

CONVENIENCE TRANSLATION OF
REPORT AND FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

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

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE
THREE MONTH INTERIM
PERIOD ENDED 31 MARCH 2014

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED STATEMENT
OF FINANCIAL POSITION AS OF 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 31 March 2014	Prior period (Audited) 31 December 2013
	Notes		
ASSETS			
Current assets		1.263.981.438	1.191.494.023
Cash and cash equivalents	4	857.780.444	877.401.671
Trade receivables	5	260.773.756	191.391.666
Other receivables		43.039.073	40.525.685
Derivative financial instruments		35.098.249	25.401.932
Inventories		3.965.038	4.035.669
Prepaid expenses		53.006.312	41.115.109
Other current assets		10.318.566	11.622.291
Non-Current assets		2.313.440.815	2.306.710.614
Other receivables		66.642.956	67.085.279
Investments accounted for using the equity method	8	2.368.139	1.376.792
Property and equipment	9	2.141.599.248	2.120.627.943
Intangible assets	10	11.466.690	11.447.742
Prepaid expenses		83.059.078	98.170.170
Deferred tax assets		8.304.704	8.002.688
TOTAL ASSETS		3.577.422.253	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 INTERIM CONSOLIDATED STATEMENT
OF FINANCIAL POSITION AS OF 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Not Reviewed) 31 March 2014	Prior period (Audited) 31 December 2013
LIABILITIES			
Current liabilities		838.302.651	677.597.387
Short term financial liabilities	6	4.310.664	3.980.899
Short term portion of long term financial liabilities	6	180.119.576	181.171.887
Trade payables		177.279.942	167.294.824
<i>Other trade payables to third parties</i>		175.802.279	167.179.253
<i>Trade payables to related parties</i>	20	1.477.663	115.571
Employee benefit obligations		7.579.748	6.805.756
Other payables		15.240.795	17.079.784
Derivative financial instruments		-	10.939.103
Deferred income	7	410.686.191	248.254.755
Short term provisions		42.867.742	41.697.458
<i>Short term provisions for employee benefits</i>		39.250.677	30.864.026
<i>Other short term provisions</i>		3.617.065	10.833.432
Other current liabilities		217.993	372.921
Non-Current liabilities		1.668.846.147	1.674.380.165
Long term financial liabilities	6	1.431.215.090	1.441.206.556
Deferred income		6.340.764	6.423.264
Long term provisions		76.655.492	65.577.108
<i>Long term provisions for employee benefits</i>		7.051.039	6.018.849
<i>Other long term provisions</i>		69.604.453	59.558.259
Deferred tax liabilities		154.634.801	161.173.237
SHAREHOLDERS' EQUITY		1.070.273.455	1.146.227.085
Equity attributable to shareholders' of the parent		1.071.515.070	1.145.684.240
Paid-in share capital	13	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		339.079.873	308.022.092
Hedge fund		17.647.392	20.321.546
Retained earnings		229.876.620	138.192.795
Net (loss) / profit for the period		(102.552.797)	91.683.825
Non-controlling interest		(1.241.615)	542.845
TOTAL LIABILITIES AND EQUITY		3.577.422.253	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 INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME AS OF 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

		Current period (Not Reviewed) 1 January - 31 March 2014	(Revised) Prior period (Not Reviewed) 1 January - 31 March 2013
	Notes		
Sales (net)	14	512.131.486	386.043.713
Cost of sales (-)	14	(562.608.265)	(348.673.216)
Gross profit		(50.476.779)	37.370.497
General administrative expenses (-)	15	(18.982.205)	(12.678.476)
Marketing expenses (-)	15	(43.825.582)	(26.512.682)
Other operating income	16	821.917	23.040.169
Other operating expenses (-)	16	(13.635.185)	(688.736)
Operating profit		(126.097.834)	20.530.772
Income from investing activities	17	1.805.460	2.519.841
Share of investments' loss accounted for using equity method	8	966.749	(1.088.911)
Operating profit before financial income/(expense)		(123.325.625)	21.961.702
Financial income	18	53.123.469	12.770.715
Financial expense (-)	18	(44.162.703)	(34.260.826)
Profit before tax		(114.364.859)	471.591
Tax income expense			
Current tax expense		-	-
Deferred tax income/(expense)		9.840.264	(6.804.817)
Loss for the period		(104.524.595)	(6.333.226)
Net loss attributable to:			
Shareholders' of the parent		(102.552.797)	(6.322.187)
Non-controlling interest		(1.971.798)	(11.039)
		(104.524.595)	(6.333.226)
Loss per share (TL)	19	(1,00)	(0,08)
Other comprehensive income/(loss)			
Items to be reclassified to profit or loss			
Currency translation differences		31.245.119	(5.304.270)
Cash flow hedge		(2.674.154)	35.998
<i>Loss on derivative contracts</i>		(3.342.693)	44.998
<i>Deferred tax effect</i>		668.539	(9.000)
Other comprehensive income/(loss)		28.570.965	(5.268.272)
Total comprehensive loss		(75.953.630)	(11.601.498)
Total comprehensive loss attributable to:			
Shareholders' of the parent		(74.169.170)	(11.590.459)
Non-controlling interest		(1.784.460)	(11.039)
		(75.953.630)	(11.601.498)

