

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

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

CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE  
SIX-MONTH INTERIM PERIOD ENDED  
30 JUNE 2014 TOGETHER WITH  
THE INDEPENDENT AUDITOR'S  
LIMITED REVIEW REPORT

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM  
FINANCIAL INFORMATION**

**To the Board of Directors of  
Pegasus Hava Tařımacılıđı A.ř.**

*Introduction*

We have reviewed the accompanying condensed consolidated balance sheet of Pegasus Hava Tařımacılıđı A.ř. and its subsidiaries (together will be referred as the “Group”) as of 30 June 2014 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Group management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with Turkish Accounting Standards 34 “Interim Financial Reporting” (“TAS 34”). Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with Independent Auditing Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with TAS 34 “Interim Financial Reporting”.

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

Selçuk Ürkmez  
Partner

İstanbul, 12 August 2014

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Reviewed) 30 June 2014	Prior period (Audited) 31 December 2013
	Notes		
<b>ASSETS</b>			
<b>Current assets</b>		<b>1.582.815.552</b>	<b>1.220.215.191</b>
Cash and cash equivalents	24	1.026.069.394	877.401.671
Trade receivables	4	336.324.718	191.073.066
<i>Trade receivables from related parties</i>		-	-
<i>Trade receivables from third parties</i>	4	336.324.718	191.073.066
Other receivables		67.113.584	40.844.285
<i>Other receivables from related parties</i>	19	336.565	318.600
<i>Other receivables from third parties</i>		66.777.019	40.525.685
Derivative financial instruments		41.270.551	25.401.932
Inventories		4.938.375	4.035.669
Prepaid expenses		105.707.424	69.836.277
Other current assets		1.391.506	11.622.291
<b>Non-Current assets</b>		<b>2.120.946.667</b>	<b>2.277.989.446</b>
Other receivables		43.979.289	67.085.279
<i>Other receivables from related parties</i>		-	-
<i>Other receivables from third parties</i>		43.979.289	67.085.279
Investments accounted for using the equity method	6	2.125.792	1.376.792
Property and equipment	7	2.034.117.675	2.120.627.943
Intangible assets	8	11.476.742	11.447.742
Prepaid expenses		21.322.907	69.449.002
Deferred tax assets		7.924.262	8.002.688
<b>TOTAL ASSETS</b>		<b>3.703.762.219</b>	<b>3.498.204.637</b>

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

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

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF 30 JUNE 2014**

(Amounts are expressed in TL unless otherwise stated.)

		<b>Current period (Revised) 30 June 2014</b>	<b>Prior period (Audited) 31 December 2013</b>
	<b>Notes</b>		
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>990.514.017</b>	<b>677.597.387</b>
Short term financial liabilities	20	11.063.253	3.980.899
Short term portion of long term financial liabilities	20	173.914.664	181.171.887
Trade payables	4	226.784.381	167.294.824
<i>Trade payables to related parties</i>	19	1.603.709	115.571
<i>Trade payables to third parties</i>	4	225.180.672	167.179.253
Employee benefit obligations		8.703.419	6.805.756
Other payables		16.141.453	17.079.784
<i>Other payables to related parties</i>		-	-
<i>Other payables to third parties</i>		16.141.453	17.079.784
Derivative financial instruments		-	10.939.103
Deferred income	5	518.289.614	248.254.755
Short term provisions		34.219.647	41.697.458
<i>Short term provisions for employee benefits</i>		30.650.662	30.864.026
<i>Other short term provisions</i>		3.568.985	10.833.432
Other current liabilities		1.397.586	372.921
<b>Non-Current liabilities</b>		<b>1.596.609.249</b>	<b>1.674.380.165</b>
Long term financial liabilities	20	1.334.545.099	1.441.206.556
Deferred income		5.804.177	6.423.264
Long term provisions		86.395.145	65.577.108
<i>Long term provisions for employee benefits</i>		5.086.307	6.018.849
<i>Other long term provisions</i>		81.308.838	59.558.259
Deferred tax liability		169.864.828	161.173.237
<b>SHAREHOLDERS' EQUITY</b>		<b>1.116.638.953</b>	<b>1.146.227.085</b>
<b>Equity attributable to shareholders' of the parent</b>		<b>1.118.307.307</b>	<b>1.145.684.240</b>
Paid-in share capital	12	102.272.000	102.272.000
Effects of business acquisition		29.504.957	29.504.957
Share premium on capital stock		455.687.025	455.687.025
Other comprehensive income/expense to be reclassified to profit or loss			
Currency translation differences		296.121.852	308.022.092
Hedge fund		20.239.781	20.321.546
Retained earnings		229.876.620	138.192.795
Net (loss) / profit for the period		(15.394.928)	91.683.825
<b>Non-controlling interest</b>		<b>(1.668.354)</b>	<b>542.845</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3.703.762.219</b>	<b>3.498.204.637</b>

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

**PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 30 JUNE 2014**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period	Current period	Prior period	Prior period
		(Reviewed)	(Not Reviewed)	(Reviewed)	(Not Reviewed)
Profit or loss		1 January -	1 April -	1 January -	1 April -
		30 June 2014	30 June 2014	30 June 2013	30 June 2013
Sales	13	1.311.178.083	800.354.786	989.158.509	603.918.249
Cost of sales (-)	13	(1.224.742.815)	(663.038.895)	(809.158.310)	(460.829.873)
<b>Gross profit</b>		<b>86.435.268</b>	<b>137.315.891</b>	<b>180.000.199</b>	<b>143.088.376</b>
General administrative expenses (-)	14	(41.261.326)	(22.682.965)	(32.047.246)	(19.827.444)
Marketing expenses (-)	14	(77.238.025)	(33.412.443)	(52.985.007)	(26.472.325)
Other operating income	15	10.087.979	22.433.304	7.333.815	(15.655.791)
Other operating expenses (-)	15	(1.699.784)	(1.231.841)	(1.319.975)	(681.803)
<b>Operating (loss)/profit</b>		<b>(23.675.888)</b>	<b>102.421.946</b>	<b>100.981.786</b>	<b>80.451.013</b>
Income from investing activities	16	10.476	10.476	1.558.456	(961.385)
Expenses from investing activities	16	(71.874)	(1.877.334)	-	-
Share of investments' profit/(loss) accounted for using equity method	6	789.191	(177.558)	(849.266)	239.645
<b>Operating profit before financial (expense)/income</b>		<b>(22.948.095)</b>	<b>100.377.530</b>	<b>101.690.976</b>	<b>79.729.273</b>
Financial income	17	71.910.392	18.786.923	18.471.096	5.565.300
Financial expense (-)	17	(54.247.341)	(10.084.638)	(51.626.553)	(17.230.645)
<b>(Loss)/profit before tax</b>		<b>(5.285.044)</b>	<b>109.079.815</b>	<b>68.535.519</b>	<b>68.063.928</b>
<b>Tax income expense</b>					
Current tax expense		-	-	-	-
Deferred tax expense		(12.637.199)	(22.477.463)	(24.394.249)	(17.589.432)
<b>(Loss)/profit for the period</b>		<b>(17.922.243)</b>	<b>86.602.352</b>	<b>44.141.270</b>	<b>50.474.496</b>
<b>Net loss attributable to:</b>					
Shareholders' of the parent		(15.394.928)	87.157.869	47.014.274	53.336.461
Non-controlling interest		(2.527.315)	(555.517)	(2.873.004)	(2.861.965)
		<b>(17.922.243)</b>	<b>86.602.352</b>	<b>44.141.270</b>	<b>50.474.496</b>
(Loss)/profit per share (TL)	18	(0,15)	0,85	0,55	0,56
<b>Other comprehensive income/(loss):</b>					
<b>Items to be reclassified to profit or loss</b>					
Currency translation differences		(11.584.124)	(42.829.243)	52.287.706	57.591.976
Cash flow hedge		(81.765)	2.592.389	(15.731.306)	(15.767.304)
Loss on derivative contracts		(102.206)	3.240.487	(16.684.486)	(19.709.130)
Deferred tax effect		20.441	(648.098)	953.180	3.941.826
<b>Other comprehensive (loss)/income</b>		<b>(11.665.889)</b>	<b>(40.236.854)</b>	<b>36.556.400</b>	<b>41.824.672</b>
<b>Total comprehensive (loss)/income</b>		<b>(29.588.132)</b>	<b>46.365.498</b>	<b>80.697.670</b>	<b>92.299.168</b>
<b>Total comprehensive (loss)/income attributable to:</b>					
Shareholders' of the parent		(27.376.933)	46.792.237	85.653.842	97.244.301
Non-controlling interest		(2.211.199)	(426.739)	(4.956.172)	(4.945.133)
		<b>(29.588.132)</b>	<b>46.365.498</b>	<b>80.697.670</b>	<b>92.299.168</b>

