

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

**PEGASUS HAVA TAŞIMACILIĞI
ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE
NINE-MONTH INTERIM PERIOD ENDED
30 SEPTEMBER 2014

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30 SEPTEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 30 September 2014	Prior period (Audited) 31 December 2013
ASSETS			
Current assets		1.721.887.494	1.220.215.191
Cash and cash equivalents	24	1.235.491.384	877.401.671
Trade receivables	4	315.905.524	191.073.066
<i>Trade receivables from related parties</i>		-	-
<i>Trade receivables from third parties</i>	4	315.905.524	191.073.066
Other receivables		60.378.180	40.844.285
<i>Other receivables from related parties</i>	19	261.556	318.600
<i>Other receivables from third parties</i>		60.116.624	40.525.685
Derivative financial instruments		-	25.401.932
Inventories		5.488.734	4.035.669
Prepaid expenses		103.236.630	69.836.277
Other current assets		1.387.042	11.622.291
Non-Current assets		2.095.671.578	2.277.989.446
Other receivables		45.446.499	67.085.279
<i>Other receivables from related parties</i>		-	-
<i>Other receivables from third parties</i>		45.446.499	67.085.279
Investments accounted for using the equity method	6	2.242.454	1.376.792
Property and equipment	7	2.005.259.933	2.120.627.943
Intangible assets	8	11.455.338	11.447.742
Prepaid expenses		22.809.274	69.449.002
Deferred tax assets		8.458.080	8.002.688
TOTAL ASSETS		3.817.559.072	3.498.204.637

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 SEPTEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 30 September 2014	Prior period (Audited) 31 December 2013
LIABILITIES			
Current liabilities		847.951.894	677.597.387
Short term financial liabilities	20	14.408.340	3.980.899
Short term portion of long term financial liabilities	20	176.590.644	181.171.887
Trade payables	4	239.877.455	167.294.824
<i>Trade payables to related parties</i>	19	1.635.517	115.571
<i>Trade payables to third parties</i>	4	238.241.938	167.179.253
Employee benefit obligations		9.768.529	6.805.756
Other payables		13.690.750	17.079.784
<i>Other payables to related parties</i>		-	-
<i>Other payables to third parties</i>		13.690.750	17.079.784
Derivative financial instruments		16.649.569	10.939.103
Deferred income	5	326.071.539	248.254.755
Current tax liabilities		7.198.649	-
Short term provisions		42.084.826	41.697.458
<i>Short term provisions for employee benefits</i>		39.342.053	30.864.026
<i>Other short term provisions</i>		2.742.773	10.833.432
Other current liabilities		1.611.593	372.921
Non-Current liabilities		1.629.609.556	1.674.380.165
Long term financial liabilities	20	1.305.562.357	1.441.206.556
Deferred income		8.787.062	6.423.264
Long term provisions		104.036.161	65.577.108
<i>Long term provisions for employee benefits</i>		5.666.874	6.018.849
<i>Other long term provisions</i>		98.369.287	59.558.259
Deferred tax liabilities		211.223.976	161.173.237
SHAREHOLDERS' EQUITY		1.339.997.622	1.146.227.085
Equity attributable to shareholders' of the parent		1.340.060.664	1.145.684.240
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		298.157.514	308.022.092
Hedge fund		(10.594.821)	20.321.546
Retained earnings		229.876.620	138.192.795
Net profit for the period		235.157.369	91.683.825
Non-controlling interest		(63.042)	542.845
TOTAL LIABILITIES AND EQUITY		3.817.559.072	3.498.204.637