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 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	-	-	-	-	-	-	-	-	772.384	772.384
Transfer to retained earnings	-	-	-	-	-	126.303.516	(126.303.516)	-	-	-
Total comprehensive loss	-	-	-	(5.304.270)	35.998	-	(6.322.187)	(11.590.459)	(11.039)	(11.601.498)
As at 31 March 2013	75.000.000	29.504.957	-	67.431.540	11.954.584	138.192.795	(6.322.187)	315.761.689	761.345	316.523.034
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)	-	-	-	31.057.781	(2.674.154)	-	(102.552.797)	(74.169.170)	(1.784.460)	(75.953.630)
As at 31 March 2014	102.272.000	29.504.957	455.687.025	339.079.873	17.647.392	229.876.620	(102.552.797)	1.071.515.070	(1.241.615)	1.070.273.455

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 THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

		(Revised)
		Prior period
		(Not Reviewed)
		1 January -
		31 March 2013
	Notes	31 March 2014
Loss for the period		(102.552.797)
Adjustments to obtain net cash flow generated from operating activities		(6.322.187)
Depreciation and amortization	9-10	42.316.842
Provision for employee benefits		9.484.550
Provision for doubtful receivable		16.541
Current tax (income) / expense		(9.840.264)
Interest and commission (income) / expense		(12.649.224)
(Gain) / loss on equity investments accounted for using the equity method	8	(966.749)
Change in maintenance reserves and redelivery provision		8.790.605
Other provisions related with investing or financing activities		(23.309.575)
Legal provision		75.338
Cash (used in) / generated from operating activities		(88.634.733)
Increase in trade receivables		(69.355.792)
Decrease / (increase) in inventories		70.631
(Increase) / decrease in other receivables and other current assets		(9.318.782)
Increase in trade payables		9.985.118
Increase in deferre income, other payables and other current liabilities		161.129.006
Changes in working capital		92.510.181
Cash flows from operating activities		3.875.448
Payment for income sharing plan and retirement pay liabilities		(234.727)
Payment for penalty and compensation		(7.466.013)
Net cash (used in) / generated from operating activities		(3.825.292)
Cash flows from investing activities:		11.732.404
Cash outflows from purchase of property, equipment and intangible assets	9-10	(14.020.688)
Changes in advances on aircraft		17.586.635
Proceeds from sale of property, equipment and intangible assets		1.982.824
Net cash generated from / (used in) investing activities		5.548.771
Cash flow from financing activities:		(19.698.180)
Repayment of principal in finance lease liabilities		(45.092.046)
Interest and commission paid		(8.609.301)
Interest received		17.531.792
Increase in borrowings		4.310.661
Repayment of borrowings		(3.980.895)
Net cash used in from financing activities		(35.839.789)
Net increase in cash and cash equivalents before translation effect		(34.116.310)
Translation differences effect on cash and cash equivalents		14.495.083
Cash and cash equivalents at the beginning of the period	4	877.401.671
Cash and cash equivalents at the end of the period	4	857.780.444

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 FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 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 31 March 2014 and 31 December 2013 are as follows:

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

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

The Group’s total number of full time employees as of 31 March 2014 is 3.190 (31 December 2013: 3.105). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 March 2014 and delegated authority for publishing it on 12 May 2014. General shareholders’ meeting has the authority to modify the financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 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.

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

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

Functional and Presentation Currency

The Euro is the functional currency of the entities that comprise the Group as it is the currency in which the operations are primarily transacted. Presentation currency of the Group’s financial statements is Turkish Lira (“TL”). Financial Statements have been translated from Euro to TL in accordance with the relevant provisions of IAS 21 (“The Effects of Changes in Foreign Exchange Rates”) as follows;

- Assets and liabilities are translated using the Central Bank of the Turkish Republic (“TCMB”) Euro buying rate prevailing at the balance sheet date; 31 March 2014: 1 Euro (€) = 3,0072 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 FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 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 31 March 2014 and 31 December 2013:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Participation Rate</u>		<u>Country of Registration</u>
		<u>31 March 2014</u>	<u>31 December 2013</u>	
IHY İzmir Havayolları A.Ş. ("İzair")	Air transportation	69%	69%	Türkiye
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 31 March 2014:

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

2.2 Changes in Accounting Policies

The same accounting policies 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.

