received	5.921.021	11.192.787
	13.236.652	**17.079.784**

NOTE 10 - INVENTORIES

The details of inventories as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Consumables, spare parts and other inventory	7.408.388	3.747.172
Catering inventory	255.576	288.497
	7.663.964	**4.035.669**

NOTE 11 - BIOLOGICAL ASSETS

None (31 December 2013: None).

NOTE 12 - PREPAID EXPENSES AND DEFERRED INCOME

The details of prepaid expenses as of 31 December 2014 and 2013 are as follows:

Short term prepaid expenses

	31 December 2014	31 December 2013
Advances on aircraft purchases	63.915.029	28.721.168
Prepaid aircraft operating lease expense	14.495.376	8.896.859
Advances to suppliers	13.552.953	15.010.872
Prepaid insurance expense	8.877.202	7.558.557
Prepaid advertising expense	2.572.505	2.577.188
Other prepaid expenses	2.689.491	828.889
	106.102.556	**63.593.533**

Long term prepaid expenses

	31 December 2014	31 December 2013
Advances on aircraft purchases	23.768.728	69.285.036
Other prepaid expenses	1.312.917	163.966
	25.081.645	**69.449.002**

NOTE 12 - PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

The details of deferred income as of 31 December 2014 and 2013 are as follows:

Short term deferred income

	31 December 2014	31 December 2013
Passenger flight liabilities (*)	242.062.449	216.121.823
Deferred income from sale of subsidiary (**)	14.251.217	14.836.281
Advances received from customers	6.141.846	15.268.074
Other deferred income	1.889.288	2.028.577
	264.344.800	**248.254.755**

(*) Details of passanger 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 will take into consideration the income after the conclusion of the process about AirBerlin as described at Note 1.

The details of passenger flight liabilities as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Flight liability from ticket sales	175.992.993	149.153.458
Passenger airport fees received from customers	49.951.667	42.162.767
Flight liability from flight points	16.117.789	24.805.598
	242.062.449	**216.121.823**

Long term deferred revenue

	31 December 2014	31 December 2013
Deferred revenue	7.725.108	6.423.264
	7.725.108	**6.423.264**

NOTE 13 - INVESTMENT PROPERTY

None (31 December 2013: None).

NOTE 14 - PROPERTY AND EQUIPMENT

31 December 2014	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned and leased aircraft (*)	Construction in process	Total
Cost:								
Opening	**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**
Disposal of subsidiary	-	(25.979)	(156.305)	(2.019.006)	-	-	-	(2.201.290)
Additions	5.086.495	603.677	5.756.392	1.497.246	31.771.556	3.905.170	7.259.056	55.879.592
Disposals	(2.394)	(25.129)	-	(220.848)	(5.268.857)	(1.872.412)	-	(7.389.640)
Transfers	-	-	-	8.380.021	-	-	(8.380.021)	-
Currency translation differences	(174.066)	(272.409)	(1.589.637)	(802.127)	(2.462.175)	(168.458.638)	(324.561)	(174.083.613)
Closing	**7.016.010**	**7.310.207**	**40.779.927**	**28.184.960**	**67.289.792**	**2.392.480.349**	**1.529.477**	**2.544.590.722**
Accumulated depreciation:								
Opening	**(1.489.102)**	**(2.787.977)**	**(18.403.732)**	**(10.771.253)**	**(22.032.241)**	**(496.273.425)**	**-**	**(551.757.730)**
Disposal of subsidiary	-	25.979	107.628	1.440.192	-	-	-	1.573.799
Depreciation for the period	(460.865)	(1.122.233)	(4.435.609)	(3.342.061)	(5.582.682)	(146.584.596)	-	(161.528.046)
Disposals	201	573	-	9.204	3.778.202	-	-	3.788.180
Currency translation differences	48.945	125.710	821.766	275.353	920.352	92.653.595	-	94.845.721
Closing	**(1.900.821)**	**(3.757.948)**	**(21.909.947)**	**(12.388.565)**	**(22.916.369)**	**(550.204.426)**	**-**	**(613.078.076)**
Net book value	**5.115.189**	**3.552.259**	**18.869.980**	**15.796.395**	**44.373.423**	**1.842.275.923**	**1.529.477**	**1.931.512.646**

(*) The additions in owned and leased aircraft consist of the additional capitalized expenses related with the aircraft purchased in prior periods, the disposals consist of the purchasing discount.

NOTE 14 - PROPERTY AND EQUIPMENT (cont'd)

31 December 2013	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components and repairables	Owned and leased aircraft	Construction in process	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 period	(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. The negative amount of difference between selling value and the book value generated from the sales transaction, has been recorded as impairment provision.

NOTE 14 - PROPERTY AND EQUIPMENT (cont'd)

The useful lives of the depreciable assets are as follows:

	Useful life	
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:

	2014	**2013**
Current year depreciation	161.528.046	134.194.241
Current year amortization (Note 17)	3.247.748	2.180.430
	164.775.794	**136.374.671**

	2014	**2013**
Cost of sales (Note 31)	152.420.637	128.068.719
General administrative expenses (Note 33)	9.991.976	6.716.520
Marketing expenses (Note 33)	2.363.181	1.589.432
	164.775.794	**136.374.671**

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:

Net carrying amounts of leased assets	**31 December 2014**	**31 December 2013**
Aircraft	1.740.465.423	2.052.186.149

NOTE 15 - RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION

None (31 December 2013: None).

NOTE 16 - MEMBERS' SHARES IN CO-OPERATIVE ENTITIES AND SIMILAR INSTRUMENTS

None (31 December 2013: None).

NOTE 17 - INTANGIBLE ASSETS

31 December 2014	Brand	Software	Total
Cost:			
Opening	**2.070.233**	**20.505.267**	**22.575.500**
Disposal of subsidiary	-	(176.077)	(176.077)
Additions	-	3.747.570	3.747.570
Currency translation differences	(81.639)	(872.656)	(954.295)
Closing	**1.988.594**	**23.204.104**	**25.192.698**
Accumulated amortization:			
Opening	**(689.428)**	**(10.438.330)**	**(11.127.758)**
Disposal of subsidiary	-	141.685	141.685
Amortization for the period	(102.352)	(3.145.396)	(3.247.748)
Currency translation differences	21.201	490.966	512.167
Closing	**(770.579)**	**(12.951.075)**	**(13.721.654)**
Net book value	**1.218.015**	**10.253.029**	**11.471.044**

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 period	(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**

NOTE 18 - GOODWILL

None (31 December 2013: None).

NOTE 19 - EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

None (31 December 2013: None).

NOTE 20 - LEASING TRANSACTIONS

Details related to leasing transactions are disclosed in Note 47.

NOTE 21 - SERVICE CONCESSION AGREEMENTS

None (31 December 2013: None).