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD 1 JANUARY - 30 JUNE 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 premium on capital stock	Currency translation differences	Hedge fund	Retained earnings	Net profit for the period	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' equity
<b>As at 1 January 2013</b>	<b>75.000.000</b>	<b>29.504.957</b>	<b>-</b>	<b>72.735.810</b>	<b>11.918.586</b>	<b>11.889.279</b>	<b>126.303.516</b>	<b>327.352.148</b>	<b>-</b>	<b>327.352.148</b>
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 (*)	-	-	457.533.813	-	-	-	-	457.533.813	-	457.533.813
Transfer to retained earnings	-	-	-	-	-	126.303.516	(126.303.516)	-	-	-
Total comprehensive income	-	-	-	54.370.874	(15.731.306)	-	47.014.274	85.653.842	(4.956.172)	80.697.670
<b>As at 30 June 2013</b>	<b>102.272.000</b>	<b>29.504.957</b>	<b>457.533.813</b>	<b>127.106.684</b>	<b>(3.812.720)</b>	<b>138.192.795</b>	<b>47.014.274</b>	<b>897.811.803</b>	<b>1.084.565</b>	<b>898.896.368</b>
<b>As at 1 January 2014</b>	<b>102.272.000</b>	<b>29.504.957</b>	<b>455.687.025</b>	<b>308.022.092</b>	<b>20.321.546</b>	<b>138.192.795</b>	<b>91.683.825</b>	<b>1.145.684.240</b>	<b>542.845</b>	<b>1.146.227.085</b>
Transfer to retained earnings	-	-	-	-	-	91.683.825	(91.683.825)	-	-	-
Total comprehensive loss	-	-	-	(11.900.240)	(81.765)	-	(15.394.928)	(27.376.933)	(2.211.199)	(29.588.132)
<b>As at 30 June 2014</b>	<b>102.272.000</b>	<b>29.504.957</b>	<b>455.687.025</b>	<b>296.121.852</b>	<b>20.239.781</b>	<b>229.876.620</b>	<b>(15.394.928)</b>	<b>1.118.307.307</b>	<b>(1.668.354)</b>	<b>1.116.638.953</b>

(\*)The surplus of sales price over nominal value amounted to TL 457.533.813 during the initial public offering on 18-19 April 2013 was accounted as share premium.

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD 1 JANUARY - 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Reviewed) 1 January - 30 June 2014	Prior period (Reviewed) 1 January - 30 June 2013
	Notes		
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>(Loss) / profit for the period</b>		<b>(15.394.928)</b>	<b>47.014.274</b>
<b>Adjustments to reconcile the net (loss)/profit</b>			
Depreciation and amortization	7-8	83.502.454	56.599.919
Provision for employee benefits		21.279.809	17.582.227
Provision for doubtful receivable	15	33.882	-
Current tax expense		12.637.199	24.394.249
Interest and commission (income) / expense		(13.342.196)	3.878.330
Gain on sales of fixed assets		-	(78.517)
(Gain) / loss on equity investments accounted for using the equity method	6	(789.191)	849.266
Change in maintenance reserves and redelivery provision		21.588.556	7.604.049
Other provisions related to investing or financing activities		(26.889.489)	(2.353.845)
Legal provision		(255.124)	37.764
<b>Changes in working capital</b>			
Increase in trade receivables		(145.313.348)	(134.501.417)
Increase in inventories		(902.706)	(472.521)
Decrease / (increase) in other receivables and other current assets		6.550.166	(30.440.508)
Increase in trade payables		59.489.557	59.198.966
Increase in deferred income, other payables and other current liabilities		265.936.776	201.793.184
<b>Net cash generated from operating activities</b>		<b>268.131.417</b>	<b>251.105.420</b>
Payment for employee, executive bonus plan and retirement benefits		(22.255.757)	(19.345.050)
		<b>245.875.660</b>	<b>231.760.370</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash outflows from purchase of property, equipment and intangible assets	7-8	(29.927.230)	(8.861.763)
Changes in advances on aircraft purchases		18.936.123	1.505.631
Proceeds from sale of property, equipment and intangible assets		2.153.277	282.658
		<b>(8.837.830)</b>	<b>(7.073.474)</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net cash inflows related to the sale of shares and other equity instruments		-	484.805.813
Repayment of principal in finance lease liabilities		(88.247.886)	(68.109.332)
Interest and commission paid		(18.027.053)	(13.734.244)
Interest received		28.948.972	6.598.211
Borrowings obtained		11.063.249	2.864.885
Repayment of borrowings		(3.980.895)	(2.747.795)
		<b>(70.243.613)</b>	<b>409.677.538</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
<b>BEFORE CURRENCY TRANSLATION EFFECT (A+B+C)</b>		<b>166.794.217</b>	<b>634.364.434</b>
<b>D. CURRENCY TRANSLATION DIFFERENCES EFFECT ON</b>			
<b>CASH AND CASH EQUIVALENTS</b>		(18.126.494)	13.630.691
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>148.667.723</b>	<b>647.995.125</b>
<b>E. CASH AND CASH EQUIVALENTS</b>			
<b>AT THE BEGINNING OF THE PERIOD</b>	24	877.401.671	210.150.238
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT THE END OF THE PERIOD (A+B+C+D+E)</b>	24	<b>1.026.069.394</b>	<b>858.145.363</b>

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



# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

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### 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.