2.3 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.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

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

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

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

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 *Financial Instruments*

Amendments to TFRS 9 and TFRS 7 *Mandatory Effective Date of TFRS 9 and Transition Disclosures*

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

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 - CASH AND CASH EQUIVALENTS

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

	31 March 2014	31 December 2013
Cash on hand	179.713	129.535
Cash at banks	857.600.731	877.272.136
- Demand deposits	55.523.286	36.274.682
- Time deposits	802.077.445	840.997.454
	857.780.444	877.401.671

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

31 March 2014	Effective interest rates	Total
TL deposits	14,57%	457.257.560
USD deposits	3,65%	315.840.409
EUR deposits	2,40%	20.328.075
GBP deposits	1,50%	5.451.451
CHF deposits	1,10%	3.199.950
		802.077.445

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 5 - TRADE RECEIVABLES

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

	31 March 2014	31 December 2013
Trade receivables	56.155.671	46.286.707
Credit card receivables	205.663.259	145.128.195
Income accruals	798.572	1.761.827
	262.617.502	193.176.729
Less: Allowance for doubtful receivables	(1.843.746)	(1.785.063)
	260.773.756	191.391.666

NOTE 6 - FINANCIAL LIABILITIES

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

Short term financial liabilities	31 March 2014	31 December 2013
Short term bank borrowings	4.310.664	3.980.899
Short term portion of long term finance lease obligations	180.119.576	181.171.887
	184.430.240	185.152.786
Long term financial liabilities	31 March 2014	31 December 2013
Long term finance lease obligations	1.431.215.090	1.441.206.556
	1.431.215.090	1.441.206.556

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

31 March 2014

	Weighted average interest rate (%)	Currency	Original amount	TL amount
Short term bank loans	0,00 (*)	TL	4.310.664	4.310.664
Total loans				4.310.664

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 6 - FINANCIAL LIABILITIES (cont'd)

31 December 2013

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

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

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

	31 March 2014	31 December 2013
Less than 1 year	194.850.370	191.326.331
Between 1 - 5 years	809.346.416	749.158.042
Over 5 years	717.463.057	733.864.601
	1.721.659.843	1.674.348.974
Less: Future interest expenses	(110.325.177)	(51.970.531)
	1.611.334.666	1.622.378.443

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

	31 March 2014	31 December 2013
Less than 1 year	180.119.576	181.171.887
Between 1 - 5 years	738.653.030	719.090.090
Over 5 years	692.562.060	722.116.466
	1.611.334.666	1.622.378.443

The Group purchases certain of its aircraft through finance lease arrangements. The average lease term is 12 years. For the period ended 31 March 2014, the floating interest rate applicable to Euro-denominated lease obligations is 0,93% (31 December 2013: 0,62%) and the floating rate applicable to US Dollar-denominated lease obligations is 1,42% (31 December 2013: 0,54%).

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 7 - DEFERRED INCOME

	31 March 2014	31 December 2013
Passenger flight liabilities	377.601.651	217.820.400
Advances received from customers	17.561.056	15.268.074
Deferred income from sale of subsidiary	15.193.484	14.836.281
Other deferred income	330.000	330.000
	410.686.191	248.254.755

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

	31 March 2014	31 December 2013
Flight liability from ticket sales	283.100.037	150.852.035
Passenger airport fees received from customers	68.568.032	42.162.767
Flight liability from flight points	25.933.582	24.805.598
	377.601.651	217.820.400

NOTE 8 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	31 March 2014	31 December 2013
Joint ventures		
PUEM	2.368.139	1.376.792
	2.368.139	1.376.792

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

	1 January - 31 March 2014	1 January - 31 March 2013
PUEM	966.749	147.819
İzair (*)	-	(1.236.730)
Net (loss) / profit	966.749	(1.088.911)

(*) Amount is due from the period İziar 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
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 9 - PROPERTY AND EQUIPMENT

31 March 2014	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components 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	18.348	-	1.689.729	286.771	9.320.786	282.473	2.167.340	13.765.447
Disposals	(1.782)	(26.292)	-	-	-	(1.956.520)	-	(1.984.594)
Currency translation differences	34.181	160.739	863.863	461.483	958.853	61.024.904	71.627	63.575.650
Closing	2.156.722	7.164.494	39.323.069	22.097.928	53.528.907	2.618.257.086	5.213.970	2.747.742.176
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	(43.559)	(269.941)	(1.156.084)	(754.797)	(1.214.975)	(38.081.292)	-	(41.520.648)
Disposals	459	1.311	-	-	-	-	-	1.770
Currency translation differences	(33.271)	(63.514)	(429.053)	(224.246)	(519.712)	(11.596.524)	-	(12.866.320)
Closing	(1.565.473)	(3.120.121)	(19.988.869)	(11.750.296)	(23.766.928)	(545.951.241)	-	(606.142.928)
Net book value	591.249	4.044.373	19.334.200	10.347.632	29.761.979	2.072.305.845	5.213.970	2.141.599.248

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 9 - PROPERTY AND EQUIPMENT (cont'd)

31 Marh 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	-	25.979	113.020	2.016.629	-	-	2.155.628
Additions	-	-	778.415	15.256	496.576	-	1.290.247
Currency translation differences	(18.254)	(63.676)	(307.858)	(173.548)	(313.371)	(27.636.680)	(28.513.387)
Closing	1.290.561	4.527.889	21.911.549	14.285.846	22.175.567	1.953.862.993	2.018.054.405
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	-	(16.887)	(66.703)	(1.060.245)	-	-	(1.143.835)
Depreciation for the period	(27.479)	(107.567)	(585.375)	(638.612)	(436.488)	(25.608.042)	(27.403.563)
Currency translation differences	12.865	21.822	160.513	72.338	205.893	4.638.269	5.111.700
Closing	(910.667)	(1.569.409)	(11.452.904)	(6.348.650)	(14.574.900)	(301.383.563)	(336.240.093)
Net book value	379.894	2.958.480	10.458.645	7.937.196	7.600.667	1.652.479.430	1.681.814.312