NOTE 22 - IMPAIRMENT OF ASSETS

No provison has been recognized in the current period as there is no impairment in the Group's assets. In the prior year, a provision for impairment was recognized for the Boeing 737-400 type aircraft in the balance sheet, under property and equipment, owned and leased aircraft account. The Company took the decision to sell the respective 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 of TL 11.545.649 between the book value and the selling price generated from the sales transaction, has been recorded as impairment. Explanations related to impairment in assets are disclosed in Note 14 and Note 2.5.

NOTE 23 - GOVERNMENT GRANTS AND INCENTIVES

The Group obtained incentive certificates from the Undersecretariat of Treasury for 13 aircraft. 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 of 31 December 2014, tax deduction recognized in the financial statements amounts 834.720 TL. As the Company did not have any taxable profits during the year ended 31 December 2013 it has not recognized any benefit associated with the Incentive Program.

NOTE 24 - BORROWING COSTS

For the years ended 31 December 2014 and 2013, as there are no qualifiying assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs for the respective periods are not capitalized. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 25 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short term provisions

	31 December 2014	31 December 2013
Provision for litigation claims	2.087.083	1.303.682
Redelivery provision	-	921.067
Provision for penalty and compensation	734.335	8.608.683
	2.821.418	**10.833.432**

Long term provisions

	31 December 2014	31 December 2013
Redelivery provision	118.912.191	59.558.259
	118.912.191	**59.558.259**

Provision for Penalty and Compensation

The movement of provision for penalty and compensation as of the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	8.608.683	-
Charge for the year	-	8.608.683
Payment during the year	(7.874.348)	-
31 December	**734.335**	**8.608.683**

Redelivery Provision

The detail of redelivery provision is as follows:

	31 December 2014	31 December 2013
Short term	-	921.067
Long term	118.912.191	59.558.259
	118.912.191	**60.479.326**

The movement of redelivery provision as of the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	60.479.326	28.297.112
Addition of subsidiary	-	1.105.039
Charge for the year	52.137.940	25.729.880
Disposals	(1.053.853)	(4.788.002)
Currency translation differences	7.348.778	10.135.297
31 December	**118.912.191**	**60.479.326**

NOTE 25 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Litigation

The movement of litigation provision is as follows:

	2014	2013
1 January	1.303.682	995.188
Addition of subsidiary	-	84.825
Charge for the year	1.358.660	888.833
Payments	(131.655)	(412.268)
Reversal of provision	(443.604)	(252.896)
31 December	**2.087.083**	**1.303.682**

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 5.824.082 as of 31 December 2014 (31 December 2013: TL 2.728.147). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 2.087.083 (31 December 2013: TL 1.303.682) 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 guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 545.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.212. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 31 December 2014 the appellate review of both lawsuits have been finalized in the Group's favor, whereby the court decision turning down the Group's request for the cancellation of the monetary fined has been overturned and the court decision cancelling the liquidation of the letter of credit by the administration has been upheld. The Group management believes that significant cash outflow is not probable and has not provided any provision for this fine.

Furthermore, a series of lawsuits have been filed by certain non-controlling shareholders of İzair requesting cancellation of the General Assembly decisions to increase 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. As of 31 December 2014, such resolutions concerning increase and decrease of capital under the aforesaid lawsuits dated April 30, 2010 and May 23, 2011 are finalized against the claimants, while the appellate review of the lawsuit regarding the General Assembly decision dated June 29, 2011 with respect to capital increase concluded with the dismissal of the plaintiffs' claims. The Group management believes that cash outflow is not probable and has not provided any provision for these lawsuits.

NOTE 25 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax Audit

The Inspection Officers of Ministry of Finance audited the accounts and transactions of the Company for 2009, 2010, 2011 and until January 2012 on the subject of VAT. As a result of this inspection, the tax inspector challenged the VAT tax remitted on behalf of the non-resident aircraft lessor company that is party to the Company's finance lease structure. In accordance with the legislative changes made by the Cabinet Decree on 01.08.2008, rate of VAT applied by the Company is 1%.

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

During this process;

On the official web site of the Directorate General of Revenues (www.gib.gov.tr), the Directorate of Major Taxpayers' Tax Office has issued individual circular orders, which have been given to a taxpayer dated 21.05.2013 and number 64597866-130 [28-2013]- 74, dated 08.07.2013 and number 64597866-130[28-2013]-93. Directorate General of Revenues also published Value Added Tax General Implementation Circular on Official Gazette Number 28983 Dated 26.04.2014.

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

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

As a result of the Tax Inspection made, upon our due request with respect to the accrued value added tax and tax loss penalties, such reconciliation negotiations realized on November 13, 2004 before Central Reconciliation Commission Chairmanship have not been concluded with reconciliation. This status is declared to the general public by our Special Status Announcement dated 13.11.2014. In parallel to the foregoing, the Company filed an action against the subject matter tax accrual and imposition of tax depletion penalty within the legal term of 15 days granted to that effect.

Management of the Company is anticipating that the implementation for VAT with respect to aircraft leasing operations made through financial leasing is in full compliance with the decrees adopted to that effect by the Board of Ministers of the Republic of Turkey, and estimates that the actions filed would be concluded and be awarded in favor of the Company. On grounds of the foregoing, the Company has not put aside and reserved any provision, in parallel to the relevant opinions of its legal advisors as well as experts on taxation matters, taking into consideration several specific communiqués and the explanations under such Value Added Tax General Implementation Circular provided by the Revenues Administration to different taxpayers in relation with the subject matter, confirming the VAT rates applied at the different periods referred to hereinbefore, including the periods not reviewed and inquired on the attached consolidated financial statements.

NOTE 25 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax Audit (cont'd)

Company's accounts as well as operations pertaining to year are inspected and examined in terms of Taxation Laws; and Corporation Tax Inspection Report number 2013-B-228/3, Corporation Tax Withholding Inspection Report number 2013-B-228/5, and Value Added Tax Withholding Tax Inspection Report number 2013-B-228/6 are hereby presented.

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.

A lawsuit has been filed by the Company, claiming revocation of such determination act with respect to an income difference in the amount of TL 1.630.561,18. Lawsuit filed before Istanbul Tax Court is concluded in favor of the Company. In respect of this judgment, Major Taxpayers Tax Office has appealed in upper court council of state and appeal process has not been concluded yet.

Under decrees of the 4th Department of the Supreme Court of State, dated 28.02.2007, 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.

NOTE 25 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax Audit (cont'd)

Lawsuits have been filed within legal terms granted, before Istanbul Tax Courts as of the respective months of year 2010, with the demand for waiver of the assessments set forth under the subject matter tax inspection reports and rescission of any fines accrued. Under 7 of the 12 lawsuits so filed, action with respect to the claim that any financial leasing payments made for abroad are subject to corporation tax withholding is concluded in favor of the Company as a result of the Judgment adopted by Istanbul 10th Tax Court, which Judgments are brought to appeal before the Council of State by the Tax Administration, and the trial process is still ongoing.