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 SEPTEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 1 January - 30 September 2014	Current period (Not Reviewed) 1 July - 30 September 2014	Prior period (Not Reviewed) 1 January - 30 September 2013	Prior period (Not Reviewed) 1 July - 30 September 2013
	Notes				
Sales (net)	13	2.419.814.918	1.108.636.835	1.824.288.693	835.130.182
Cost of sales (-)	13	(1.994.206.712)	(769.463.897)	(1.382.326.622)	(573.168.311)
Gross profit		425.608.206	339.172.938	441.962.071	261.961.871
General administrative expenses (-)	14	(61.375.523)	(20.114.197)	(48.558.086)	(16.510.839)
Marketing expenses (-)	14	(103.107.355)	(25.869.330)	(77.220.951)	(24.235.944)
Other operating income	15	48.555.052	38.467.073	6.217.904	2.864.062
Other operating expenses (-)	15	(1.894.119)	(194.335)	(36.784.691)	(39.444.689)
Operating profit		307.786.261	331.462.149	285.616.247	184.634.461
Income from investing activities	16	5.918.267	5.979.665	105.091	26.038
Expenses from investing activities	16	-	-	(1.981.568)	(3.460.971)
Share of investments' loss accounted for using equity method	6	898.771	109.580	(647.979)	201.287
Operating profit before financial income		314.603.299	337.551.394	283.091.791	181.400.815
Financial income	17	70.926.803	(983.589)	32.760.603	14.289.507
Financial expense (-)	17	(78.391.977)	(24.144.636)	(89.826.429)	(38.199.876)
Profit before tax		307.138.125	312.423.169	226.025.965	157.490.446
Tax income expense					
Current tax expense		(10.897.444)	(10.897.444)	-	-
Deferred tax expense		(62.103.183)	(49.465.984)	(66.605.554)	(42.211.305)
Net income for the period		234.137.498	252.059.741	159.420.411	115.279.141
Net income attributable to:					
Shareholders' of the parent		235.157.369	250.552.297	161.691.882	114.677.608
Non-controlling interest		(1.019.871)	1.507.444	(2.271.471)	601.533
		234.137.498	252.059.741	159.420.411	115.279.141
Profit per share (TL)	18	2,30	2,45	1,77	1,12
Other comprehensive (loss) / income					
Items to be reclassified to profit or loss					
Currency translation differences		(9.450.594)	2.133.530	152.924.845	100.637.139
Cash flow hedge		(30.916.367)	(30.834.602)	(293.290)	15.438.016
(Loss) / gain on derivative contracts		(38.645.457)	(38.543.251)	2.613.034	19.297.520
Deferred tax effect		7.729.090	7.708.649	(2.906.324)	(3.859.504)
Other comprehensive (loss) / income		(40.366.961)	(28.701.072)	152.631.555	116.075.155
Total comprehensive income		193.770.537	223.358.669	312.051.966	231.354.296
Total comprehensive income attributable to:					
Shareholders' of the parent		194.376.424	221.753.357	316.270.516	230.616.674
Non-controlling interest		(605.887)	1.605.312	(4.218.550)	737.622
		193.770.537	223.358.669	312.051.966	231.354.296

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 SEPTEMBER 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
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	-	-	-	-	-	-	-	-	6.040.713	6.040.713
Increase in share capital of the Company	27.272.000	-	-	-	-	-	-	27.272.000	-	27.272.000
Increase according to the share-based transactions (*)	-	-	456.871.366	-	-	-	-	456.871.366	-	456.871.366
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)	-	-	-	154.871.924	(293.290)	-	161.691.882	316.270.516	(4.218.550)	312.051.966
As at 30 September 2013	102.272.000	29.504.957	456.871.366	227.607.734	11.625.296	138.192.795	161.691.882	1.127.766.030	1.685.396	1.129.451.426
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
Transfer to retained earnings	-	-	-	-	-	91.683.825	(91.683.825)	-	-	-
Total comprehensive income / (loss)	-	-	-	(9.864.578)	(30.916.367)	-	235.157.369	194.376.424	(605.887)	193.770.537
As at 30 September 2014	102.272.000	29.504.957	455.687.025	298.157.514	(10.594.821)	229.876.620	235.157.369	1.340.060.664	(63.042)	1.339.997.622

(*)The surplus of sales price over nominal value amounted to TL 456.871.366 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 SEPTEMBER 2014**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 1 January - 30 September 2014	Prior period (Not Reviewed) 1 January - 30 September 2013
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		235.157.369	161.691.882
Adjustments to reconcile the net profit			
Depreciation and amortization	7-8, 11	125.229.321	88.336.261
Provision for employee benefits		30.553.737	23.425.692
Provision for doubtful receivable	15	98.235	-
Current tax expense		69.301.832	66.605.554
Interest and commission income	17	(15.076.387)	(6.272.751)
Gain on sales of fixed assets		-	(102.958)
(Gain) / loss on equity investments accounted for using the equity method	6	(898.771)	647.979
Change in maintenance reserves and redelivery provision		35.477.355	12.442.496
Other provisions related with investing or financing activities		196.032	145.324
Legal provision		(154.375)	(124.857)
Provision for impairment of fixed assets	7	-	11.545.649
Provision for penalty and compensation		-	7.133.013
Changes in working capital			
Increase in trade receivables		(125.023.340)	(170.992.485)
Increase in inventories		(1.453.065)	(402.732)
Decrease / (increase) in other receivables and other current assets		14.474.222	(36.660.353)
Increase in trade payables		72.582.631	90.326.064
Increase in deferre income, other payables and other current liabilities		77.262.775	116.354.604
Net cash generated from operating activities		517.727.571	364.098.382
Payment for employee, executive bonus plan and retirement benefits		(22.255.718)	(19.419.630)
		495.471.853	344.678.752
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflows from purchase of property, equipment and intangible assets	7-8	(42.574.843)	(13.336.733)
Changes in advances on aircraft		18.719.578	(6.875.421)
Proceeds from sale / purchase discount of property, equipment and intangible assets		2.121.580	381.952
		(21.733.685)	(19.830.202)
C. CASH FLOWS FROM FINANCING ACTIVITIES:			
Net cash inflows related with the sale of shares and other equity instruments		-	484.143.366
Repayment of principal in finance lease liabilities		(131.239.878)	(105.517.611)
Interest and commission paid		(26.849.898)	(22.129.110)
Interest received		38.944.501	26.196.443
Net increase in borrowings		14.408.336	2.864.885
Repayment of borrowings		(3.980.895)	(2.747.795)
Dividend payment out of group		-	(136.767)
		(108.717.834)	382.673.411
NET INCREASE IN CASH AND CASH EQUIVALENTS			
BEFORE TRANSLATION EFFECT (A+B+C)		365.020.334	707.521.961
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		(6.930.621)	41.129.030
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		358.089.713	748.650.991
E. CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD	24	877.401.671	210.150.238
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD (A+B+C+D+E)	24	1.235.491.384	958.801.229