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 10 - INTANGIBLE ASSETS

31 March 2014	Brand	Software	Total
Cost:			
Opening	2.070.233	20.505.267	22.575.500
Additions	-	537.714	537.714
Currency translation differences	49.844	494.694	544.538
Closing	2.120.077	21.537.675	23.657.752
Accumulated amortization:			
Opening	(689.428)	(10.438.330)	(11.127.758)
Amortization for the period	(26.737)	(769.457)	(796.194)
Currency translation differences	(25.862)	(241.248)	(267.110)
Closing	(742.027)	(11.449.035)	(12.191.062)
Net book value	1.378.050	10.088.640	11.466.690

31 March 2013	Software	Total
Cost:		
Opening	10.588.220	10.588.220
Addition of subsidiary	136.630	136.630
Additions	217.951	217.951
Currency translation differences	(150.582)	(150.582)
Closing	10.792.219	10.792.219
Accumulated amortization:		
Opening	(5.574.570)	(5.574.570)
Addition of subsidiary	(133.785)	(133.785)
Amortization for the period	(371.226)	(371.226)
Currency translation differences	82.670	82.670
Closing	(5.996.911)	(5.996.911)
Net book value	4.795.308	4.795.308

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigation

The Group is party to various lawsuits and claims that have been filed against it, which total TL 2.539.780 as of 31 March 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 1.292.592 (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 customer complaints and claims by the Group's former employees, in addition to which these lawsuits include a limited number of commercial claims for contractual payments or indemnity related to termination of contracts.

Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 544.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.366. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 31 December 2013 both lawsuits are under the review of the Court of Appeals. The Group management believes that cash outflow is not probable and has not provided any provision for this fine.

Furthermore, a series of lawsuits have been filed by certain non-controlling shareholders of İzair requesting cancellation of the General Assembly decisions to increase 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 March 31, 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 penalty

The Inspection Officers of Ministry of Finance has 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 has challenged the VAT tax remitted on behalf of the non-resident aircraft lessor company that is party the Company's finance lease structure. The VAT rates applied by the Group were based the rates promulgated by Cabinet Decrees which are as follows:

- VAT rate in Financial Leasing for Period of 1August 2002 – 30 December 2007 is 1% (as promulgated by Cabinet Decree 2002/4480)
- VAT rate in Financial Leasing for Period of 31 December 2007-31 July 2008 is 18% (as promulgated by Cabinet Decree 2007/13033)
- VAT rate in Financial Leasing for Period after 1August 2008 is 1% (as promulgated by Cabinet Decree2008/13902)

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax penalty (cont'd)

The tax inspector has 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 has challenged the applicability of the Cabinet Degree to the Group's transactions.

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

During this process, on the official web site of the Directorate General of Revenues (www.gib.gov.tr), the Directorate of Major Taxpayers' Tax Office has issued an individual circular order, which has been given to a taxpayer dated 21.05.2013 and number 64597866-130 [28-2013]- 74. The aforesaid individual circular order comprises an opinion that, with reference to the aircraft leasing transactions executed via financial leasing abroad, the ratio of the value added tax to be calculated over the financial leasing prices shall be 1%, pursuant to the decree nr.2007/13033 annex nr.1 15th row of the list. The opinion, which has been made public by this individual circular order is without any doubt quite an open view and according to this individual circular order, based on the official view of the Revenues Administration, the ratio of the value added tax to be calculated for the aircraft leasing transactions executed from abroad is 1%.

Besides the ruling referred to hereabove, on the official web site of Revenues Administration, namely www.gib.gov.tr , another ruling number 64597866-130[28-2013]-93 dated 08.07.2013 directed by Major Taxpayers Tax Office Directorate to some other taxpayer, has been issued. Similarly, on such ruling it is included the opinion that in aircraft leasing transactions conducted abroad through financial leasing, rate of value added tax to be calculated over financial leasing charges is to be at the rate of 1% pursuant to the 15th line of List Number I annexed to Decree Number 2007/13033. The opinion specified and described under the said ruling is so clear and obvious to avoid any hesitation, and according to such ruling where the official opinion of the Revenues Administration, rate of value added tax required to be calculated in any aircraft financial leasing made abroad is 1%.