The shareholders and their respective holdings in the Company as of 30 June 2014 and 31 December 2013 are as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Esas Holding A.Ş. (“Esas Holding”)	62,92%	62,92%
Publicly held	34,51%	34,51%
Sabancı Family Members	2,57%	2,57%
<b>Total</b>	<b>100,00%</b>	<b>100,00%</b>

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

The Group’s total number of full time employees as of 30 June 2014 is 3.314 (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 30 June 2014 and delegated authority for publishing it on 12 August 2014. General shareholders’ meeting has the authority to modify the financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2014**

(Amounts are expressed in TL unless otherwise stated.)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

**2.1 Basis of Presentation**

**Declaration of Conformity**

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

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

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

The Group has prepared the financial statements and its notes for the interim period ended 30 June 2014 in accordance with TAS 34 “Interim Financial Reporting”.

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

**Functional and Presentation Currency**

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; 30 June 2014: 1 Euro (€) = 2,8919 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 from Euro to TL stated above are presented as foreign currency translation reserve under equity. Share capital amount is presented in TL, representing the nominal share capital of the Company. All other equity items excluding the currency translation reserve are presented in historic TL terms where all translation gains / (losses) in relation to these balances are accounted under foreign currency translation reserve.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

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

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

###### Subsidiaries

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 30 June 2014 and 31 December 2013:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2014</u>	<u>31 December 2013</u>	
IHY İzmir Havayolları A.Ş. ("İzair")	Air transportation	69%	69%	Türkiye
Air Company "Air Manas" LTD ("Air Manas")	Air transportation	49%	49%	Kyrgyzstan
İzmirliiler Otelcilik Yatırım Turizm ve Ticaret A.Ş. ("İzmirliiler Otelcilik")	Hotel-gas station administration	59%	59%	Türkiye

The table below sets out affiliates and indicates the proportion of ownership interest of the Company in these affiliates as of 30 June 2014:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 June 2014</u>	<u>31 December 2013</u>	
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Simulator Training	49%	49%	Türkiye

#### 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:

- 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 28.721.168 that was previously presented under long term prepaid expenses has been reclassified and reported in short term prepaid expenses.
- In the statement of profit or loss, TL 1.301.831 that was previously presented in handling fees and TL 38.861 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 819.581 that was previously presented in travel expenses under general administration expenses has been reported by netting off scheduled flights revenue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

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

**2.2 Changes in Accounting Policies**

Condensed consolidated financial statements for the interim period with respect to the period ending on 30 June 2014 are prepared in accordance with TAS 34 standard pertaining to the preparation of TAS's interim period condensed financial statements. Further, condensed consolidated financial statements with respect to the period ending on 30 June 2014 are prepared upon applying such accounting policies that are consistent with the accounting policies applied during preparation of the consolidated financial statements corresponding to the year ending on 31 December 2013. Therefore, such interim period condensed consolidated financial statements have to be assessed together with the consolidated financial statements corresponding to the year ending on 31 December 2013.

**2.3 Changes in Accounting Estimates**

The same presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2013.

**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, 11, TAS 27	<i>Investment Entities<sup>1</sup></i>
Amendments to TAS 32	<i>Offsetting Financial Assets and Financial Liabilities<sup>1</sup></i>
Amendments to TAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets<sup>1</sup></i>
Amendments to TAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting<sup>1</sup></i>
TFRS Interpretation 21	<i>Levies<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

**(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*

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.5 Seasonality on Operations

Due to seasonality of air passenger transportation, Company expected to incur higher sales revenue in the second half of the year compared to the first half. As a result of higher sales with the effect of summer season and growth of the Company, cash and cash equivalents, trade receivables & payables and passenger flight liabilities under deferred income increased as of 30 June 2014 compared to last year-end.

### NOTE 3 - SEGMENTAL INFORMATION

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

### NOTE 4 - TRADE RECEIVABLES AND PAYABLES

#### Short term trade receivables

The details of short term trade receivables as of 30 June 2014 and 31 December 2013 are as follows:

	30 June 2014	31 December 2013
Trade receivables	74.977.875	45.968.107
Credit card receivables	261.971.175	145.128.195
Income accruals	1.161.723	1.761.827
	<b>338.110.773</b>	<b>192.858.129</b>
Less: Allowance for doubtful receivables	(1.786.055)	(1.785.063)
	<b>336.324.718</b>	<b>191.073.066</b>

#### Short term trade payables

	30 June 2014	31 December 2013
Trade payables	145.298.664	130.997.834
Accrued direct operational costs	73.691.228	30.696.256
Other accrued expenses	6.190.780	5.485.163
Due to related parties (Note 19)	1.603.709	115.571
	<b>226.784.381</b>	<b>167.294.824</b>

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 5 - DEFERRED INCOME

The details of deferred income as of 30 June 2014 and 31 December 2013 are as follows:

	30 June 2014	31 December 2013
Passenger flight liabilities	473.683.945	216.121.823
Advances received from customers	27.816.279	15.268.074
Deferred income from sale of subsidiary	14.610.946	14.836.281
Other deferred income	2.178.444	2.028.577
	<b>518.289.614</b>	<b>248.254.755</b>

The details of passenger flight liabilities as of 30 June 2014 and 31 December 2013 are as follows:

	30 June 2014	31 December 2013
Flight liability from ticket sales	373.207.528	149.153.458
Passenger airport fees received from customers	72.951.228	42.162.767
Flight liability from flight points	27.525.189	24.805.598
	<b>473.683.945</b>	<b>216.121.823</b>

#### NOTE 6 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	30 June 2014	31 December 2013
<b>Joint ventures</b>		
PUEM	2.125.792	1.376.792
	<b>2.125.792</b>	<b>1.376.792</b>

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

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
PUEM	789.191	(177.558)	387.464	239.645
İzair (*)	-	-	(1.236.730)	-
<b>Net profit / (loss)</b>	<b>789.191</b>	<b>(177.558)</b>	<b>(849.266)</b>	<b>239.645</b>

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - PROPERTY AND EQUIPMENT**

<b>30 June 2014</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned and leased aircraft (*)</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>								
Opening	<b>2.105.975</b>	<b>7.030.047</b>	<b>36.769.477</b>	<b>21.349.674</b>	<b>43.249.268</b>	<b>2.558.906.229</b>	<b>2.975.003</b>	<b>2.672.385.673</b>
Additions	86.794	554.787	3.259.373	740.521	18.229.267	275.983	5.007.414	28.154.139
Disposals	(1.025)	(25.405)	-	(225.467)	-	(1.911.568)	-	(2.163.465)
Currency translation differences	(16.754)	(115.527)	(634.277)	(305.227)	(1.079.086)	(109.640.853)	(167.514)	(111.959.238)
<b>Closing</b>	<b>2.174.990</b>	<b>7.443.902</b>	<b>39.394.573</b>	<b>21.559.501</b>	<b>60.399.449</b>	<b>2.447.629.791</b>	<b>7.814.903</b>	<b>2.586.417.109</b>
<b>Accumulated depreciation:</b>								
Opening	<b>(1.489.102)</b>	<b>(2.787.977)</b>	<b>(18.403.732)</b>	<b>(10.771.253)</b>	<b>(22.032.241)</b>	<b>(496.273.425)</b>	-	<b>(551.757.730)</b>
Depreciation for the period	(93.248)	(537.617)	(2.223.113)	(1.531.428)	(2.605.081)	(74.892.362)	-	(81.882.849)
Disposals	205	586	-	9.397	-	-	-	10.188
Currency translation differences	25.370	55.292	333.403	178.184	397.719	80.340.989	-	81.330.957
<b>Closing</b>	<b>(1.556.775)</b>	<b>(3.269.716)</b>	<b>(20.293.442)</b>	<b>(12.115.100)</b>	<b>(24.239.603)</b>	<b>(490.824.798)</b>	-	<b>(552.299.434)</b>
<b>Net book value</b>	<b>618.215</b>	<b>4.174.186</b>	<b>19.101.131</b>	<b>9.444.401</b>	<b>36.159.846</b>	<b>1.956.804.993</b>	<b>7.814.903</b>	<b>2.034.117.675</b>