Such lawsuit filed on grounds of the argument that any package computer software of commodity nature, purchased from any company domiciled abroad is subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right (royalty) fee under scope of Article 30 of Corporation Tax Law, is concluded against the Company and such Judgment is brought by the Company to appeal before the Council of State.

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.

In the aforesaid process, some of the lawsuits filed with the demand for rescission of such fined value added tax assessments imposed in the name of the Company as per respective monthly periods of year 2010, with the claim that the rate of value added tax required to be calculated over corporation tax withholdings claimed as being payable over such leasing payments with respect to aircraft subject matter of financial leasing with the purpose of acquiring the same from companies with legal domiciles as well as principal places of business abroad being 18% are concluded, and such lawsuits concluded are in favor of the Company. The Judgment made is brought to appeal by the Tax Administration before the Council of State and Regional Administrative Court, which trial process is still ongoing.

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

NOTE 26 - COMMITMENTS

Purchase Commitments

	31 December 2014	31 December 2013
Commitments to purchase aircraft	21.585.233.161	17.263.069.600
	21.585.233.161	**17.263.069.600**

As of 31 December 2014, the Group holds firm orders for 77 aircraft. The expected deliveries are: 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 87.683.757 (31 December 2013: TL 98.006.204) and TL 63.915.029 (31 December 2013: TL 28.721.168) of this amount is reclassified under short term prepaid expenses, TL 23.768.728 (31 December 2013: TL 69.285.036) of this amount is reclassified under long term prepaid expenses.

The Company as Lessee

Operating Lease Agreements:

Payments recognised as expense:

	1 January- 31 December 2014	1 January- 31 December 2013
Minimum lease payments	187.526.312	116.137.080
	187.526.312	**116.137.080**

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 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Less than 1 year	225.002.237	149.922.590
Between 1 - 5 years	798.480.355	531.204.714
Over 5 years	179.730.639	159.064.094
	1.203.213.231	**840.191.398**

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 2014	31 December 2013
Less than 1 year	-	185.143
Between 1 - 5 years	-	524.571
	-	**709.714**

NOTE 26 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages("CPM")

The details of the CPMs given by the Group as of 31 December 2014 is as follows:

31 December 2014	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on the behalf of its own legal entity					
-Collateral	278.165.765	103.203.384	8.096.773	10.097.338	5.911.532
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
-Collateral	24.363.133	4.998.000	-	12.773.271	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	8.328.186	1.176.500	-	5.600.000	-
-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	-	-	-	-	-
	310.857.084	**109.377.884**	**8.096.773**	**28.470.609**	**5.911.532**

(*) 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 2014.

NOTE 26 - COMMITMENTS (cont'd)

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

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

31 December 2013	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on the behalf of its own legal entity					
-Collateral	223.768.122	88.074.323	6.617.026	12.298.350	4.825.455
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
-Collateral	14.633.608	3.116.000	-	7.983.129	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	7.846.754	3.676.500	-	-	-
-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	-	-	-	-	-
	246.248.484	**94.866.823**	**6.617.026**	**20.281.479**	**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 CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

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

NOTE 27 - EMPLOYEE BENEFITS

Employee benefit obligations

The details of employee benefit obligations as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Social security premiums payable	4.760.318	3.909.281
Accrual of employee wages	3.880.951	2.896.475
	8.641.269	**6.805.756**

Short term provisions for employee benefits

The details of short term provisions for employee benefits as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Employee bonus plan	17.336.738	22.906.316
Unused vacation accrual	7.203.782	5.767.081
Executive bonus plan	2.699.743	2.190.629
	27.240.263	**30.864.026**

Long term provisions for employee benefits

The details of long term provisions for employee benefits as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Executive bonus plan	4.978.203	5.103.637
Employment termination benefits	1.214.446	915.212
	6.192.649	**6.018.849**

Unused Vacation Accrual

The movement of unused vacation accrual as of the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	5.767.081	4.355.395
Disposal of subsidiary	(6.488)	-
Charge for the year	2.010.324	1.704.898
Payment during the year	(567.135)	(293.212)
31 December	**7.203.782**	**5.767.081**

NOTE 27 - EMPLOYEE BENEFITS (cont'd)

Executive Bonus Plan

The composition of executive bonus plan provision is as follows:

	31 December 2014	31 December 2013
Short term	2.699.743	2.190.629
Long term	4.978.203	5.103.637
	7.677.946	**7.294.266**

The movement of executive bonus plan as of the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	7.294.266	4.703.400
Charge for the year	2.775.569	2.889.516
Payment during the year	(1.946.273)	(1.049.433)
Reversal of provision	(223.618)	(110.017)
Currency translation differences	(221.998)	860.800
31 December	**7.677.946**	**7.294.266**

Employee Bonus Plan

The movement of employee bonus plan as of the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	22.906.316	18.513.234
Charge for the year	17.336.738	22.906.316
Payment during the year	(19.699.974)	(18.028.192)
Reversal of provision	(3.206.342)	(1.021.767)
Currency translation differences	-	536.725
31 December	**17.336.738**	**22.906.316**

Employee Termination Benefits

The Group, according to Turkish Labor Law, has an obligation to pay legal termination benefits for every employee who has completed at least one year service and retired after completion of 25 years working life (for females 58 years, for males 60 years), fired from job, called up to military service or died.

The amount payable consists of one month's salary limited to a maximum of TL 3.438,22 for each period of service at 31 December 2014 (31 December 2013: TL 3.254,44).

NOTE 27 - EMPLOYEE BENEFITS (cont'd)

Employee Termination Benefits (cont'd)

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 2014, 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 5,50% (2013: 6,00%) and a discount rate of 8,50% (2013: 8,97%), resulting in a real discount rate of approximately 2,84% (2013: 3,78%) and anticipated turnover rate of 83,11% (2013: 82,19%). As the maximum liability is revised annually, the maximum amount of TL 3.451,37 effective from 1 January 2015 has been taken into consideration in calculation of provision from employee termination benefits.

The movement of employee termination benefits as of the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	915.212	621.895
Disposal of subsidiary	(15.286)	-
Addition of subsidiary	-	151.517
Service cost	1.079.011	584.124
Interest cost	34.026	32.010
Retirement benefits paid	(798.517)	(474.334)
31 December	**1.214.446**	**915.212**

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.

Significant assumptions used in the calculation of employee termination benefits are the discount rate and anticipated turnover rate.

- If the discount rate had been 1% lower/(higher), provision for employee termination benefits would increase/(decrease) by TL 78.577.
- If the anticipated turnover rate had been 1% higher/(lower) while all other variables were held constant, provision for employee termination benefits would decrease/(increase) by TL 107.718.