General communiqué of the Tax Law Procedure (Row nr.425) has been issued in the Official Gazette number 28600 dated 27.03.2013. According to the declarations made by this communiqué, by assessing the reports, Tax Inspection Reports Assessment Commissions of the Ministry of Finance shall apply the conformity criterion to the individual circular orders given by the Directorate General of Revenues. While assessing the reports in accordance with the conformity criterion to individual circular orders, the Reports Assessment Commissions shall take the criticized matters and the related individual circular orders given by the Directorate General of Revenues into the account and shall not be limited only to the report given and the individual circular order issued in the taxpayer's name (if any). According to this, the Reports Assessment Commissions shall inspect all the tax inspection reports (even if the individual circular order has not been given to the taxpayer subject to the inspection) and make their assessments for the conformity criterion to the given individual circular orders and also the conformity criterion to the above mentioned individual circular order, thereto.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax penalty (cont'd)

Within the scope of considerations above, in relation with the clear determination of Directorate General of Revenues' perspective of the issue, lawsuits commenced in 2013 by means of filing declarations "with objection" regarding aircraft leasing transactions executed via financial leasing abroad were withdrawn in January 2014 and VAT rate calculated over aircraft leasing has started to be applied as 1% as of December 2013.

On the other hand, it was published on Official Gazette Number 28983 Dated 26.04.2014, Value Added Tax General Implementation Circular. Under such section of the said circular of number III-B-2-2.2 and titled "Financial Leasing Procedures", it is indicated that such vehicles deliveries of which 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 the Finance Administration both in respect of specific communiqués as well as in the form of 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 be duly awarded to its side. 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 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 explanations under such Value Added Tax General Implementation Circular dated 26.04.2014, 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.

The Major Taxpayers Tax Office that we are affiliated to the Company notified by basing on such Tax Inspection Report that Corporation Tax Return for Year 2010 is required to be corrected and a lawsuit has been filed by the Company, claiming revocation of such determination act with respect to an income difference in the amount of TL 1.630.561,18.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax penalty (cont'd)

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

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

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

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

Within this process, some of the lawsuits we have filed with the request of cancellation of the penalty assessments made against our Company with regard to the monthly periods of year 2010 with the allegation that the financial lease payments made with regards to the aircraft to the companies with their legal domicile and headquarters located abroad should have been subject to corporate tax withholdings, were finalized in favor of our Company by Istanbul Tax Courts, which is the first degree of judicial authority. The Tax Authority is entitled to file an appeal within the 30 days for the judgments ruled by the Tax Court.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax penalty (cont'd)

Whereas yet another issue for criticism on the said Report is with respect to failing to have been made any corporation tax withholding over such package computer software purchased by the Company in year 2010 from a business entity with legal and principal places of business domiciled abroad, and according to the specific communiqués issued by the Revenues Department on various dates, since such package computer software purchased from companies with legal and principal places of business domiciled abroad are submitted to the market in readily available form, not comprising of those programs prepared specific to the company, these are commercial commodities, and accordingly, it is opinionated that the purchasing prices of such programs are not subject to corporation tax withholding. Under its such capacity and in parallel to the relevant opinions of Company's legal advisors and taxation specialists, no provision has been provided therefor, including the period on the accompanied consolidated financial statements not inspected.

Value Added Tax Inspection Report Number 2013-B-228/6, is based on the allegation that corporation tax withholdings arising on grounds of such amounts set forth to be accrued under such Corporation Tax Withholding Inspection Report Number 2013-B-228/5, and corporation tax withholdings anticipated under the said Report are at the same time subject to value added tax withholding.

Within this process, some of the lawsuits we have filed with the request of cancellation of the penalty value added tax assessments made against our Company with regard to the monthly periods of year 2010 with the allegation that corporate tax withholdings for the lease payments made with regards to the aircraft to the companies with their legal domicile and headquarters located abroad should have been subject to 18 % value added tax, were finalized in favor of our Company by Istanbul Tax Courts, which is the first degree of judicial authority. The Tax Authority is entitled to file an appeal within the 30 days for the judgments ruled by the Tax Court.

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

It is believed that as a result of the said 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 12 - COMMITMENTS

Purchase commitments

	31 March 2014	31 December 2013
Commitments to purchase aircraft	20.383.519.589	17.263.069.600
	20.383.519.589	17.263.069.600

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 12 - COMMITMENTS (cont'd)

Purchase commitments (cont'd)

As of 31 March 2014 the Group holds firm orders for 77 aircrafts. The expected deliveries are: 2 aircrafts in 2015, 7 aircrafts in 2016, 5 aircrafts in 2017, 10 aircrafts in 2018, 14 aircrafts in 2019, 13 aircrafts in 2020, 13 aircrafts in 2021, 13 aircrafts in 2022. The purchase commitments for these aircrafts 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 82.944.435 (31 December 2013: TL 98.006.204) and the amount is reclassified under long term prepaid expenses.