(\*) The additions in owned and leased aircraft consist of the additional expenses related with the aircraft purchased via financial leasing in December 2013; the disposals consist of the purchasing discount for the same aircraft.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2014**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 7 - PROPERTY AND EQUIPMENT (cont'd)**

<b>30 June 2013</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components and repairables</b>	<b>Owned and leased aircraft</b>	<b>Total</b>
<b>Cost:</b>							
Opening	<b>1.308.815</b>	<b>4.565.586</b>	<b>21.327.972</b>	<b>12.427.509</b>	<b>21.992.362</b>	<b>1.981.499.673</b>	<b>2.043.121.917</b>
Addition of subsidiary	183.167	99.145	1.222.758	2.995.189	2.275.307	-	6.775.566
Additions	805	701.628	4.451.706	164.897	862.749	-	6.181.785
Disposals	(38.444)	-	-	-	(226.934)	-	(265.378)
Currency translation differences	102.351	361.494	1.821.192	947.949	1.743.411	136.498.260	141.474.657
<b>Closing</b>	<b>1.556.694</b>	<b>5.727.853</b>	<b>28.823.628</b>	<b>16.535.544</b>	<b>26.646.895</b>	<b>2.117.997.933</b>	<b>2.197.288.547</b>
<b>Accumulated depreciation:</b>							
Opening	<b>(896.053)</b>	<b>(1.466.777)</b>	<b>(10.961.339)</b>	<b>(4.722.131)</b>	<b>(14.344.305)</b>	<b>(280.413.790)</b>	<b>(312.804.395)</b>
Addition of subsidiary	(144.093)	(66.666)	(896.385)	(1.940.840)	(2.216.246)	-	(5.264.230)
Depreciation for the period	(56.699)	(328.562)	(1.360.574)	(1.073.538)	(894.151)	(52.031.426)	(55.744.950)
Disposals	935	-	-	-	60.302	-	61.237
Currency translation differences	(77.068)	(124.181)	(903.237)	(461.440)	(1.223.227)	(22.366.239)	(25.155.392)
<b>Closing</b>	<b>(1.172.978)</b>	<b>(1.986.186)</b>	<b>(14.121.535)</b>	<b>(8.197.949)</b>	<b>(18.617.627)</b>	<b>(354.811.455)</b>	<b>(398.907.730)</b>
<b>Net book value</b>	<b>383.716</b>	<b>3.741.667</b>	<b>14.702.093</b>	<b>8.337.595</b>	<b>8.029.268</b>	<b>1.763.186.478</b>	<b>1.798.380.817</b>



PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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

NOTE 8 - INTANGIBLE ASSETS

<b>30 June 2014</b>	<b>Brand</b>	<b>Software</b>	<b>Total</b>
<b>Cost:</b>			
Opening	2.070.233	20.505.267	22.575.500
Additions	-	1.773.091	1.773.091
Currency translation differences	49.844	(343.285)	(293.441)
<b>Closing</b>	<b>2.120.077</b>	<b>21.935.073</b>	<b>24.055.150</b>
<b>Accumulated amortization:</b>			
Opening	(689.428)	(10.438.330)	(11.127.758)
Amortization for the period	(53.475)	(1.566.130)	(1.619.605)
Currency translation differences	(25.626)	194.581	168.955
<b>Closing</b>	<b>(768.529)</b>	<b>(11.809.879)</b>	<b>(12.578.408)</b>
<b>Net book value</b>	<b>1.351.548</b>	<b>10.125.194</b>	<b>11.476.742</b>
<b>30 June 2013</b>			
<b>Cost:</b>			
Opening	-	10.588.220	10.588.220
Addition of subsidiary	1.634.825	1.694.647	3.329.472
Additions	-	2.679.978	2.679.978
Currency translation differences	137.334	1.017.924	1.155.258
<b>Closing</b>	<b>1.772.159</b>	<b>15.980.769</b>	<b>17.752.928</b>
<b>Accumulated amortization:</b>			
Opening	-	(5.574.570)	(5.574.570)
Addition of subsidiary	(490.447)	(836.746)	(1.327.193)
Amortization for the period	(21.136)	(833.833)	(854.969)
Currency translation differences	(42.217)	(491.812)	(534.029)
<b>Closing</b>	<b>(553.800)</b>	<b>(7.736.961)</b>	<b>(8.290.761)</b>
<b>Net book value</b>	<b>1.218.359</b>	<b>8.243.808</b>	<b>9.462.167</b>

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

##### Litigation

The Group is party to various lawsuits and claims that have been filed against it, which total TL 2.574.600 as of 30 June 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 1.205.626 (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, in addition to which these lawsuits include a limited number of commercial claims.

##### Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 545.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.212. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 30 June 2014 both lawsuits are under the review of the Court of Appeals. The Group management believes that cash outflow is not probable and has not provided any provision for this fine.

Furthermore, a series of lawsuits have been filed by certain non-controlling shareholders of İzair requesting cancellation of the General Assembly decisions to increase 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 30 June 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 appeal review and consideration of such lawsuit dated June 29, 2011 with respect to capital increase is still ongoing. The Group management believes that cash outflow is not probable and has not provided any provision for this fine.

##### Tax audit

The Inspection Officers of Ministry of Finance audited the accounts and transactions of the Company for 2009, 2010, 2011 and until January 2012 on the subject of VAT. As a result of this inspection, the tax inspector challenged the VAT tax remitted on behalf of the non-resident aircraft lessor company that is party to the Company's 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.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

##### Tax audit (cont'd)

During this process;

On the official web site of the Directorate General of Revenues ([www.gib.gov.tr](http://www.gib.gov.tr)), the Directorate of Major Taxpayers' Tax Office has issued individual circular orders, which have been given to a taxpayer dated 21.05.2013 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.

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 in the event this matter becomes a respective issue of any lawsuit, it would prevail in court of law. 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.