NOTE 28 - EXPENSES BY NATURE

The details of expenses by nature as of the years ended 31 December 2014 and 2013 are as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
Jet fuel expenses	1.171.483.344	867.362.055
Personnel expenses	347.994.931	274.346.707
Handling and station fees	211.940.592	153.026.750
Navigation expenses	202.540.068	143.093.289
Operating lease expenses	187.526.312	116.137.080
Depreciation and amortisation expense	164.775.794	136.374.671
Maintenance expenses	158.842.491	108.282.864
Landing expenses	80.935.152	60.290.757
Advertising expenses	65.810.973	47.967.919
Commission expenses	42.460.654	34.838.294
Passenger service and catering expenses	34.408.898	25.242.525
Other expenses	165.599.473	150.971.332
	2.834.318.682	**2.117.934.243**

NOTE 29 - OTHER ASSETS AND LIABILITIES

Other current assets

The details of other current assets as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
VAT receivables	1.959.177	11.478.451
Other	231.854	143.840
	2.191.031	**11.622.291**

Other short term liabilities

The details of other short term liabilities as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Other	230.707	372.921
	230.707	**372.921**

NOTE 30 - SHAREHOLDERS' EQUITY

The Company's shareholding structure as of 31 December 2014 and 2013 is as follows:

	31 December 2014		31 December 2013	
Shareholders:	**(%)**	**TL**	**(%)**	**TL**
Esas Holding	62,92	64.353.570	62,92	64.353.570
Publicly held	34,51	35.294.000	34,51	35.294.000
Emine Kamışlı	0,86	874.810	0,86	874.810
Ali İsmail Sabancı	0,86	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
TL historic capital	**100,0**	**102.272.000**	**100,0**	**102.272.000**

The Company's share capital consists of 102.272.000 shares of par value TL 1 each (31 December 2013: 102.272.000 shares). All issued shares are fully paid in cash.

Dividend Distribution

Shares of the Company have 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. Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of associations.

Resources Available for Profit Distribution:

The Company's distributable net profit in statutory accounts as of balance sheet date is TL 9.546.511 (31 December 2013: None).

Currency Translation Differences

For the purpose of preparation of the consolidated financial statements and disclosures, according to TAS 21, monetary items in statutory financial statements is translated to TL using year-end EUR exchange rates, non-monetary items in balance sheet,income/expenses and cash flow are translated to TL by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under equity. Also, currency translation differences in equities of the Group's line by line consolidated subsidiaries İzair and Air Manas, is presented under currency translation item.

NOTE 30 - SHAREHOLDERS' EQUITY (cont'd)

Gain/Losses from Cash Flow Hedges

Hedge gain/losses against cash flow risk arise from the accounting of the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows under equity. Total of deferred gain/loss arising from hedging against financial risk are accounted in profit or loss when the effect of the hedged item has effect on profit or loss.

Share Premiums on Capital Stock

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

Effects of Business Acquisitions

As the acquisition of İzair's majority shares by the Group on 28 September 2010 had no effect over Esas Holding A.Ş. being the ultimately controlling shareholder which had ultimate control over both subsidiaries pre and post the acquisition, it is defined as business combination under common control.

Non-controlling Interests

Non-controlling shareholders' shares on subsidiaries' net assets and operational outcomes are disclosed as non-controlling interests in the consolidated balance sheet and in the consolidated statement of profit or loss and other comprehensive income.

NOTE 31 - SALES AND COST OF SALES

The details of sales and cost of sales as of the years ended 31 December 2014 and 2013 are as follows:

Sales:

	1 January- 31 December 2014	**1 January- 31 December 2013**
Scheduled flights	2.337.232.228	1.866.773.124
International scheduled flights	*1.421.946.153*	*1.089.979.218*
Domestic scheduled flights	*915.286.075*	*776.793.906*
Ancillary revenue	532.422.618	340.330.955
Charter flights	156.334.866	127.429.963
Other revenue	55.738.027	50.145.746
AirBerlin Turkey operation revenue	-	8.903.949
	3.081.727.739	**2.393.583.737**

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

	1 January- 31 December 2014	**1 January- 31 December 2013**
Domestic	915.286.075	776.793.906
Europe	1.176.806.023	963.075.455
Other	245.140.130	126.903.763
	2.337.232.228	**1.866.773.124**

Cost of sales:

	1 January- 31 December 2014	**1 January- 31 December 2013**
Jet fuel expenses	1.171.483.344	867.362.055
Personnel expenses	301.217.647	235.661.307
Handling and station fees	211.940.592	153.026.750
Navigation expenses	202.540.068	143.093.289
Operating lease expenses	187.526.312	116.137.080
Maintenance expenses	158.842.491	108.282.864
Depreciation and amortisation expenses	152.420.637	128.068.719
Landing expenses	80.935.152	60.290.757
Passenger service and catering expenses	34.408.898	25.242.525
Other expenses	116.952.049	95.945.738
AirBerlin Turkey operation cost of sales	-	11.744.456
	2.618.267.190	**1.944.855.540**

NOTE 32 - CONSTRUCTION CONTRACTS

None (31 December 2013: None).

NOTE 33 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 31 December 2014	1 January- 31 December 2013
Marketing expenses	133.117.559	105.089.686
General administrative expenses	82.933.933	67.989.017
	216.051.492	**173.078.703**

The details of general administrative expenses and marketing expenses as of the years ended 31 December 2014 and 2013 are as follows (there are no research & development expenses in the years ended in respective dates):

General administrative expenses:

	1 January- 31 December 2014	1 January- 31 December 2013
Personnel expenses	34.774.210	28.450.420
Rent expenses	10.059.903	7.765.159
Depreciation and amortisation expenses	9.991.976	6.716.520
IT expenses	6.889.597	4.220.829
Consultancy expenses	5.245.075	3.171.605
Legal and notary expenses	3.035.191	2.821.494
Travel expenses	2.906.123	2.846.804
Office utility expenses	1.584.335	1.715.769
Other expenses	8.447.523	10.280.417
	82.933.933	**67.989.017**

Marketing expenses:

	1 January- 31 December 2014	1 January- 31 December 2013
Advertising expenses	65.810.973	47.967.919
Commission expenses	42.460.654	34.838.294
Personnel expenses	12.003.074	10.234.980
Call center expenses	7.897.154	7.817.024
Depreciation and amortisation expenses	2.363.181	1.589.432
Other expenses	2.582.523	2.642.037
	133.117.559	**105.089.686**

NOTE 34 - OTHER OPERATING INCOME AND EXPENSES

The details of other operating income and expenses as of the years ended 31 December 2014 and 2013 are as follows:

Other operating income:

	1 January- 31 December 2014	**1 January- 31 December 2013**
Foreign exchange gain from operating activities	77.822.407	-
Gain on disposal of subsidiary (Note 51)	611.235	-
Discount cancellation income	471.063	-
Rent income	210.409	177.634
Income from sale and leaseback transactions	-	5.153.875
Other income	3.215.840	1.157.390
	82.330.954	**6.488.899**