The Company as Lessee

Operating lease agreements:

Payments recognised as expense:

	31 March 2014	31 March 2013
Minimum lease payments	41.273.913	21.450.715
	41.273.913	21.450.715

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

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

	31 March 2014	31 December 2013
Less than 1 year	184.469.586	149.922.590
Between 1 - 5 years	666.048.288	531.204.714
Over 5 years	214.148.372	159.064.094
	1.064.666.246	840.191.398

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

	31 March 2014	31 December 2013
Less than 1 year	185.143	185.143
Between 1 - 5 years	478.285	524.571
	663.428	709.714

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 12 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages(“CPM”)

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

31 March 2014	TL TOTAL	USD	EUR	TL	Other (*)
A. Total amounts of CPM given on the behalf of its own legal entity					
- <i>Collateral</i>	273.883.069	104.639.661	6.777.026	20.782.479	4.344.395
- <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>	20.949.000	5.000.000	-	10.000.000	-
- <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>	8.050.800	3.676.500	-	-	-
- <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>	-	-	-	-	-
	302.882.869	113.316.161	6.777.026	30.782.479	4.344.395

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

The other CPMs given by the Company constitute 0% of the Company’s equity as of 31 March 2014.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 12 - 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					
- <i>Collateral</i>	238.401.730	91.190.323	6.617.026	20.281.479	4.825.455
- <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>	20.671.500	5.000.000	-	10.000.000	-
- <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>	7.846.754	3.676.500	-	-	-
- <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>	-	-	-	-	-
	266.919.984	99.866.823	6.617.026	30.281.479	4.825.455

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

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 FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 13 - CAPITAL

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

Shareholders:	31 March 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
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).

At the end of all periods presented the Company has an accumulated loss in its statutory records and has no available funds for distribution.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 14 - SALES AND COST OF SALES

The details of sales and cost of sales as of the periods ended 31 March 2014 and 2013 are as follows:

Sales:

	1 January- 31 March 2014	1 January- 31 March 2013
Scheduled flights	382.162.673	298.275.808
<i>International scheduled flights</i>	<i>214.461.718</i>	<i>155.743.161</i>
<i>Domestic scheduled flights</i>	<i>167.700.955</i>	<i>142.532.647</i>
Ancillary revenue	111.174.901	63.364.925
Charter flights	6.706.742	5.095.030
Other revenue	12.087.170	10.404.001
AirBerlin Turkey operation revenue	-	8.903.949
	512.131.486	386.043.713

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

	1 January- 31 March 2014	1 January- 31 March 2013
Domestic	167.700.955	142.532.647
Europe	155.952.758	115.817.278
Other	58.508.960	39.925.883
	382.162.673	298.275.808

Cost of sales:

	1 January- 31 March 2014	1 January- 31 March 2013
Jet fuel expenses	240.675.357	155.181.234
Personnel expenses	70.980.431	37.415.485
Handling fees	44.838.694	23.605.726
Operating lease expenses	41.273.913	21.450.715
Navigation expenses	40.465.790	23.501.983
Depreciation and amortisation expenses	39.349.710	26.176.796
Maintenance expenses	32.414.233	15.797.200
Landing expenses	16.003.689	9.837.905
Passenger service and catering expenses	6.291.801	4.715.216
Other expenses	30.314.647	19.246.423
AirBerlin Turkey operation cost of sales	-	11.744.533
	562.608.265	348.673.216

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 15 - MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

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

Marketing expenses:

	1 January- 31 March 2014	1 January- 31 March 2013
Advertising expenses	27.404.714	13.878.835
Commission expenses	10.504.055	7.718.090
Personnel expenses	2.959.246	2.125.008
Call center expenses	1.951.605	1.867.876
Depreciation and amortisation expenses	566.172	310.675
Other expenses	439.790	612.198
	43.825.582	26.512.682

General administrative expenses:

	1 January- 31 March 2014	1 January- 31 March 2013
Personnel expenses	7.316.913	4.110.619
Rent expenses	2.448.464	1.667.744
Depreciation and amortisation expense	2.400.960	1.287.318
Consultancy expenses	1.872.928	867.924
Travel expenses	1.150.052	979.600
IT expenses	1.122.341	839.067
Legal and notary expenses	517.890	296.861
Insurance expenses	469.129	156.055
Office utility expenses	378.773	400.815
Communication expenses	259.101	366.905
Subscription expenses	167.897	107.556
Training expenses	134.803	73.864
Office repair expenses	97.468	60.988
Other expenses	645.486	1.463.160
	18.982.205	12.678.476

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 16 - OTHER OPERATING INCOME / EXPENSES

The details of other operating income/expenses as of the periods ended 31 March 2014 and 2013 are as follows:

Other operating income:

	1 January- 31 March 2014	1 January- 31 March 2013
Income from sale and leaseback transactions	88.611	1.507.248
Discount cancellation income	59.052	50.563
Rent income	45.319	63.673
Foreign exchange gain from operating activities	-	20.434.767
Other income	628.935	983.918
	821.917	23.040.169

Other operating expenses:

	1 January- 31 March 2014	1 January- 31 March 2013
Foreign exchange loss from operating activities	13.167.242	-
Doubtful receivable expense	16.541	-
Penalty and compensation expenses	-	12.130
Other expense	451.402	676.606
	13.635.185	688.736

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 17 - INCOME FROM INVESTING ACTIVITIES

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

Income from investing activities:

	1 January- 31 March 2014	1 January- 31 March 2013
Foreign exchange gain from investing activities	1.805.460	2.519.841
	1.805.460	2.519.841