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 a right to appeal in upper court council of state.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 30 JUNE 2014**

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**NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)**

Tax audit (cont'd)

Under decrees of the 4th Department of the Supreme Court of State, dated 28.02.2007, numbers E:2006/2738 E., K:2007/610 and dated 31.03.2005, numbers E:2004/1293, K:2005/529, it is contained judgments reading that the lump sum income amount could possibly be subjected to deduction over the tax return, and further, since the minor fixed assets claimed on the Report and direct costs of which are taken into consideration as expense remain below those limits specified pursuant to the Law, it is opinionated that the matters alleged on the Tax Inspection Report are as to the revocation of the administrative transaction as a consequence of the action filed. Therefore, no provision has been provided and set aside in parallel to the opinions of Company's legal advisors and taxation specialists, including the period not inspected and reviewed on the attached consolidated financial statements.

On such Corporation Tax Inspection Report number 2013-B-228/5, it is stated that despite the fact that rental payments of our Company with respect to such aircraft subject matter of financial leasing from the acquisition of the same through financial leasing from companies with legal and principal places of business domiciled abroad, constitute commercial income of the company obtaining the same under scope of business revenues, alleging that such payments are real property capital income under Article 30 of Corporation Tax Law, they are subject to added value tax withholding at the rate of 1% and in the total amount of TL 706.539,70 as per the relevant months of year 2010, and further on the same Report, it is stated that such package computer software in the form of commercial commodity, purchased from any company with legal and principal places of business domiciled abroad, is subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right charge within framework of Article 30 of Corporation Tax Law.

Major Taxpayers Tax Office that we are affiliated to, accrued corporation tax withholding in the total amount of TL 719.508 for year 2010 through Tax Fine Notices issued as per the relevant months of year 2010 by basing on the said Tax Inspection Report, and charged tax loss fine in the total amount of TL 1.079.262 on grounds of such tax accrued.

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.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

##### Tax audit (cont'd)

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 10 - COMMITMENTS

##### **Purchase commitments**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Commitments to purchase aircraft	19.765.442.276	17.263.069.600
	<b>19.765.442.276</b>	<b>17.263.069.600</b>

As of 30 June 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 78.698.833 (31 December 2013: TL 98.006.204) and TL 58.526.531 (31 December 2013: TL 28.721.168) of this amount is reclassified under short term prepaid expenses, TL 20.172.302 (31 December 2013: TL 69.285.036) of this amount is reclassified under long term prepaid expenses.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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NOTE 10 - COMMITMENTS (cont'd)

The Company as Lessee

Operating lease agreements:

Payments recognised as expense:

	1 January- 30 June 2014	1 January- 30 June 2013
Minimum lease payments	87.506.402	43.451.283
	<b>87.506.402</b>	<b>43.451.283</b>

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

The non-cancellable operating lease liabilities as of 30 June 2014 and 31 December 2013 is as follows:

	30 June 2014	31 December 2013
Less than 1 year	191.314.222	149.922.590
Between 1 - 5 years	680.067.325	531.204.714
Over 5 years	186.085.055	159.064.094
	<b>1.057.466.602</b>	<b>840.191.398</b>

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:

	30 June 2014	31 December 2013
Less than 1 year	185.143	185.143
Between 1 - 5 years	432.000	524.571
	<b>617.143</b>	<b>709.714</b>

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**NOTE 10 - COMMITMENTS (cont'd)**

**Collaterals-Pledges-Mortgages("CPM")**

The details of the CPMs given by the Group as of 30 June 2014 is as follows:

<b>30 June 2014</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on the behalf of its own legal entity					
-Collateral	262.501.775	102.560.666	7.043.626	19.913.877	5.212.649
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
-Collateral	20.617.000	5.000.000	-	10.000.000	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	7.806.680	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	-	-	-	-	-
	<b>290.925.455</b>	<b>111.237.166</b>	<b>7.043.626</b>	<b>29.913.877</b>	<b>5.212.649</b>

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

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

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(Amounts are expressed in TL unless otherwise stated.)

**NOTE 10 - 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:

<b>31 December 2013</b>	<b>TL TOTAL</b>	<b>USD</b>	<b>EUR</b>	<b>TL</b>	<b>Other</b>
A. Total amounts of CPM given on the behalf of its own legal entity					
-Collateral	238.401.730	91.190.323	6.617.026	20.281.479	4.825.455
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
-Collateral	20.671.500	5.000.000	-	10.000.000	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
-Collateral	7.846.754	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	-	-	-	-	-
	<b>266.919.984</b>	<b>99.866.823</b>	<b>6.617.026</b>	<b>30.281.479</b>	<b>4.825.455</b>

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

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



# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 11 - EXPENSES BY NATURE

The details of expenses by nature as of the periods ended 30 June 2014 and 2013 are as follows:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Jet fuel expenses	533.603.446	292.928.089	364.137.397	208.956.163
Personnel expenses	173.474.823	92.218.233	120.915.696	77.264.584
Handling fees	100.564.662	56.608.818	56.700.090	33.425.275
Navigation expenses	92.704.898	52.239.108	59.174.564	35.672.581
Operating lease expenses	87.506.402	46.232.489	43.451.283	22.000.568
Depreciation and amortisation expense	83.502.454	41.185.612	56.599.919	28.825.130
Maintenance expenses	74.281.505	41.867.272	40.041.288	24.244.088
Advertising expenses	43.521.562	16.116.848	25.768.198	11.889.363
Landing expenses	37.723.996	21.741.802	24.880.929	15.056.892
Commission expenses	21.638.938	11.134.883	16.587.649	8.869.559
Passenger service and catering expenses	14.550.882	8.259.081	10.904.923	6.189.707
Other expenses	80.168.598	38.602.068	75.028.627	34.735.732
	<b>1.343.242.166</b>	<b>719.134.303</b>	<b>894.190.563</b>	<b>507.129.642</b>

### NOTE 12 - CAPITAL

The Company's shareholding structure as of 30 June 2014 and 31 December 2013 is as follows:

Shareholders:	30 June 2014		31 December 2013	
	(%)	TL	(%)	TL
Esas Holding	62,92	64.353.570	62,92	64.353.570
Publicly held	34,51	35.294.000	34,51	35.294.000
Emine Kamyşlı	0,86	874.810	0,86	874.810
Ali İsmail Sabancı	0,86	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
<b>TL historic capital</b>	<b>100,0</b>	<b>102.272.000</b>	<b>100,0</b>	<b>102.272.000</b>

The Company's share capital consists of 102.272.000 shares of par value TL 1 each (31 December 2013: 102.272.000 shares).