Other operating expenses:

	1 January- 31 December 2014	**1 January- 31 December 2013**
Doubtful receivable expense	2.879.389	2.310.514
Penalty and compensation expenses	289.728	7.247.500
Foreign exchange loss from operating activities	-	1.115.873
Provision expense for impairment of fixed assets	-	11.545.649
Receivable discount expense	-	60.054
Other expense	1.869.043	1.767.656
	5.038.160	**24.047.246**

NOTE 35 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of income from investing activities as of the years ended 31 December 2014 and 2013 are as follows:

Income from investing activities:

	1 January- 31 December 2014	**1 January- 31 December 2013**
Foreign exchange gain from investing activities	7.312.454	-
Other income	114.530	108.327
	7.426.984	**108.327**

Expenses from investing activities:

	1 January- 31 December 2014	**1 January- 31 December 2013**
Foreign exchange loss from investing activities	-	4.216.608
	-	**4.216.608**

NOTE 36 - EXPENSES CLASSIFIED BY PRINCIPLE OF TYPE

None (31 December 2013: None).

NOTE 37 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses as of the years ended 31 December 2014 and 2013 are as follows:

Financial income:

	1 January- 31 December 2014	1 January- 31 December 2013
Interest income	51.162.355	50.762.349
	51.162.355	**50.762.349**

Financial expenses:

	1 January- 31 December 2014	1 January- 31 December 2013
Losses from derivative contracts	146.770.773	2.465.006
Foreign exchange loss	66.404.548	116.448.571
Surety commission expenses	13.172.235	12.474.324
Other commission expenses	12.225.015	8.269.034
Interest expense on obligations under finance lease	10.214.335	5.599.508
Interest expense on bank loans	-	2.382.203
Other interest expenses	-	1.917.887
	248.786.906	**149.556.533**

NOTE 38 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

Currency Translation Differences

	2014	2013
1 January	308.022.092	72.735.810
Exchange differences arising on translating the non-monetary items of the the parent	(51.044.985)	238.121.017
Exchange differences arising on translating the non-monetary items of the domestic subsidiaries	402.366	(1.488.371)
Exchange differences arising on translating the non-monetary items of the subsidiaries abroad	1.316.606	(1.346.364)
31 December	**258.696.079**	**308.022.092**

Hedge Fund

	2014	2013
1 January	20.321.546	11.918.586
Gain/(loss) from the accounting of cash flow hedges against financial risk	(98.021.005)	10.503.700
Deferred tax related with the gain/(loss) accounted in comprehensive income/(expense)	19.604.201	(2.100.740)
31 December	**(58.095.258)**	**20.321.546**

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

NOTE 39 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None (31 December 2013: None).

NOTE 40 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES

	31 December 2014	31 December 2013
Current corporate tax provision	3.958.644	-
Less: Prepaid taxes and funds	(10.893.163)	(6.242.744)
Current tax assets (*)	**(6.934.519)**	**(6.242.744)**

(*) The exceeding portion of the prepaid taxes over current corporate tax provision is reported in current tax assets as of 31 December 2014.

NOTE 40 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

	1 January- 31 December 2014	1 January- 31 December 2013
Income tax expense		
- Current tax expense	(3.958.644)	-
- Deferred tax income/(expense)	11.591.338	(66.361.129)
Total tax income/(expense)	**7.632.694**	**(66.361.129)**

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 corporate tax rate in Turkey is 20% (2013: 20%).

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 (2013: 20%).

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

NOTE 40 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The consolidated deferred asset/(liability) position as of 31 December 2014 and 2013 is as follows:

	31 December 2014		31 December 2013	
	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	6.692.622	(220.633.835)	357.245	(221.090.467)
Provision for employee benefits	40.581	202.308	34.419	148.623
Provision for litigation claims	34.977	382.440	24.000	236.736
Unused vacation and bonus plans provision	-	1.308.105	-	5.734.679
Carry forward tax losses	10.114.606	-	12.297.760	37.326.105
Deferred revenue from flight points	-	3.223.558	-	4.961.120
Relivery provisions for the leased aircraft	2.554.168	21.228.267	899.748	11.196.116
Change in fair value of derivative contracts	-	47.669.358	-	(2.892.566)
Other	826.518	17.978.525	1.106.512	3.206.417
Deferred tax provision (*)	(6.862.470)	-	(6.716.996)	-
Deferred tax asset / (liability)	**13.401.002**	**(128.641.274)**	**8.002.688**	**(161.173.237)**

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

The Group's carryforward tax losses subject to recognition of deferred tax asset as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
2014	-	6.012.458
2015	4.912.592	6.613.704
2016	5.403.851	193.905.598
2017 and after	5.944.236	8.002.583
	16.260.679	**214.534.343**

The Group's deferred tax movement of as of 31 December 2014 and 2013 are as follows:

	2014	2013
1 January	(153.170.549)	(72.180.973)
Additon of subsidiary	-	12.582.283
Disposal of subsidiary	(510.254)	-
Charge for the period	11.591.338	(66.361.129)
Deferred tax recognized in other reserves - hedge funds	19.604.201	(2.100.740)
Currency translation difference	7.244.992	(25.109.990)
31 December	**(115.240.272)**	**(153.170.549)**

NOTE 40 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Tax effects related to other comprehensive income as of 31 December 2014 and 2013 are as follows:

	1 January - 31 December 2014		
	Amount before tax	Tax (expense)/ income	Amount after tax
Change in foreign currency translation	(49.187.920)	-	(49.187.920)
Change in cash flow hedge reserve	(98.021.005)	19.604.201	(78.416.804)
Other comprehensive income	**(147.208.925)**	**19.604.201**	**(127.604.724)**

	1 January - 31 December 2013		
	Amount before tax	Tax (expense)/ income	Amount after tax
Change in foreign currency translation	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**

Reconciliation of tax expense in consolidated statement of profit or loss for the years ending 31 December 2014 and 2013 is as follows:

	2014	**2013**
Profit before tax	**135.673.896**	**154.673.135**
Enacted local tax rate	20%	20%
Tax calculated at the enacted tax rate	27.134.779	30.934.627
Tax effect of disallowable expenses	1.883.231	2.704.603
Tax-exempt revenue	(2.535.010)	(23.876)
Tax losses over which deferred tax asset was not recognized	145.474	6.716.996
Translation effect and other	(34.261.168)	26.028.779
Taxation expense	**(7.632.694)**	**66.361.129**

NOTE 41 - 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 2014 and 2013 are as follows:

	1 January-31 December 2014	**1 January-31 December 2013**
Net income attributable to shareholders of the parent	143.341.828	91.683.825
Weighted average number of shares issued in the period	102.272.000	93.730.769
Earnings per share	**1,40**	**0,98**

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.