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 SEPTEMBER 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 1 - GROUP ORGANIZATION AND ITS OPERATIONS

Pegasus Hava Taşımacılığı A.Ş. (the “Company” or “Pegasus”) and its subsidiaries (together “the Group”) is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service.

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

	30 September 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 30 September 2014 is 3.516 (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 September 2014 and delegated authority for publishing it on 10 November 2014. General shareholders’ meeting has the authority to modify the financial statements.

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

(Amounts are expressed in TL unless otherwise stated.)

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 September 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 September 2014: 1 Euro (€) = 2,8914 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 SEPTEMBER 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 September 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 September 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 September 2014:

<u>Name of the company</u>	<u>Principal activity</u>	<u>Participation rate</u>		<u>Country of registration and operation</u>
		<u>30 September 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 2.320.164 that was previously presented in handling fees and TL 75.400 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 1.318.523 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 SEPTEMBER 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 September 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 September 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 Entities¹</i>
Amendments to TAS 32	<i>Offsetting Financial Assets and Financial Liabilities¹</i>
Amendments to TAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets¹</i>
Amendments to TAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting¹</i>
TFRS Interpretation 21	<i>Levies¹</i>

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

(c) New and revised standards in issue but not yet effective

The Group has not applied the following new and revised standards that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i>
Amendments to TFRS 9 and TFRS 7	<i>Mandatory Effective Date of TFRS 9 and Transition Disclosures</i>
Amendments to TAS 19	<i>Defined Benefit Plans: Employee Contributions¹</i>
Annual Improvements to 2010-2012 Cycle	<i>TFRS 2, TFRS 3, TFRS 8, TFRS 13, TAS 16 and TAS 38, TAS 24, TFRS 9, TMS 37, TMS 39¹</i>
Annual Improvements to 2011-2013 Cycle	<i>TFRS 3, TFRS 13, TAS 40¹</i>
Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation²</i>

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

² Effective for annual periods beginning on or after 1 January 2016.

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 SEPTEMBER 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 and third quarters of the year compared to the first and fourth quarters. 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 September 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 September 2014 and 31 December 2013 are as follows:

	30 September 2014	31 December 2013
Trade receivables	69.188.380	45.968.107
Credit card receivables	246.109.565	145.128.195
Income accruals	2.393.325	1.761.827
	317.691.270	192.858.129
Less: Allowance for doubtful receivables	(1.785.746)	(1.785.063)
	315.905.524	191.073.066

Short term trade payables

	30 September 2014	31 December 2013
Trade payables	159.445.658	130.997.834
Accrued direct operational costs	68.735.882	30.696.256
Other accrued expenses	10.060.398	5.485.163
Due to related parties (Note 19)	1.635.517	115.571
	239.877.455	167.294.824

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NOTE 5 - DEFERRED INCOME

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

	30 September 2014	31 December 2013
Passenger flight liabilities	277.679.343	216.121.823
Advances received from customers	31.956.915	15.268.074
Deferred income from sale of subsidiary	14.608.420	14.836.281
Other deferred income	1.826.861	2.028.577
	326.071.539	248.254.755

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

	30 September 2014	31 December 2013
Flight liability from ticket sales	199.534.032	149.153.458
Passenger airport fees received from customers	50.065.191	42.162.767
Flight liability from flight points	28.080.120	24.805.598
	277.679.343	216.121.823

NOTE 6 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	30 September 2014	31 December 2013
Joint ventures		
PUEM	2.242.454	1.376.792
	2.242.454	1.376.792

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

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
PUEM	898.771	109.580	588.751	201.287
İzair (*)	-	-	(1.236.730)	-
Net (loss) / profit	898.771	109.580	(647.979)	201.287

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

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NOTE 7 - PROPERTY AND EQUIPMENT

