## IMPORTANT NOTICE

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the offering circular (the "Offering Circular") attached to this electronic transmission and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

THE OFFERING CIRCULAR IS NOT AN OFFER TO SELL SECURITIES AND THE COMPANY IS NOT SOLICITING OFFERS TO BUY SECURITIES IN ANY JURISDICTION WHERE SUCH OFFER OR SALE IS NOT PERMITTED.

**Confirmation of your representation:** By accessing this Offering Circular you have confirmed to the Managers and the Company (each as defined in the Offering Circular) that (i) you have understood and agree to the terms set out herein, (ii) (a) you and the electronic mail address you have given to us are not located in the United States, its territories and possessions or (b) you are a person that is a "qualified institutional buyer" ("QIB") within the meaning of Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), (iii) you consent to delivery by electronic transmission, (iv) you will not transmit the attached Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person, and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to purchase the securities described in the Offering Circular.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Circular, electronically or otherwise, to any other person and in particular to any address located in the United States. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

**Restrictions:** NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY SHARES BEING SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB THAT IS ACQUIRING SUCH SHARES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, IF AVAILABLE OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities described in the Offering Circular in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Offering Circular and the offer made pursuant thereto are addressed only to and directed only at persons in member states of the European Economic Area ("EEA"), who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (2003/71/EC, as amended by Directive 2010/73/EU) ("qualified investors"). In addition, in the United Kingdom, this Offering Circular is being distributed only to, and is directed only at, qualified investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), (ii) who fall within Article 49(2)(a) to (d) of the Order or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This Offering Circular must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not qualified investors. The securities described in the Offering Circular are only available to, and any investment or investment activity to which this Offering Circular relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, qualified investors, and will be engaged in only with such persons.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, any person who controls any of the Managers or the Company, any director, officer, employee or agent of any of them or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version of the Offering Circular.

**OFFERING CIRCULAR** **CONFIDENTIAL**

# PEGASUS HAVA TAŞIMACILIĞI A.Ş.

*(incorporated in and operating under the laws of the Republic of Turkey)*

## 35,294,000 Shares

This Offering Circular contains information regarding the global offering by Pegasus Hava Taşımacılığı A.Ş. ("Pegasus," the "Company" or "we"), a joint stock company organized under the laws of the Republic of Turkey, of 27,272,000 new ordinary shares of the Company, nominal value TL1.00 per share (the "New Shares"), and by Esas Holding A.Ş. ("Esas Holding") of 4,813,000 existing ordinary shares of the Company, nominal value TL1.00 per share (the "Existing Shares" and, together with the New Shares, the "Shares"). The global offering consists of (i) an international offering of 22,459,500 Shares outside the United States and Turkey to institutional investors in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "Securities Act"), and in the United States only to qualified institutional buyers ("QIBs") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") (the "International Offering") and (ii) a public offering of 9,625,500 Shares to retail and institutional investors in Turkey in reliance on Regulation S (the "Domestic Offering" and, together with the International Offering, the "Offering"), in each case subject to the approval of the Turkish Capital Markets Board (the "CMB"). The allocation of Shares between the International Offering and the Domestic Offering is subject to change in accordance with applicable Turkish regulations. See "Plan of Distribution."

In addition, 3,209,000 additional existing ordinary shares of the Company (the "Additional Shares") will be sold by Esas Holding on the Closing Date (as defined below) for the purpose of covering over-allotments. References in this Offering Circular to "Shares" include, unless the context requires otherwise, Additional Shares.

İş Yatırım Menkul Değerler A.Ş. ("İş Yatırım") as the stabilization manager (the "Stabilization Manager") may, after consultation with Barclays Bank PLC ("Barclays"), effect transactions with a view to supporting the market price of the Shares on Borsa İstanbul A.Ş. (the "ISE"), as described more fully under "Plan of Distribution—Over-allotment and Stabilization."

No public trading market currently exists for any of our securities. We have applied for listing of the Shares on the ISE under the symbol "PGSUS." Trading in the Shares on the ISE is expected to commence on or about April 26, 2013. No application has been, or is currently intended to be, made for the Shares to be admitted to listing or dealt with on any other stock exchange.