NOTE 42 - SHARE-BASED PAYMENTS

None (31 December 2013: None).

NOTE 43 - INSURANCE CONTRACTS

None (31 December 2013: None).

NOTE 44 - EFFECTS OF EXCHANGE RATE CHANGES

None (31 December 2013: None).

NOTE 45 - REPORTING IN HYPERINFLATIONARY ECONOMIES

None (31 December 2013: None).

NOTE 46 - DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value of Derivative Financial Instruments

	31 December 2014		**31 December 2013**	
	Asset	**Liability**	**Asset**	**Liability**
Short term	6.576.885	182.607.585	31.733.900	17.271.071
Long term	-	62.316.092	-	-
	6.576.885	**244.923.677**	**31.733.900**	**17.271.071**

Detailed explanations related to derivative financial instruments are disclosed in Note 2.5 and Note 49.

NOTE 47 - FINANCIAL INSTRUMENTS

Financial Liabilities

The details of financial liabilities as of 31 December 2014 and 2013 are as follows:

Short term financial liabilities	**31 December 2014**	**31 December 2013**
Short term bank borrowings	4.504.480	3.980.899
Short term portion of long term finance lease obligations	162.765.963	181.171.887
	167.270.443	**185.152.786**

Long term financial liabilities	**31 December 2014**	**31 December 2013**
Long term finance lease obligations	1.186.991.297	1.441.206.556
	1.186.991.297	**1.441.206.556**

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

a) Bank Borrowings

The effective interest rates, original currency and TL equivalents of the borrowings as of 31 December 2014 and 2013 are as follows:

31 December 2014

	Weighted average interest rate (%)	**Currency**	**Original amount**	**TL amount**
Short term bank borrowings	0,00 (*)	TL	4.504.480	4.504.480
Total loans				**4.504.480**

31 December 2013

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

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

NOTE 47 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Financial Lease Liabilities

The details of financial lease liabilities as of 31 December 2014 and 2013 are as follows:

	31 December 2014	**31 December 2013**
Less than 1 year	168.520.791	191.326.331
Between 1 - 5 years	683.783.642	749.158.042
Over 5 years	528.461.762	733.864.601
	1.380.766.195	1.674.348.974
Less: Future interest expenses	(31.008.935)	(51.970.531)
	1.349.757.260	**1.622.378.443**

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

	31 December 2014	**31 December 2013**
Less than 1 year	162.765.963	181.171.887
Between 1 - 5 years	663.881.114	719.090.090
Over 5 years	523.110.183	722.116.466
	1.349.757.260	**1.622.378.443**

The Group purchases certain of its aircraft through finance lease arrangements. The average lease term is 12 years. For the period ended 31 December 2014, the floating interest rate applicable to Euro-denominated lease obligations is 0,34% (31 December 2013: 0,62%) and the floating rate applicable to US Dollar-denominated lease obligations is 1,25% (31 December 2013: 0,54%).

Net carrying amounts of leased assets as of the balance sheet date is TL 1.740.465.423 (31 December 2013: TL 2.052.186.149)

NOTE 47 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Financial Lease 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.

NOTE 48 - 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 47, 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.

The debt-capital ratio that is calculated as net debt (total borrowings less cash and cash equivalents) divided by total capital as of 31 December 2014 and 2013 are as follows.

	31 December 2014	**31 December 2013**
Financial Liabilities	1.354.261.740	1.626.359.342
Less: Cash and Cash Equivalents	(856.890.769)	(877.401.671)
Net Debt	497.370.971	748.957.671
Total Equity	1.161.160.216	1.146.227.085
Total Capital	1.658.531.187	1.895.184.756
Net Debt/Total Capital Ratio	**0,3**	**0,4**

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.

NOTE 48 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Credit risk management

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2014	**Related Party**	**Other**	**Related Party**	**Other**	**Bank Deposits**	**Derivative Instruments**
Maximum exposed credit risk as of reporting date (A+B+C+D) (*)	**-**	**233.180.223**	**301.172**	**330.952.294**	**856.722.530**	**6.576.885**
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	12.102.341	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	232.199.501	301.172	330.952.294	856.722.530	6.576.885
B. Net book value of financial assets that are past due but not impaired	-	980.722	-	-	-	-
-The part under guarantee with collateral etc.	-	320.396	-	-	-	-
C. Net book value of impaired assets						
- Past due (gross carrying amount)	-	1.861.737	-	4.772.662	-	-
- Impairment(-)	-	(1.861.737)	-	(4.772.662)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	-	-	-	-	-
- Impairment(-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**) Guarantees consist of the letters of guarantee obtained from the customers

NOTE 48 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Credit risk management (cont'd)

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2013	**Related Party**	**Other**	**Related Party**	**Other**	**Bank Deposits**	**Derivative Instruments**
Maximum exposed credit risk as of reporting date (A+B+C+D) (*)	**-**	**191.073.066**	**318.600**	**107.610.964**	**877.272.136**	**31.733.900**
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	4.498.226	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	190.502.830	318.600	107.610.964	877.272.136	31.733.900
B. Net book value of financial assets that are past due but not impaired	-	570.236	-	-	-	-
-The part under guarantee with collateral etc.	-	129.943	-	-	-	-
C. Net book value of impaired assets						
- Past due (gross carrying amount)	-	1.785.063	-	1.749.931	-	-
- Impairment(-)	-	(1.785.063)	-	(1.749.931)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	-	-	-	-	-
- Impairment(-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**) Guarantees consist of the letters of guarantee obtained from the customers

NOTE 48 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Credit risk management (cont'd)

Aging of the past due receivables is as follows:

31 December 2014	Trade receivables	Other receivables	Bank deposits	Total
1-30 days past due	283.777	-	-	283.777
1-3 months past due	38.371	-	-	38.371
3-12 months past due	658.574	-	-	658.574
1-5 years past due	1.861.737	4.772.662	-	6.634.399
More than 5 years past due	-	-	-	-
Receivables secured by guarantees	(320.396)	-	-	(320.396)
	2.522.063	**4.772.662**	**-**	**7.294.725**

31 December 2013	Trade receivables	Other receivables	Bank deposits	Total
1-30 days past due	319.352	-	-	319.352
1-3 months past due	152.003	-	-	152.003
3-12 months past due	98.881	-	-	98.881
1-5 years past due	1.785.063	1.749.931	-	3.534.994
More than 5 years past due	-	-	-	-
Receivables secured by guarantees	(129.943)	-	-	(129.943)
	2.225.356	**1.749.931**	**-**	**3.975.287**

NOTE 48 - 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 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 2014 **Due date on the contract**	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months- 12 months (II)**	**1 year- 5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities	4.504.480	4.504.480	4.504.480	-	-	-
Obligations under financial leases	1.349.757.260	1.380.766.195	42.226.998	126.293.793	683.783.642	528.461.762
Trade payables	196.386.561	196.386.561	196.386.561	-	-	-
Passenger airport fees liability	49.951.667	49.951.667	35.445.765	14.505.902	-	-
	1.600.599.968	**1.631.608.903**	**278.563.804**	**140.799.695**	**683.783.642**	**528.461.762**