30 September 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
Additions	5.198.222	609.256	4.280.891	6.674.188	22.915.869	272.827	-	39.951.253
Disposals	(2.416)	(25.365)	-	(222.888)	-	(1.880.990)	-	(2.131.659)
Transfers	-	-	-	2.975.003	-	-	(2.975.003)	-
Currency translation differences	(56.245)	(101.177)	(613.007)	(415.251)	(726.017)	(109.285.374)	-	(111.197.071)
Closing	7.245.536	7.512.761	40.437.361	30.360.726	65.439.120	2.448.012.692	-	2.599.008.196
Accumulated depreciation:								
Opening	(1.489.102)	(2.787.977)	(18.403.732)	(10.771.253)	(22.032.241)	(496.273.425)	-	(551.757.730)
Depreciation for the period	(317.168)	(860.357)	(3.337.215)	(2.433.137)	(4.152.587)	(111.690.548)	-	(122.791.012)
Disposals	205	585	-	9.289	-	-	-	10.079
Currency translation differences	15.677	47.369	325.689	174.789	379.186	79.847.690	-	80.790.400
Closing	(1.790.388)	(3.600.380)	(21.415.258)	(13.020.312)	(25.805.642)	(528.116.283)	-	(593.748.263)
Net book value	5.455.148	3.912.381	19.022.103	17.340.414	39.633.478	1.919.896.409	-	2.005.259.933

(*) 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.

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NOTE 7 - PROPERTY AND EQUIPMENT (cont'd)

30 September 2013	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components and repairables	Owned and leased aircraft	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	183.167	99.145	1.222.758	2.995.189	2.275.307	-	6.775.566
Additions	39.551	963.841	6.165.305	871.073	1.849.706	-	9.889.476
Disposals	(39.183)	-	-	-	(319.969)	-	(359.152)
Impairment provision (*)	-	-	-	-	-	(11.545.649)	(11.545.649)
Currency translation differences	251.777	895.821	4.529.574	2.382.142	4.316.294	334.252.213	346.627.821
Closing	1.744.127	6.524.393	33.245.609	18.675.913	30.113.700	2.304.206.237	2.394.509.979
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	(144.093)	(66.666)	(896.385)	(1.940.840)	(2.216.246)	-	(5.264.230)
Depreciation for the period	(87.253)	(534.336)	(2.219.229)	(1.572.473)	(1.402.601)	(81.037.963)	(86.853.855)
Disposals	953	-	-	-	79.205	-	80.158
Currency translation differences	(188.215)	(320.698)	(2.257.913)	(1.250.275)	(2.990.276)	(57.102.099)	(64.109.476)
Closing	(1.314.661)	(2.388.477)	(16.334.866)	(9.485.719)	(20.874.223)	(418.553.852)	(468.951.798)
Net book value	429.466	4.135.916	16.910.743	9.190.194	9.239.477	1.885.652.385	1.925.558.181

(*) 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.

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NOTE 8 - INTANGIBLE ASSETS

30 September 2014	Brand	Software	Total
Cost:			
Opening	2.070.233	20.505.267	22.575.500
Additions	-	2.623.590	2.623.590
Currency translation differences	(31.796)	(337.802)	(369.598)
Closing	2.038.437	22.791.055	24.829.492
Accumulated amortization:			
Opening	(689.428)	(10.438.330)	(11.127.758)
Amortization for the period	(77.473)	(2.360.836)	(2.438.309)
Currency translation differences	2.488	189.425	191.913
Closing	(764.413)	(12.609.741)	(13.374.154)
Net book value	1.274.024	10.181.314	11.455.338
30 September 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	-	3.447.257	3.447.257
Currency translation differences	302.798	2.488.552	2.791.350
Closing	1.937.623	18.218.676	20.156.299
Accumulated amortization:			
Opening	-	(5.574.570)	(5.574.570)
Addition of subsidiary	(490.447)	(836.746)	(1.327.193)
Amortization for the period	(44.100)	(1.438.306)	(1.482.406)
Currency translation differences	(91.856)	(1.244.190)	(1.336.046)
Closing	(626.403)	(9.093.812)	(9.720.215)
Net book value	1.311.220	9.124.864	10.436.084

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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, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 2.808.082 as of 30 September 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 1.306.375 (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 30 September 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 September 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.

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 SEPTEMBER 2014

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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), 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.

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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.

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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

	30 September 2014	31 December 2013
Commitments to purchase aircraft	21.212.897.430	17.263.069.600
	21.212.897.430	17.263.069.600

As of 30 September 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 84.462.075 (31 December 2013: TL 98.006.204) and TL 62.812.523 (31 December 2013: TL 28.721.168) of this amount is reclassified under short term prepaid expenses, TL 21.649.552 (31 December 2013: TL 69.285.036) of this amount is reclassified under long term prepaid expenses.