At the end of all periods presented, the Group has an accumulated loss in its statutory books of account prepared in accordance with accounting principles in the Turkish Tax Legislation and has no available funds for distribution.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 13 - SALES AND COST OF SALES**

The details of sales and cost of sales as of the periods ended 30 June 2014 and 2013 are as follows:

**Sales:**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Scheduled flights	983.324.605	602.470.121	761.498.973	464.026.618
<i>International scheduled flights</i>	563.200.262	349.863.320	408.958.442	253.795.329
<i>Domestic scheduled flights</i>	420.124.343	252.606.801	352.540.531	210.231.289
Ancillary revenue	244.339.138	133.164.237	143.582.132	80.217.207
Charter flights	56.145.042	49.438.300	51.210.740	46.115.710
Other revenue	27.369.298	15.282.128	23.962.715	13.558.714
AirBerlin Turkey operation revenue	-	-	8.903.949	-
	<b>1.311.178.083</b>	<b>800.354.786</b>	<b>989.158.509</b>	<b>603.918.249</b>

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

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Domestic	420.124.343	252.606.801	352.540.531	210.231.289
Europe	466.737.798	285.404.443	357.921.513	212.321.065
Other	96.462.464	64.458.877	51.036.929	41.474.264
	<b>983.324.605</b>	<b>602.470.121</b>	<b>761.498.973</b>	<b>464.026.618</b>

**Cost of sales:**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Jet fuel expenses	533.603.446	292.928.089	364.137.397	208.956.163
Personnel expenses	149.323.359	78.342.928	102.572.582	65.157.097
Handling fees	100.564.662	56.608.818	56.700.090	33.425.275
Navigation expenses	92.704.898	52.239.108	59.174.564	35.672.581
Operating lease expenses	87.506.402	46.232.489	43.451.283	22.000.568
Depreciation and amortisation expenses	77.609.094	38.259.384	53.038.912	26.862.116
Maintenance expenses	74.281.505	41.867.272	40.041.288	24.244.088
Landing expenses	37.723.996	21.741.802	24.880.929	15.056.892
Passenger service and catering expenses	14.550.882	8.259.081	10.904.923	6.189.707
Other expenses	56.874.571	26.559.924	42.511.809	23.265.386
AirBerlin Turkey operation cost of sales	-	-	11.744.533	-
	<b>1.224.742.815</b>	<b>663.038.895</b>	<b>809.158.310</b>	<b>460.829.873</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 14 - MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

The details of marketing expenses and general administrative expenses as of the periods ended 30 June 2014 and 2013 are as follows (there are no research & development expenses in the periods ended in respective dates):

#### Marketing expenses:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Advertising expenses	43.521.562	16.116.848	25.768.198	11.889.363
Commission expenses	21.638.938	11.134.883	16.587.649	8.869.559
Personnel expenses	5.651.932	2.692.686	4.810.755	2.685.747
Call center expenses	3.974.877	2.023.272	3.887.515	2.019.639
Depreciation and amortisation expenses	1.126.251	560.079	683.186	372.511
Other expenses	1.324.465	884.675	1.247.704	635.506
	<b>77.238.025</b>	<b>33.412.443</b>	<b>52.985.007</b>	<b>26.472.325</b>

#### General administrative expenses:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Personnel expenses	18.499.532	11.182.619	13.532.359	9.421.740
Rent expenses	4.927.255	2.478.791	3.554.780	1.887.036
Depreciation and amortisation expense	4.767.109	2.366.149	2.877.821	1.590.503
Consultancy expenses	2.848.203	975.275	1.706.431	838.507
IT expenses	2.723.984	1.601.643	1.854.042	1.014.975
Travel expenses	1.471.147	724.939	1.263.288	742.362
Legal and notary expenses	1.118.342	600.452	590.538	293.677
Office utility expenses	777.451	398.678	886.995	486.180
Other expenses	4.128.303	2.354.419	5.780.992	3.552.464
	<b>41.261.326</b>	<b>22.682.965</b>	<b>32.047.246</b>	<b>19.827.444</b>

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 15 - OTHER OPERATING INCOME AND EXPENSES**

The details of other operating income/expenses as of the periods ended 30 June 2014 and 2013 are as follows:

**Other operating income:**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Foreign exchange gain from operating activities	8.447.442	21.614.684	3.979.973	(16.454.794)
Discount cancellation income	248.165	189.113	-	-
Rent income	150.319	105.000	211.367	147.694
Income from sale and leaseback transactions	88.611	-	2.021.635	514.387
Other income	1.153.442	524.507	1.120.840	136.922
	<b>10.087.979</b>	<b>22.433.304</b>	<b>7.333.815</b>	<b>(15.655.791)</b>

**Other operating expenses:**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Doubtful receivable expense	33.882	17341	-	-
Penalty and compensation expenses	-	-	305.946	293.816
Receivable discount expense	-	-	163.629	214.192
Other expense	1.665.902	1.214.500	850.400	173.795
	<b>1.699.784</b>	<b>1.231.841</b>	<b>1.319.975</b>	<b>681.803</b>

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**NOTE 16 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES**

The details of income from investing activities as of the periods ended 30 June 2014 and 2013 are as follows:

**Income from investing activities:**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Foreign exchange gain from investing activities	-	-	1.479.403	(1.040.438)
Other income	10.476	10.476	79.053	79.053
	<b>10.476</b>	<b>10.476</b>	<b>1.558.456</b>	<b>(961.385)</b>

**Expenses from investing activities:**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Foreign exchange loss from investing activities	71.874	1.877.334	-	-
	<b>71.874</b>	<b>1.877.334</b>	<b>-</b>	<b>-</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 17 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses as of the periods ended 30 June 2014 and 2013 are as follows:

#### Financial income:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Foreign exchange gain (realized and unrealized) on derivative contracts	40.644.971	8.678.570	7.950.074	(3.498.431)
Interest income	31.265.421	10.108.353	10.521.022	9.063.731
	<b>71.910.392</b>	<b>18.786.923</b>	<b>18.471.096</b>	<b>5.565.300</b>

#### Financial expenses:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Foreign exchange loss	36.324.116	669.257	37.227.201	9.826.098
Surety commission expenses	6.752.183	3.276.380	5.974.777	2.984.799
Interest on obligations under finance leases	5.799.106	2.792.020	2.499.859	1.231.454
Other commission expenses	5.371.936	3.346.981	4.433.109	2.317.534
Interest expense on bank loans	-	-	1.491.607	870.760
	<b>54.247.341</b>	<b>10.084.638</b>	<b>51.626.553</b>	<b>17.230.645</b>

### NOTE 18 - 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 30 June 2014 and 2013 is as follows:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Net (loss) / income – attributable to equity holders of the parent	(15.394.928)	87.157.869	47.014.274	53.336.461
Weighted average number of shares issued in the period	102.272.000	102.272.000	85.454.267	95.908.533
<b>(Loss) / gain per share</b>	<b>(0,15)</b>	<b>0,85</b>	<b>0,55</b>	<b>0,56</b>

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

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### NOTE 19 - RELATED PARTY TRANSACTIONS

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

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

##### a) Due from related parties

	30 June 2014	31 December 2013
<b>Balances with other related parties:</b>		
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	335.663	318.600
Esasburda İnşaat Sanayi ve Ticaret A.Ş. (*)	902	-
	<b>336.565</b>	<b>318.600</b>

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

##### b) Due to related parties

	30 June 2014	31 December 2013
<b>Balances with parent company:</b>		
Esas Holding	1.270.940	-
<b>Balances with joint ventures and subsidiaries:</b>		
PUEM	330.182	46.569
<b>Balances with other related parties:</b>		
RM Arşiv Yönetim Hizmetleri A.Ş.	2.587	3.180
Esasburda	-	65.822
	<b>1.603.709</b>	<b>115.571</b>

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 19 - RELATED PARTY TRANSACTIONS (cont'd)

#### (ii) Significant transactions with related parties:

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

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

The Group earns 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 its pilots.