Due date on the contract	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months- 12 months (II)**	**1 year- 5 years (III)**	**More than 5 years (IV)**
Derivative financial liabilities						
Derivative cash inflows outflows, net	(238.346.792)	(243.890.703)	(67.080.348)	(112.350.296)	(64.686.305)	226.246

31 December 2013 **Due date on the contract**	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months- 12 months (II)**	**1 year- 5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities	3.980.899	3.980.899	3.980.899	-	-	-
Obligations under financial leases	1.622.378.443	1.674.348.974	52.549.942	138.776.389	749.158.042	733.864.601
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	-	-
	1.835.816.933	**1.887.787.464**	**253.543.198**	**151.221.623**	**749.158.042**	**733.864.601**

Due date on the contract	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months- 12 months (II)**	**1 year- 5 years (III)**	**More than 5 years (IV)**
Derivative financial liabilities						
Derivative cash inflows outflows, net	14.462.829	23.979.982	(1.182.918)	25.162.900	-	-

NOTE 48 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, fuel price and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency, fuel price and interest rate 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 years ended 31 December 2014 and 2013 are as follows:

NOTE 48 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2014	TL Total	USD	TL	GBP	Other
1. Trade receivables	168.289.021	6.572.925	122.923.989	2.768.338	20.167.856
2a. Monetary financial assets	730.019.628	233.713.712	153.209.145	6.816.076	10.340.465
2b. Non monetary financial assets	-	-	-	-	-
3. Other	271.872.624	116.823.664	39.848	34.866	805.000
4. CURRENT ASSETS	1.170.181.273	357.110.301	276.172.982	9.619.280	31.313.321
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	35.439.526	15.060.186	189.478	44.800	165.877
8. NON CURRENT ASSETS	35.439.526	15.060.186	189.478	44.800	165.877
9. TOTAL ASSETS	1.205.620.799	372.170.487	276.362.460	9.664.080	31.479.198
10. Trade payables	117.845.568	30.962.487	37.788.620	544.767	6.299.000
11. Financial liabilities	38.566.656	14.688.937	4.504.480	-	-
12a. Other liabilitites, monetary	25.338.331	4.568.480	18.473.657	192.401	(4.421.068)
12b. Other liabilitites, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	181.750.555	50.219.904	60.766.757	737.168	1.877.932
14. Trade payables	-	-	-	-	-
15. Financial liabilities	213.300.183	91.983.347	-	-	-
16a. Other liabilitites, monetary	-	-	-	-	-
16b. Other liabilitites, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	213.300.183	91.983.347	-	-	-
18. TOTAL LIABILITIES	395.050.738	142.203.251	60.766.757	737.168	1.877.932
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	79.889.762	38.453.742	-	(1.800.000)	(2.807.640)
19.a Off-balance sheet foreign currency derivative assets	89.170.382	38.453.742	-	-	-
19b. Off-balance sheet foreigncurrency derivative liabilities	9.280.620	-	-	1.800.000	2.807.640
20. Net foreign currency asset/(liability) position	810.570.061	229.967.236	215.595.703	8.926.912	29.601.266
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	503.257.911	98.083.386	215.366.377	8.847.246	28.630.389

NOTE 48 - 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	131.723.992	6.765.139	95.520.704	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	84.922.626	34.318.444	11.536.922	14.815	87.828
4. CURRENT ASSETS	1.068.441.031	94.936.437	833.734.067	3.408.205	20.116.556
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	82.377.776	38.410.676	168.571	19.800	159.773
8. NON CURRENT ASSETS	82.377.776	38.410.676	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 liabilitites, monetary	38.531.174	5.322.871	27.150.209	188	19.701
12b. Other liabilitites, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	166.833.771	45.201.097	66.078.230	402.421	2.869.778
14. Trade payables	-	-	-	-	-
15. Financial liabilities	227.623.955	106.650.403	-	-	-
16a. Other liabilitites, monetary	-	-	-	-	-
16b. Other liabilitites, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	227.623.955	106.650.403	-	-	-
18. TOTAL LIABILITIES	394.457.726	151.851.500	66.078.230	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	-	-
19b. 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	756.361.081	(18.504.387)	767.824.408	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)	589.060.679	(91.233.507)	756.118.915	2.990.969	17.158.950

NOTE 48 - 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 items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Foreing currency sensitivity tables as of 31 December 2014 and 2013 are as follows:

31 December 2014	**Profit/Loss**		**Shareholders' equity**	
	If foreign currency appreciated 10%	**If foreign currency depreciated 10%**	**If foreign currency appreciated 10%**	**If foreign currency depreciated 10%**
Effect of 10% change in USD rate				
USD net asset / liability	22.744.556	(22.744.556)	-	-
Part of hedged from USD risk	8.917.038	(8.917.038)	-	-
USD net effect	**31.661.594**	**(31.661.594)**	**-**	**-**
Effect of 10% change in TL rate				
TL net asset / liability	21.536.638	(21.536.638)	121.925.547	(121.925.547)
Part of hedged from TL risk	-	-	-	-
TL net effect	**21.536.638**	**(21.536.638)**	**121.925.547**	**(121.925.547)**

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	(19.471.967)	19.471.967	-	-
Part of hedged from USD risk	48.900.727	(48.900.727)	-	-
USD net effect	**29.428.760**	**(29.428.760)**	**-**	**-**
Effect of 10% change in TL rate				
TL net asset / liability	75.611.892	(75.611.892)	112.590.554	(112.590.554)
Part of hedged from TL risk	20.326.365	(20.326.365)	-	-
TL net effect	**95.938.257**	**(95.938.257)**	**112.590.554**	**(112.590.554)**

NOTE 48 - 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 floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate borrowings, by the use of interest rate swap contracts based on the approved policies.

Foreign currency sensitivity

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

	31 December 2014		**31 December 2013**	
	Floating rate	**Fixed rate**	**Floating rate**	**Fixed rate**
Bank loans	-	-	-	-
Finance leases	1.349.757.260	-	1.622.378.443	-
Interest swap agreements not subject to hedge accounting (net)	651.481	-	-	-

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 during the reporting period keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 5.443.890 (2013: TL 7.064.239). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases

NOTE 48 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

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 5.204.003 (2013: TL 3.215.387) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 5.204.003 (2013: TL 3.215.387) excluding deferred tax effect.