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NOTE 10 - COMMITMENTS (cont'd)

The Company as Lessee

Operating lease agreements:

Payments recognised as expense:

	1 January - 30 September 2014	1 January - 30 September 2013
Minimum lease payments	136.836.715	69.975.908
	136.836.715	69.975.908

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

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

	30 September 2014	31 December 2013
Less than 1 year	205.326.795	149.922.590
Between 1 - 5 years	708.047.787	531.204.714
Over 5 years	170.234.984	159.064.094
	1.083.609.566	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:

	30 September 2014	31 December 2013
Less than 1 year	185.143	185.143
Between 1 - 5 years	385.714	524.571
	570.857	709.714

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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 September 2014 is as follows:

30 September 2014	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on the behalf of its own legal entity					
- <i>Collateral</i>	278.031.151	97.545.666	7.343.614	29.934.569	5.337.970
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
B. Total amounts of CPM given on the behalf of subsidiaries that are included in full consolidation					
- <i>Collateral</i>	50.744.500	5.000.000	-	39.350.000	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations (*)					
- <i>Collateral</i>	8.681.126	1.176.500	-	6.000.000	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
- <i>Collateral</i>	-	-	-	-	-
- <i>Pledge</i>	-	-	-	-	-
- <i>Mortgage</i>	-	-	-	-	-
	337.456.777	103.722.166	7.343.614	75.284.569	5.337.970

(*) 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.

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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:

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

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

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

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NOTE 11 - EXPENSES BY NATURE

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

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Jet fuel expenses	886.997.200	353.393.754	634.212.827	270.075.430
Personnel expenses	271.595.174	98.120.351	193.792.767	72.877.071
Handling fees	162.606.098	62.041.436	109.090.156	52.390.065
Navigation expenses	154.760.603	62.055.705	105.396.864	46.222.300
Operating lease expenses	136.836.715	49.330.313	69.975.908	26.524.625
Depreciation and amortisation expense	125.229.321	41.726.867	88.336.261	31.736.342
Maintenance expenses	120.785.242	46.503.737	68.313.241	28.271.953
Landing expenses	62.516.028	24.792.032	44.321.202	19.440.273
Advertising expenses	52.453.743	8.932.181	35.420.651	9.652.453
Commission expenses	32.278.864	10.639.926	25.226.366	8.638.717
Passenger service and catering expenses	25.897.203	11.346.321	18.726.080	7.821.157
Other expenses	126.733.399	46.564.801	115.293.336	40.264.708
	2.158.689.590	815.447.424	1.508.105.659	613.915.094

NOTE 12 - CAPITAL

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

	30 September 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 Kamyşlı	0,86	874.810	0,86	874.810
Ali İsmail Sabancı	0,86	874.810	0,86	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
TL historic capital	100,0	102.272.000	100,0	102.272.000

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

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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 September 2014 and 2013 are as follows:

Sales:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Scheduled flights	1.844.520.133	861.195.528	1.412.938.068	651.439.093
<i>International scheduled flights</i>	<i>1.116.599.638</i>	<i>553.399.376</i>	<i>812.169.811</i>	<i>403.211.368</i>
<i>Domestic scheduled flights</i>	<i>727.920.495</i>	<i>307.796.152</i>	<i>600.768.257</i>	<i>248.227.725</i>
Ancillary revenue	394.248.184	149.909.046	240.492.981	96.910.849
Charter flights	137.416.202	81.271.160	122.620.359	71.409.619
Other revenue	43.630.399	16.261.101	39.333.336	15.370.621
AirBerlin Turkey operation revenue	-	-	8.903.949	-
	2.419.814.918	1.108.636.835	1.824.288.693	835.130.182

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

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Domestic	727.920.495	307.796.152	600.768.257	248.227.725
Europe	933.119.279	466.381.481	720.498.622	362.577.110
Other	183.480.359	87.017.895	91.671.189	40.634.258
	1.844.520.133	861.195.528	1.412.938.068	651.439.093

Cost of sales:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Jet fuel expenses	886.997.200	353.393.754	634.212.827	270.075.430
Personnel expenses	235.616.279	86.292.920	165.498.319	62.925.737
Handling fees	162.606.098	62.041.436	109.090.156	52.390.065
Navigation expenses	154.760.603	62.055.705	105.396.864	46.222.300
Operating lease expenses	136.836.715	49.330.313	69.975.908	26.524.625
Maintenance expenses	120.785.242	46.503.737	68.313.241	28.271.953
Depreciation and amortisation expenses	116.188.630	38.579.536	82.531.171	29.492.259
Landing expenses	62.516.028	24.792.032	44.321.202	19.440.273
Passenger service and catering expenses	25.897.203	11.346.321	18.726.080	7.821.157
Other expenses	92.002.714	35.128.143	72.516.321	30.004.512
AirBerlin Turkey operation cost of sales	-	-	11.744.533	-
	1.994.206.712	769.463.897	1.382.326.622	573.168.311

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NOTE 14 - MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