#### a) Sale of services

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
<b>Balances with joint ventures and subsidiaries:</b>				
PUEM	86.609	(9.217)	391.472	201.374
İzair (*)	-	-	1.064.038	-
<b>Balances with other related parties:</b>				
Doğan Burda	423.618	219.918	360.000	180.000
	<b>510.227</b>	<b>210.701</b>	<b>1.815.510</b>	<b>381.374</b>

#### b) Purchases of goods or services

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
<b>Balances with joint ventures and subsidiaries:</b>				
PUEM	3.359.179	1.592.690	2.438.404	1.359.517
İzair (*)	-	-	1.091.086	-
<b>Purchases from other related parties:</b>				
Callpex	3.844.655	1.976.031	3.643.672	1.879.792
Esasburda	461.061	269.450	420.719	173.252
RM Arşiv Yönetim Hizmetleri A.Ş.	16.485	7.245	12.186	5.727
Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş.	-	-	47.000	-
Other	28.109	2.640	34.879	34.879
	<b>7.709.489</b>	<b>3.848.056</b>	<b>7.687.946</b>	<b>3.453.167</b>

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



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**NOTE 19 - RELATED PARTY TRANSACTIONS (cont'd)**

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

**c) Rent expenses**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Esasburda	1.343.802	632.188	1.217.869	683.752
	<b>1.343.802</b>	<b>1.264.376</b>	<b>1.217.869</b>	<b>683.752</b>

**d) Surety commission expenses**

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Esas Holding	6.752.183	3.276.380	5.974.777	2.984.799
	<b>6.752.183</b>	<b>3.276.380</b>	<b>5.974.777</b>	<b>2.984.799</b>

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

**(iii) Compensation of key management personnel:**

Key management personnel include General Managers and Assistant General Managers. The remuneration of key management paid during the period ended 30 June 2014 and 2013 are as follows:

	<b>1 January- 30 June 2014</b>	<b>1 April- 30 June 2014</b>	<b>1 January- 30 June 2013</b>	<b>1 April- 30 June 2013</b>
Salaries and other short term benefits	4.385.192	3.175.802	2.464.483	1.925.257
	<b>4.385.192</b>	<b>3.175.802</b>	<b>2.464.483</b>	<b>1.925.257</b>

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**NOTE 20 - FINANCIAL INSTRUMENTS**

**Financial Liabilities**

The details of financial liabilities as of 30 June 2014 and 31 December 2013 are as follows:

<b>Short term financial liabilities</b>	<b>30 June 2014</b>	<b>31 December 2013</b>
Short term bank borrowings	11.063.253	3.980.899
Short term portion of long term finance lease obligations	173.914.664	181.171.887
	<b>184.977.917</b>	<b>185.152.786</b>
<b>Long term financial liabilities</b>	<b>30 June 2014</b>	<b>31 December 2013</b>
Long term finance lease obligations	1.334.545.099	1.441.206.556
	<b>1.334.545.099</b>	<b>1.441.206.556</b>

The effective interest rates, original currency and TL equivalents of the borrowings as of 30 June 2014 and 31 December 2013 are as follows:

**30 June 2014**

	<b>Weighted average effective interest rate (%)</b>	<b>Currency</b>	<b>Original amount</b>	<b>TL amount</b>
Short term bank loans	0,00 (*)	TL	11.063.253	11.063.253
<b>Total loans</b>				<b>11.063.253</b>

**31 December 2013**

	<b>Weighted average effective interest rate (%)</b>	<b>Currency</b>	<b>Original amount</b>	<b>TL amount</b>
Short term bank loans	0,00 (*)	TL	3.980.899	3.980.899
<b>Total loans</b>				<b>3.980.899</b>

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

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#### NOTE 20 - FINANCIAL INSTRUMENTS (cont'd)

##### Financial Liabilities (cont'd)

The details of financial lease liabilities as of 30 June 2014 and 31 December 2013 are as follows:

	30 June 2014	31 December 2013
Less than 1 year	181.816.522	191.326.331
Between 1 - 5 years	749.906.786	749.158.042
Over 5 years	632.784.318	733.864.601
	1.564.507.626	1.674.348.974
Less: Future interest expenses	(56.047.863)	(51.970.531)
	<b>1.508.459.763</b>	<b>1.622.378.443</b>

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

	30 June 2014	31 December 2013
Less than 1 year	173.914.664	181.171.887
Between 1 - 5 years	713.297.224	719.090.090
Over 5 years	621.247.875	722.116.466
	<b>1.508.459.763</b>	<b>1.622.378.443</b>

The Group purchases certain of its aircraft through finance lease arrangements. The average lease term is 12 years. For the period ended 30 June 2014, the floating interest rate applicable to Euro-denominated lease obligations is 0,49% (31 December 2013: 0,62%) and the floating rate applicable to US Dollar-denominated lease obligations is 0,84% (31 December 2013: 0,54%).

#### NOTE 21 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

##### Foreign currency risk management

The Group has significant transactions in non-euro currencies including, but not limited to, Turkish Lira revenues, non-euro borrowings and US dollars fuel purchases. These non-euro denominated transactions expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group's foreign currency position of monetary and non-monetary assets/liabilities for the periods ended 30 June 2014 and 31 December 2013 is as follows:

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**NOTE 21 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL  
INSTRUMENTS (cont'd)**

**Financial risk factors (cont'd)**

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

<b>30 June 2014</b>	<b>TL Total</b>	<b>USD</b>	<b>TL</b>	<b>GBP</b>	<b>Other</b>
1. Trade receivables	241.573.651	14.101.628	165.435.939	3.753.124	32.647.789
2a. Monetary financial assets	754.457.682	270.058.411	109.635.632	12.373.583	26.718.810
2b. Non monetary financial assets	-	-	-	-	-
3. Other	122.092.908	57.028.238	338.385	21.426	583.427
<b>4. CURRENT ASSETS</b>	<b>1.118.124.241</b>	<b>341.188.277</b>	<b>275.409.956</b>	<b>16.148.133</b>	<b>59.950.026</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	33.310.023	15.458.502	171.386	44.800	152.353
<b>8. NON CURRENT ASSETS</b>	<b>33.310.023</b>	<b>15.458.502</b>	<b>171.386</b>	<b>44.800</b>	<b>152.353</b>
<b>9. TOTAL ASSETS</b>	<b>1.151.434.264</b>	<b>356.646.779</b>	<b>275.581.342</b>	<b>16.192.933</b>	<b>60.102.379</b>
10. Trade payables	103.605.451	24.763.975	44.526.149	258.554	5.562.253
11. Financial liabilities	42.169.247	14.649.145	11.063.253	-	-
12a. Other liabilities, monetary	106.055.831	1.567.606	102.356.180	-	370.996
12b. Other liabilities, non monetary	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>251.830.529</b>	<b>40.980.726</b>	<b>157.945.582</b>	<b>258.554</b>	<b>5.933.249</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	210.906.752	99.325.022	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>210.906.752</b>	<b>99.325.022</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>462.737.281</b>	<b>140.305.748</b>	<b>157.945.582</b>	<b>258.554</b>	<b>5.933.249</b>
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	681.258.687	394.327.068	(81.433.125)	(15.180.000)	(19.831.592)
19.a Off-balance sheet foreign currency derivative assets	896.092.846	394.327.068	58.778.750	-	-
19b. Off-balance sheet foreigncurrency derivative liabilities	214.834.159	-	140.211.875	15.180.000	19.831.592
20. Net foreign currency asset/(liability) position	688.696.983	216.341.031	117.635.760	15.934.379	54.169.130
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	533.294.052	143.854.291	117.125.989	15.868.153	53.433.350