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 18 - FINANCIAL INCOME / EXPENSES

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

Financial income:

	1 January- 31 March 2014	1 January- 31 March 2013
Foreign exchange gain (realized and unrealized) on derivative contracts	31.966.401	11.325.993
Interest income	21.157.068	1.444.722
	53.123.469	12.770.715

Financial expenses:

	1 January- 31 March 2014	1 January- 31 March 2013
Foreign exchange loss	35.654.859	27.276.903
Surety commission expenses	3.475.803	2.989.978
Interest on obligations under finance leases	3.007.086	1.257.429
Other commission expenses	2.024.419	2.115.575
Interest expense on bank loans	536	620.941
	44.162.703	34.260.826

NOTE 19 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 31 March 2014 and 31 December 2013 is as follows:

	1 January- 31 March 2014	1 January- 31 March 2013
Net loss – attributable to equity holders of the parent	(102.552.797)	(6.322.187)
Weighted average number of shares issued in the period	102.272.000	75.000.000
Gain per share	(1,00)	(0,08)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 20 - RELATED PARTY TRANSACTIONS

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

(i) Balances with related parties:

a) Due from related parties

	31 March 2014	31 December 2013
Balances with joint ventures and subsidiaries:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş. (*)	929	-
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş. ("Doğan Burda")	-	318.600
	929	318.600

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

b) Due to related parties

	31 March 2014	31 December 2013
Balances with parent company:		
Esas Holding	1.378.644	-
Balances with joint ventures and subsidiaries:		
PUEM	91.857	46.569
Balances with other related parties:		
Doğan Burda	4.282	-
RM Arşiv Yönetim Hizmetleri A.Ş.	2.880	3.180
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	-	65.822
	1.477.663	115.571

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 20 - 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 İnşaat Sanayi Ticaret A.Ş., 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- 31 March 2014	1 January- 31 March 2013
Balances with joint ventures and subsidiaries:		
Doğan Burda	203.700	180.000
PUEM	95.826	118.546
İzair (*)	-	1.064.038
	299.526	1.362.584

(b) Purchases of goods or services

	1 January- 31 March 2014	1 January- 31 March 2013
Balances with joint ventures and subsidiaries:		
PUEM	1.766.489	1.078.887
İzair (*)	-	1.091.086
Purchases from other related parties:		
Callpex	1.868.624	1.763.880
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	191.611	247.467
RM Arşiv Yönetim Hizmetleri A.Ş.	9.240	6.459
Mars Sinema Turizm ve Sportif Tesisler İşletmeciliği A.Ş.	-	47.000
Other	217.410	-
	4.053.374	4.234.779

(*) Amount is due from the period İziar 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
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 20 - RELATED PARTY TRANSACTIONS (cont'd)

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

(c) Rent expenses

	1 January- 31 March 2014	1 January- 31 March 2013
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	711.614	534.117
	711.614	534.117

(d) Surety commission expenses

	1 January- 31 March 2014	1 January- 31 March 2013
Esas Holding	3.475.803	2.989.978
	3.475.803	2.989.978

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 Manager, Assistant General Managers and Directors. The remuneration of directors and other members of key management during the period ended 31 March 2014 and 2013 are as follows:

	1 January- 31 March 2014	1 January- 31 March 2013
Salaries and other short term benefits	1.209.390	1.102.759
	1.209.390	1.102.759

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

**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 31 March 2014 and 31 December 2013 is as follows:

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(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 March 2014	TL Total	USD	TL	GBP	Other
1. Trade receivables	177.453.364	8.767.960	124.174.267	3.674.082	21.177.847
2a. Monetary financial assets	810.612.901	147.379.833	463.343.428	2.801.982	14.698.235
2b. Non monetary financial assets	-	-	-	-	-
3. Other	67.235.900	26.385.570	9.326.752	21.786	53.527
4. CURRENT ASSETS	1.055.302.165	182.533.363	596.844.447	6.497.850	35.929.609
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	94.335.679	42.899.019	168.986	19.800	156.895
8. NON CURRENT ASSETS	94.335.679	42.899.019	168.986	19.800	156.895
9. TOTAL ASSETS	1.149.637.844	225.432.382	597.013.433	6.517.650	36.086.504
10. Trade payables	79.928.521	19.029.743	34.703.048	59.871	3.343.911
11. Financial liabilities	36.348.047	14.630.278	4.310.664	-	-
12a. Other liabilities, monetary	93.844.125	574.467	92.568.994	188	16.503
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	210.120.693	34.234.488	131.582.706	60.059	3.360.414
14. Trade payables	-	-	-	-	-
15. Financial liabilities	225.532.797	102.992.418	-	-	-
16a. Other liabilities, monetary	-	160.259	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	225.532.797	103.152.677	-	-	-
18. TOTAL LIABILITIES	435.653.490	137.387.165	131.582.706	60.059	3.360.414
19. Net asset / liability position of Off-balance sheet derivatives (19a-19b)	665.006.213	273.444.874	147.268.505	(18.080.000)	(17.565.765)
19.a Off-balance sheet foreign currency derivative assets	781.158.090	273.444.874	182.368.505	-	-
19b. Off-balance sheet foreigncurrency derivative liabilities	116.151.877	-	35.100.000	18.080.000	17.565.765
20. Net foreign currency asset/(liability) position	713.984.354	88.045.217	465.430.727	6.457.591	32.726.090
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	552.412.775	18.760.628	455.934.989	6.416.005	32.515.668

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(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)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk arising primarily with respect to the US Dollar and Turkish Lira.