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

Marketing expenses:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Advertising expenses	52.453.743	8.932.181	35.420.651	9.652.453
Commission expenses	32.278.864	10.639.926	25.226.366	8.638.717
Personnel expenses	8.904.645	3.252.713	7.580.766	2.770.011
Call center expenses	6.127.849	2.152.972	6.110.860	2.223.345
Depreciation and amortisation expenses	1.728.420	602.169	1.109.830	426.644
Other expenses	1.613.834	289.369	1.772.478	524.774
	103.107.355	25.869.330	77.220.951	24.235.944

General administrative expenses:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Personnel expenses	27.074.250	8.574.718	20.713.682	7.181.323
Rent expenses	7.451.296	2.524.041	5.526.826	1.972.046
Depreciation and amortisation expenses	7.312.271	2.545.162	4.695.260	1.817.439
IT expenses	4.727.304	2.003.320	2.876.198	1.022.156
Consultancy expenses	3.835.036	986.833	2.521.054	814.623
Travel expenses	2.086.059	614.912	1.980.210	716.921
Legal and notary expenses	1.800.649	682.307	923.438	332.900
Office utility expenses	1.184.582	407.131	1.310.215	423.220
Other expenses	5.904.076	1.775.773	8.011.203	2.230.211
	61.375.523	20.114.197	48.558.086	16.510.839

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NOTE 15 - OTHER OPERATING INCOME AND EXPENSES

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

Other operating income:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Foreign exchange gain from operating activities	46.126.182	37.678.740	-	-
Discount cancellation income	438.964	190.799	-	-
Rent income	135.957	45.319	293.458	82.091
Income from sale and leaseback transactions	88.611	-	4.642.461	2.620.826
Other income	1.765.338	552.215	1.281.985	161.145
	48.555.052	38.467.073	6.217.904	2.864.062

Other operating expenses:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Foreign exchange loss from operating activities	-	-	16.773.803	20.753.776
Doubtful receivable expense	98.235	64.353	-	-
Provision expense for impairment of fixed assets	-	-	11.545.649	11.545.649
Penalty and compensation expenses	-	-	7.171.690	6.865.744
Receivable discount expense	-	-	94.176	(69.453)
Other expense	1.795.884	129.982	1.199.373	348.973
	1.894.119	194.335	36.784.691	39.444.689

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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 September 2014 and 2013 are as follows:

Income from investing activities:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Foreign exchange gain from investing activities	5.828.970	5.900.844	-	-
Other income	89.297	78.821	105.091	26.038
	5.918.267	5.979.665	105.091	26.038

Expenses from investing activities:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Foreign exchange loss from investing activities	-	-	1.981.568	3.460.971
	-	-	1.981.568	3.460.971

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NOTE 17 - FINANCIAL INCOME AND EXPENSES

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

Financial income:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Gain on derivative contracts	29.129.149	(11.515.822)	3.373.808	(4.576.266)
Interest income	41.797.654	10.532.233	29.386.795	18.865.773
	70.926.803	(983.589)	32.760.603	14.289.507

Financial expenses:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Foreign exchange loss	51.670.710	15.346.594	66.712.385	29.485.184
Surety commission expenses	10.012.687	3.260.504	9.160.471	3.185.694
Other commission expenses	8.637.440	3.265.504	6.405.446	1.972.337
Interest on obligations under finance leases	8.071.140	2.272.034	3.741.690	1.241.831
Interest expense on bank loans	-	-	1.853.593	361.986
Other interest expenses	-	-	1.952.844	1.952.844
	78.391.977	24.144.636	89.826.429	38.199.876

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 September 2014 and 2013 is as follows:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Net income – attributable to equity holders of the parent	235.157.369	250.552.297	161.691.882	114.677.608
Weighted average number of shares issued in the period	102.272.000	102.272.000	91.142.618	102.272.000
Gain per share	2,30	2,45	1,77	1,12

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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) Other receivables from related parties

	30 September 2014	31 December 2013
Balances with other related parties:		
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	261.556	318.600
	261.556	318.600

b) Trade payables to related parties

	30 September 2014	31 December 2013
Balances with parent company:		
Esas Holding	1.273.679	-
Balances with joint ventures and subsidiaries:		
PUEM	323.532	46.569
Balances with other related parties:		
RM Arşiv Yönetim Hizmetleri A.Ş. (*)	-	3.180
Esasburda İnşaat Sanayi ve Ticaret A.Ş. (**)	38.306	65.822
	1.635.517	115.571

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

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

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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 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Balances with joint ventures and subsidiaries:				
PUEM	125.420	38.811	629.707	238.235
İzair (*)	-	-	1.064.038	-
Balances with other related parties:				
Doğan Burda	654.724	231.106	556.200	196.200
	780.144	269.917	2.249.945	434.435

b) Purchases of goods or services

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Balances with joint ventures and subsidiaries:				
PUEM	4.410.114	1.050.935	3.635.745	1.197.341
İzair (*)	-	-	1.091.086	-
Purchases from other related parties:				
Callpex	5.874.651	2.029.996	5.723.336	2.079.664
Esasburda	364.706	(96.355)	652.667	231.948
RM Arşiv (**)	19.476	2.991	17.851	5.665
Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş.	-	-	47.000	-
Other	28.109	-	34.879	-
	10.697.056	2.987.567	11.202.564	3.514.618

(*) Amount is due from the period İzair had been accounted 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.