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**NOTE 21 - 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
<b>4. CURRENT ASSETS</b>	<b>1.068.441.031</b>	<b>94.936.437</b>	<b>833.734.067</b>	<b>3.408.205</b>	<b>20.116.556</b>
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
<b>8. NON CURRENT ASSETS</b>	<b>82.377.776</b>	<b>38.410.676</b>	<b>168.571</b>	<b>19.800</b>	<b>159.773</b>
<b>9. TOTAL ASSETS</b>	<b>1.150.818.807</b>	<b>133.347.113</b>	<b>833.902.638</b>	<b>3.428.005</b>	<b>20.276.329</b>
10. Trade payables	93.132.717	25.265.013	34.947.122	402.233	2.850.077
11. Financial liabilities	35.169.880	14.613.213	3.980.899	-	-
12a. Other liabilities, monetary	79.534.626	5.322.871	68.153.661	188	19.701
12b. Other liabilities, non monetary	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>207.837.223</b>	<b>45.201.097</b>	<b>107.081.682</b>	<b>402.421</b>	<b>2.869.778</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	227.623.955	106.650.403	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
<b>17. NON CURRENT LIABILITIES</b>	<b>227.623.955</b>	<b>106.650.403</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>435.461.178</b>	<b>151.851.500</b>	<b>107.081.682</b>	<b>402.421</b>	<b>2.869.778</b>
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	715.357.629	(18.504.387)	726.820.956	3.025.584	17.406.551
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	548.057.227	(91.233.507)	715.115.463	2.990.969	17.158.950

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NOTE 21 - 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.

Foreign currency sensitivity tables as of 30 June 2014 and 31 December 2013 are as follows:

30 June 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	45.937.855	(45.937.855)	-	-
Part of hedged from USD risk	83.731.410	(83.731.410)	-	-
<b>USD net effect</b>	<b>129.669.265</b>	<b>(129.669.265)</b>	-	-
Effect of 10% change in TL rate				
TL net asset / liability	11.763.576	(11.763.576)	109.639.917	(109.639.917)
Part of hedged from TL risk	(8.143.313)	8.143.313	-	-
<b>TL net effect</b>	<b>3.620.263</b>	<b>(3.620.263)</b>	<b>109.639.917</b>	<b>(109.639.917)</b>
<b>31 December 2013</b>	<b>Profit/Loss</b>		<b>Shareholders' equity</b>	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / liability	(3.949.391)	3.949.391	-	-
Part of hedged from USD risk	48.900.727	(48.900.727)	-	-
<b>USD net effect</b>	<b>44.951.336</b>	<b>(44.951.336)</b>	-	-
Effect of 10% change in TL rate				
TL net asset / liability	72.682.096	(72.682.096)	31.543.356	(31.543.356)
Part of hedged from TL risk	20.326.365	(20.326.365)	-	-
<b>TL net effect</b>	<b>93.008.461</b>	<b>(93.008.461)</b>	<b>31.543.356</b>	<b>(31.543.356)</b>

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**NOTE 22 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)**

**Fair Value of Financial Instruments**

<b>30 June 2014</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected fair value in profit / (loss)</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	1.026.069.394	-	-	-	1.026.069.394	24
Trade receivables	336.324.718	-	-	-	336.324.718	4
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	336.324.718	-	-	-	336.324.718	4
Other receivables	111.092.873	-	-	-	111.092.873	
Advances given for purchase of aircraft	98.006.204	-	-	-	98.006.204	
Derivative financial assets	-	25.299.723	15.970.828	-	41.270.551	
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	11.063.253	11.063.253	20
Obligations under financial leases	-	-	-	1.508.459.763	1.508.459.763	20
Trade payables	-	-	-	226.784.381	226.784.381	4
- <i>Related party</i>	-	-	-	1.603.709	1.603.709	19
- <i>Other</i>	-	-	-	225.180.672	225.180.672	4
Passenger airport fees liability	-	-	-	72.951.228	72.951.228	5
Derivative financial liabilities	-	-	-	-	-	

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**NOTE 22 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)**

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

<b>31 December 2013</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected fair value in profit / (loss)</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	877.401.671	-	-	-	877.401.671	24
Trade receivables	191.073.066	-	-	-	191.073.066	4
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	191.073.066	-	-	-	191.073.066	4
Other receivables	107.929.564	-	-	-	107.929.564	
Advances given for purchase of aircraft	98.006.204	-	-	-	98.006.204	
Derivative financial assets	-	25.401.932	-	-	25.401.932	
<b>Financial liabilities</b>						
Bank borrowings	-	-	-	3.980.899	3.980.899	20
Obligations under financial leases	-	-	-	1.622.378.443	1.622.378.443	20
Trade payables	-	-	-	167.294.824	167.294.824	4
- <i>Related party</i>	-	-	-	115.571	115.571	19
- <i>Other</i>	-	-	-	167.179.253	167.179.253	4
Passenger airport fees liability	-	-	-	42.162.767	42.162.767	5
Derivative financial liabilities	-	-	10.939.103	-	10.939.103	



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#### NOTE 22 - 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 the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Financial assets / Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique
	30 June 2014	31 December 2013		
Forward fuel purchase contracts	25.299.723	25.401.932	Level 2	Discounted cash flow method
Foreign currency contracts	15.970.828	(10.939.103)	Level 2	Discounted cash flow method

#### NOTE 23 - EVENTS AFTER BALANCE SHEET DATE

A new agreement was signed on 10 June 2014 between the Company and Kobirate Uluslararası Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. to be valid for one year within the context of taking a grade of Capital Market Boards Corporate Governance Principles Compliance Rating, the relevant practices have been initiated.

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2014

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### NOTE 24 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 30 June 2014 and 31 December 2013 are as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Cash on hand	157.660	129.535
Cash at banks	1.025.911.734	877.272.136
- Demand deposits	88.551.949	36.274.682
- Time deposits	937.359.785	840.997.454
	<b>1.026.069.394</b>	<b>877.401.671</b>

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

<b>30 June 2014</b>	<b>Effective interest rates</b>	<b>Total</b>
TL deposits	10,76%	100.398.484
USD deposits	2,22%	557.191.293
EUR deposits	1,67%	237.859.007
GBP deposits	1,20%	36.454.941
CHF deposits	0,70%	5.456.060
		<b>937.359.785</b>

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

All of the time deposits as of 30 June 2014 and 31 December 2013 mature within 45 days.