NOTE 49 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

Fair Value of Financial Instruments

31 December 2014	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value in profit / (loss)	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	856.890.769	-	-	-	856.890.769	53
Trade receivables	233.180.223	-	-	-	233.180.223	7
- Related party	-	-	-	-	-	
- Other	*233.180.223*	-	-	-	*233.180.223*	*7*
Other receivables	331.253.466	-	-	-	331.253.466	9
- Related party	*301.172*	-	-	-	*301.172*	*6*
- Other	*330.952.294*	-	-	-	*330.952.294*	
Advances given for purchase of aircraft	87.683.757	-	-	-	87.683.757	12
Derivative financial assets	-	-	6.576.885	-	6.576.885	46
Financial liabilities						
Bank borrowings	-	-	-	4.504.480	4.504.480	47
Obligations under financial leases	-	-	-	1.349.757.260	1.349.757.260	47
Trade payables	-	-	-	196.386.561	196.386.561	7
- Related party	-	-	-	*85.569*	*85.569*	*6*
- Other	-	-	-	*196.300.992*	*196.300.992*	
Passenger airport fees liability	-	-	-	49.951.667	49.951.667	12
Derivative financial liabilities	-	72.619.073	172.304.604	-	244.923.677	46

(*) The Group’s management believes that carrying amount of financial instruments approximates their fairvalue.

NOTE 49 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Fair Value of Financial Instruments (cont'd)

31 December 2013	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value in profit / (loss)	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	877.401.671	-	-	-	877.401.671	53
Trade receivables	191.073.066	-	-	-	191.073.066	7
- *Related party*	-	-	-	-	-	
- *Other*	*191.073.066*	-	-	-	*191.073.066*	*7*
Other receivables	107.929.564	-	-	-	107.929.564	9
- *Related party*	*318.600*	-	-	-	*318.600*	*6*
- *Other*	*107.610.964*	-	-	-	*107.610.964*	
Advances given for purchase of aircraft	98.006.204	-	-	-	98.006.204	12
Derivative financial assets	-	25.401.932	6.331.968	-	31.733.900	46
Financial liabilities						
Bank borrowings	-	-	-	3.980.899	3.980.899	47
Obligations under financial leases	-	-	-	1.622.378.443	1.622.378.443	47
Trade payables	-	-	-	167.294.824	167.294.824	7
- *Related party*	-	-	-	*115.571*	*115.571*	*6*
- *Other*	-	-	-	*167.179.253*	*167.179.253*	
Passenger airport fees liability	-	-	-	42.162.767	42.162.767	12
Derivative financial liabilities	-	-	17.271.071	-	17.271.071	46

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

NOTE 49 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Fair Value of Financial Instruments (cont'd)

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

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices:

- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- Level 3: the fair value of financial assets and liabilities are determined by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets / Financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique**
	31 December 2014	**31 December 2013**		
Fuel purchase forward contracts	(72.619.073)	25.401.932	Level 2	Discounted cash flow method
Currency forward contracts	5.925.404	(4.252.000)	Level 2	Discounted cash flow method
Chooser forward contracts	(172.304.604)	6.331.968	Level 2	Discounted cash flow method
Interest rate swap contracts	651.481	-	Level 2	Discounted cash flow method
Currency swap contracts	-	(13.019.071)	Level 2	Discounted cash flow method

NOTE 49 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Derivative Instruments Risk Management

31 December 2014	Positive fair value	Negative fair value	Total
Fuel purchase forward contracts for hedging against cash flow risk of fuel price	-	(72.619.073)	(72.619.073)
Fair values of derivative instruments subject to hedge accounting	-	(72.619.073)	(72.619.073)
Currency forward contracts	5.925.404	-	5.925.404
Chooser forward contracts	-	(172.304.604)	(172.304.604)
Interest rate swap contracts	651.481	-	651.481
Fair values of derivative instruments not subject to hedge accounting	6.576.885	(172.304.604)	(165.727.719)
Total	**6.576.885**	**(244.923.677)**	**(238.346.792)**

31 December 2013	Positive fair value	Negative fair value	Total
Fuel purchase forward contracts for hedging against cash flow risk of fuel price	25.401.932	-	25.401.932
Fair values of derivative instruments subject to hedge accounting	25.401.932	-	25.401.932
Currency forward contracts	-	(4.252.000)	(4.252.000)
Chooser forward contracts	6.331.968	-	6.331.968
Currency swap contracts	-	(13.019.071)	(13.019.071)
Fair values of derivative instruments not subject to hedge accounting	6.331.968	(17.271.071)	(10.939.103)
Total	**31.733.900**	**(17.271.071)**	**14.462.829**

NOTE 50 - EVENTS AFTER BALANCE SHEET DATE

None.

NOTE 51 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE

Disposal of Subsidiary

The Group has sold its shares of İzmirliler Otelcilik amounted TL 2.499.995 and 59% portion of its total capital of TL 4.205.000 to Cemil Direkçi and Kürşat Pehlivanlı for USD 750.000 on 26 December 2014.

Net book value of the assets disposed	**as of 26 December 2014**
Current assets	
Cash and cash equivalents	1.351.730
Trade receivables	366.206
Inventories	212.476
Other receivables	27.122
Non-current assets	
Tangible and intangible assets	661.883
Deferred tax assets	510.254
Short term liabilities	
Trade payables	571.960
Other short term liabilities	371.650
Long term liabilities	
Other long term liabilities	15.286
Deferred income	275.000
Net assets disposed	**1.895.775**
Group's ownership interest in net assets	1.127.040
Non-controlling interest	768.735
Gain on subsidiary sale	
Sales amount:	
Amounts paid as cash and cash equivalents	1.738.275
Cash inflow resulted from the sale:	
(Less) cash and cash equivalents disposed	(1.351.730)
Total obtained cash amount	386.545
Gain on subsidiary sale (Note 34)	**611.235**

NOTE 52 - FIRST-TIME ADOPTION OF TURKISH ACCOUNTING STANDARDS

None (31 December 2013: None).

NOTE 53 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Cash on hand	168.239	129.535
Cash at banks	856.722.530	877.272.136
- Demand deposits	33.765.213	36.274.682
- Time deposits	822.957.317	840.997.454
	856.890.769	**877.401.671**

The effective interest rates of time deposits are as presented below:

31 December 2014	Effective interest rates	Total
TL deposits	10,92%	145.735.671
USD deposits	2,53%	536.192.839
EUR deposits	1,60%	117.107.634
GBP deposits	0,88%	21.581.428
CHF deposits	0,70%	2.339.745
		822.957.317

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

All of the time deposits as of 31 December 2014 and 2013 mature within 90 days.

Exposure to interest rate risk and a sensitivity analysis for cash and cash equivalents are disclosed in Note 48.

NOTE 54 - EXPLANATIONS RELATED TO STATEMENT OF CHANGES IN EQUITY

- The Group’s total comprehensive income for the year 2013 amounting TL 91.683.825 was transfered to retained earnings in the current year.
- As a result of the sale of Group’s subsidiary, İzmirliler Otelcilik, non-controlling interests have decrased by TL 768.735.