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NOTE 19 - RELATED PARTY TRANSACTIONS (cont'd)

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

c) Rent expenses

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Esasburda	2.288.811	945.009	1.870.602	652.733
	2.288.811	1.890.018	1.870.602	652.733

d) Surety commission expenses

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Esas Holding	10.012.687	3.260.504	9.160.471	3.185.694
	10.012.687	3.260.504	9.160.471	3.185.694

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 September 2014 and 2013 are as follows:

	1 January- 30 September 2014	1 July- 30 September 2014	1 January- 30 September 2013	1 July- 30 September 2013
Salaries and other short term benefits	5.755.521	1.370.329	3.217.292	752.809
	5.755.521	1.370.329	3.217.292	752.809

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NOTE 20 - FINANCIAL INSTRUMENTS

Financial Liabilities

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

Short term financial liabilities	30 September 2014	31 December 2013
Short term bank borrowings	14.408.340	3.980.899
Short term portion of long term finance lease obligations	176.590.644	181.171.887
	190.998.984	185.152.786

Long term financial liabilities	30 September 2014	31 December 2013
Long term finance lease obligations	1.305.562.357	1.441.206.556
	1.305.562.357	1.441.206.556

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

30 September 2014

	Weighted average interest rate (%)	Currency	Original amount	TL amount
Short term bank loans	0,00 (*)	TL	14.408.340	14.408.340
Total loans				14.408.340

31 December 2013

	Weighted average interest rate (%)	Currency	Original amount	TL amount
Short term bank loans	5,00	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.

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NOTE 20 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

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

	30 September 2014	31 December 2013
Less than 1 year	183.173.700	191.326.331
Between 1 - 5 years	745.015.040	749.158.042
Over 5 years	586.744.487	733.864.601
	1.514.933.227	1.674.348.974
Less: Future interest expenses	(32.780.226)	(51.970.531)
	1.482.153.001	1.622.378.443

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

	30 September 2014	31 December 2013
Less than 1 year	176.590.644	181.171.887
Between 1 - 5 years	724.414.312	719.090.090
Over 5 years	581.148.045	722.116.466
	1.482.153.001	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 30 September 2014, the floating interest rate applicable to Euro-denominated lease obligations is 0,31% (31 December 2013: 0,62%) and the floating rate applicable to US Dollar-denominated lease obligations is 0,89% (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 September 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)

30 September 2014	TL Total	USD	TL	GBP	Other
1. Trade receivables	252.697.195	16.384.810	169.730.148	3.177.006	33.894.067
2a. Monetary financial assets	933.604.273	258.082.037	254.592.422	17.271.814	27.078.706
2b. Non monetary financial assets	-	-	-	-	-
3. Other	82.011.012	35.451.225	352.106	32.172	750.288
4. CURRENT ASSETS	1.268.312.480	309.918.072	424.674.676	20.480.992	61.723.061
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	35.955.350	15.556.880	174.646	44.800	162.670
8. NON CURRENT ASSETS	35.955.350	15.556.880	174.646	44.800	162.670
9. TOTAL ASSETS	1.304.267.830	325.474.952	424.849.322	20.525.792	61.885.731
10. Trade payables	123.935.381	31.419.531	45.224.324	190.460	6.405.662
11. Financial liabilities	47.837.941	14.669.183	14.408.340	-	-
12a. Other liabilities, monetary	39.141.473	1.573.437	35.311.539	-	244.228
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	210.914.795	47.662.151	94.944.203	190.460	6.649.890
14. Trade payables	-	-	-	-	-
15. Financial liabilities	217.992.152	95.656.743	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	217.992.152	95.656.743	-	-	-
18. TOTAL LIABILITIES	428.906.947	143.318.894	94.944.203	190.460	6.649.890
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	583.085.240	331.055.557	(128.511.875)	(8.780.000)	(10.418.220)
19.a Off-balance sheet foreign currency derivative assets	754.442.509	331.055.557	-	-	-
19b. Off-balance sheet foreigncurrency derivative liabilities	171.357.269	-	128.511.875	8.780.000	10.418.220
20. Net foreign currency asset/(liability) position	875.360.883	182.156.058	329.905.119	20.335.332	55.235.841
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	757.394.521	131.147.953	329.378.367	20.258.360	54.322.883

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(Amounts are expressed in TL unless otherwise stated.)