The following table details the Group's sensitivity to a 10% increase and decrease in US Dollars, and TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

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

31 March 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	19.280.142	(19.280.142)	-	-
Part of hedged from USD risk	59.878.959	(59.878.959)	-	-
USD net effect	79.159.101	(79.159.101)	-	-
Effect of 10% change in TL rate				
TL net asset / liability	46.543.073	(46.543.073)	105.262.606	(105.262.606)
Part of hedged from TL risk	14.726.851	(14.726.851)	-	-
TL net effect	61.269.923	(61.269.923)	105.262.606	(105.262.606)
31 December 2013	Profit/Loss		Shareholders' equity	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / liability	(3.949.391)	3.949.391	-	-
Part of hedged from USD risk	48.900.727	(48.900.727)	-	-
USD net effect	44.951.336	(44.951.336)	-	-
Effect of 10% change in TL rate				
TL net asset / liability	72.682.096	(72.682.096)	31.543.356	(31.543.356)
Part of hedged from TL risk	20.326.365	(20.326.365)	-	-
TL net effect	93.008.461	(93.008.461)	31.543.356	(31.543.356)

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014**

(Amounts are expressed in TL unless otherwise stated.)

NOTE 22 - SUBSEQUENT EVENTS

None.

**NOTE 23 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR
NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE
AND UNDERSTANDABLE**

Rearrangement of the prior year financial statements

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

Profit or loss and other comprehensive income changes

- The other operating income reclassifications (TL 23.040.169) consist of foreign exchange gain from operating activities (TL 20.434.767) that was previously netted of under finance expense; discount cancellation income (TL 50.563) that was previously classified under finance income; income from sale and lease back transactions (TL 1.507.248), rent income (TL 63.673) and other income (TL 983.918) that were previously classified under other income/expense (net).
- The other operating expense reclassifications (TL 688.736) consist of penalty expense (TL 12.310) and other expense (TL 676.606) that were previously netted of under other income/expense (net).
- The income from investing activities reclassification (TL 2.519.841) consists of foreign exchange gain from investing activities that was previously netted off under finance expenses.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2014

(Amounts are expressed in TL unless otherwise stated.)

NOTE 23 - OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE (cont'd)

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

	Previously reported 1 January - 31 March 2013	Reclassifications	Revised 1 January - 31 March 2013
Sales (net)	386.043.713	-	386.043.713
Cost of sales (-)	(348.673.216)	-	(348.673.216)
Gross profit	37.370.497	-	37.370.497
General administrative expenses (-)	(12.678.476)	-	(12.678.476)
Marketing expenses (-)	(26.512.682)	-	(26.512.682)
Other income (net)	1.866.103	(1.866.103)	-
Other operating income	-	23.040.169	23.040.169
Other operating expenses (-)	-	(688.736)	(688.736)
Operating profit	45.442	20.485.330	20.530.772
Income from investing activities	-	2.519.841	2.519.841
Expenses from investing activities	-	-	-
Share of investments' (loss) / profit accounted for using equity method	(1.088.911)	-	(1.088.911)
Operating profit before financial inc./ (exp.)	(1.043.469)	23.005.171	21.961.702
Financial income	12.821.278	(50.563)	12.770.715
Financial expense (-)	(11.306.218)	(22.954.608)	(34.260.826)
Profit before tax	471.591	-	471.591
Tax income expense			
Current tax expense	-	-	-
Deferred tax expense	(6.804.817)	-	(6.804.817)
Profit for the period	(6.333.226)	-	(6.333.226)
Net profit attributable to:			
Shareholders' of the parent	(6.322.187)	-	(6.322.187)
Non-controlling interest	(11.039)	-	(11.039)
	(6.333.226)	-	(6.333.226)
Earnings per share (TL)			
Other comprehensive income/(loss)			
Items to be reclassified to profit or loss			
Currency translation differences	(5.304.270)	-	(5.304.270)
Cash flow hedge	35.998	-	35.998
Loss on derivative contracts	14.943.230	(14.898.232)	44.998
(Gains)/losses, included in net profit/(loss)	(11.918.586)	11.918.586	-
Deferred tax effect	(2.988.646)	2.979.646	(9.000)
Other comprehensive income	(5.268.272)	-	(5.268.272)
Total comprehensive profit	(11.601.498)	-	(11.601.498)
Total comprehensive profit / (loss) attributable to:			
Shareholders' of the parent	(11.590.459)	-	(11.590.459)
Non-controlling interest	(11.039)	-	(11.039)
	(11.601.498)	-	(11.601.498)