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
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 liabilities, monetary	79.534.626	5.322.871	68.153.661	188	19.701
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	207.837.223	45.201.097	107.081.682	402.421	2.869.778
14. Trade payables	-	-	-	-	-
15. Financial liabilities	227.623.955	106.650.403	-	-	-
16a. Other liabilities, monetary	-	-	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	227.623.955	106.650.403	-	-	-
18. TOTAL LIABILITIES	435.461.178	151.851.500	107.081.682	402.421	2.869.778
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	617.101.529	229.118.338	203.263.650	(17.800.000)	(12.666.470)
19.a Off-balance sheet foreign currency derivative assets	854.333.069	279.618.338	257.543.650	-	-
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 September 2014 and 31 December 2013 are as follows:

30 September 2014	Profit/Loss		Shareholders' equity	
	If foreign currency	If foreign currency	If foreign currency	If foreign currency
	appreciated 10%	depreciated 10%	appreciated 10%	depreciated 10%
Effect of 10% change in USD rate				
USD net asset / liability	41.511.544	(41.511.544)	-	-
Part of hedged from USD risk	75.444.251	(75.444.251)	-	-
USD net effect	116.955.795	(116.955.795)	-	-
Effect of 10% change in TL rate				
TL net asset / liability	32.990.512	(32.990.512)	135.059.244	(135.059.244)
Part of hedged from TL risk	(12.851.188)	12.851.188	-	-
TL net effect	20.139.324	(20.139.324)	135.059.244	(135.059.244)
31 December 2013	Profit/Loss		Shareholders' equity	
	If foreign currency	If foreign currency	If foreign currency	If foreign currency
	appreciated 10%	depreciated 10%	appreciated 10%	depreciated 10%
Effect of 10% change in USD rate				
USD net asset / liability	(3.949.391)	3.949.391	-	-
Part of hedged from USD risk	48.900.727	(48.900.727)	-	-
USD net effect	44.951.336	(44.951.336)	-	-
Effect of 10% change in TL rate				
TL net asset / liability	72.682.096	(72.682.096)	112.590.554	(112.590.554)
Part of hedged from TL risk	20.326.365	(20.326.365)	-	-
TL net effect	93.008.461	(93.008.461)	112.590.554	(112.590.554)

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

Fair Value of Financial Instruments

30 September 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	1.235.491.384	-	-	-	1.235.491.384	24
Trade receivables	315.905.524	-	-	-	315.905.524	4
- <i>Related party</i>	-	-	-	-	-	
- <i>Other</i>	315.905.524	-	-	-	315.905.524	4
Other receivables	105.824.679	-	-	-	105.824.679	
- <i>Related party</i>	261.556	-	-	-	261.556	19
- <i>Other</i>	105.563.123	-	-	-	105.563.123	
Advances given for purchase of aircraft	84.462.075	-	-	-	84.462.075	
Financial liabilities						
Bank borrowings	-	-	-	14.408.340	14.408.340	20
Obligations under financial leases	-	-	-	1.482.153.001	1.482.153.001	20
Trade payables	-	-	-	239.877.455	239.877.455	4
- <i>Related party</i>	-	-	-	1.635.517	1.635.517	19
- <i>Other</i>	-	-	-	238.241.938	238.241.938	4
Passenger airport fees liability	-	-	-	50.065.191	50.065.191	5
Derivative financial liabilities	-	13.243.525	3.406.044	-	16.649.569	

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(Amounts are expressed in TL unless otherwise stated.)

NOTE 22 - 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	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	
- <i>Related party</i>	318.600	-	-	-	318.600	19
- <i>Other</i>	107.610.964	-	-	-	107.610.964	
Advances given for purchase of aircraft	98.006.204	-	-	-	98.006.204	
Derivative financial assets	-	25.401.932	-	-	25.401.932	
Financial liabilities						
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 September 2014	31 December 2013		
Forward fuel purchase contracts	(13.243.525)	25.401.932	Level 2	Discounted cash flow method
Foreign currency contracts	(3.406.044)	(10.939.103)	Level 2	Discounted cash flow method

NOTE 23 - EVENTS AFTER BALANCE SHEET DATE

According to the announcement on 20 October 2014 at Public Disclosure Platform:

As the result of the study of Kobirate Uluslararası Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. in order to identify the level of compliance of our Company's practices to "Capital Market Boards Corporate Governance Principles", our Company's Corporate Rating grade has been determined to be 8,77 (prior period 8,07).

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NOTE 24 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

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

	30 September 2014	31 December 2013
Cash on hand	205.090	129.535
Cash at banks	1.235.286.294	877.272.136
- Demand deposits	71.631.219	36.274.682
- Time deposits	1.163.655.075	840.997.454
	1.235.491.384	877.401.671

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

30 September 2014	Effective interest rates	Total
TL deposits	9,71%	249.234.879
USD deposits	2,20%	569.703.822
EUR deposits	1,83%	277.929.155
GBP deposits	1,21%	57.706.702
CHF deposits	0,70%	9.080.517
		1.163.655.075

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 30 September 2014 and 31 December 2013 mature within 90 days.