**Investing in the Shares involves risks. You should read the entire document and, in particular, "Risk Factors" beginning on page 10 before making an investment decision with respect to the Shares.**

## Offer Price: TL18.40 per Share

**The Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except to QIBs in accordance with Rule 144A, or outside the United States in accordance with Regulation S. Prospective investors that are QIBs are hereby notified that the seller of Shares may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Shares, see "Plan of Distribution—Selling Restrictions" and "Transfer Restrictions."**

The Shares in the International Offering are offered by Barclays when, as and if delivered to and accepted by it, and subject to its right to reject orders in whole or in part. Barclays and İş Yatırım are each herein referred to as a "Manager" and collectively as the "Managers." The Managers expect to deliver the Shares by means of book-entry registration with accounts maintained by Merkezi Kayıt Kuruluşu A.Ş. (the "Central Registry Agency"), the custody center for the ISE, against payment in İstanbul, Turkey on or about April 24, 2013 (the "Closing Date").

***Sole Global Coordinator and Joint Bookrunner***

**Barclays**

***Domestic Coordinator and Joint Bookrunner***

**İş Yatırım**

The date of this Offering Circular is April 19, 2013.

FINLAND
NORWAY
SWEDEN
Stockholm
ESTONIA
RUSSIA
Omsk
KAZAKHSTAN
SCOTLAND
NORTH SEA
DENMARK
Copenhagen
BALTIC SEA
LATVIA
LITHUANIA
ENGLAND
NETHERLANDS
POLAND
BELARUS
Amsterdam
London
Berlin
Kharkiv
Almaty
Dusseldorf
Brussels
GERMANY
BELGIUM
Cologne
UKRAINE
LUXEMBOURG
Nuremberg
Donetsk
Bishkek
Lviv
CZECH REPUBLIC
SLOVAKIA
Paris
Stuttgart
Munich
MOLDOVA
Krasnodar
Basel
Vienne
Zurich
FRANCE
AUSTRIA
HUNGARY
Tbilisi
SWITZERLAND
GEORGIA
AZERBAIJAN
Baku
ROMANIA
SLOVENIA
St. Etienne
Milan
Belgrade
Bucharest
Batumi
Bologna
CROATIA
BOSNIA HERZEGOVINA
SERBIA
BLACK SEA
ARMENIA
Marseille
Sarajevo
Samsun
Piristina
BULGARIA
IRAN
Tehran
SPAIN
ITALY
MONTENEGRO
KOSOVO
Barcelona
Skopje
İstanbul
Ankara
MACEDONIA
Rome
Kayseri
Erbil
ALBANIA
TURKEY
Gaziantep
GREECE
Konya
İzmir
Adana
Hatay
Athens
Bodrum
Antalya
SYRIA
Dalaman
KKTC
IRAQ
LEBANON
North Cyprus
Beirut
MALTA
MEDITERRANEAN
Tel Aviv
Dubai

## NOTICE TO INVESTORS

In this Offering Circular, unless the context otherwise suggests, "Pegasus," the "Company," "we," "our" and "us" refer to Pegasus Hava Taşımacılığı A.Ş. and references to the "Pegasus Group" are to Pegasus and its subsidiaries. References to "Esas Holding" are to Esas Holding A.Ş., the principal shareholder of the Company.

This Offering Circular is being furnished by us in connection with an offering exempt from registration under the Securities Act and applicable state securities laws in the United States solely for the purpose of enabling a prospective investor to consider the purchase of the Shares offered hereby. Delivery of this Offering Circular to any other person or any reproduction of this Offering Circular, in whole or in part, without our consent and the consent of Barclays as the Sole Global Coordinator is prohibited.

The International Offering is being made solely on the basis of this Offering Circular. Any decision to purchase the Shares in the International Offering must be based solely on the information contained in this Offering Circular. In making an investment decision, you must rely on your own examination and analysis of the information regarding the Company, the terms of the Offering, including the merits and risks involved, and the financial and other information in this Offering Circular. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this Offering Circular is correct as of any date subsequent to the date hereof. See "Risk Factors."

We have not authorized any person to give any information or make any representation not contained in this Offering Circular in connection with the International Offering and, if given or made, such information or representation must not be relied upon as having been authorized by us, Esas Holding or the Managers. You should not assume that the information contained in this Offering Circular is accurate as of any date other than the date on the front of this Offering Circular and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by us, Esas Holding, the Managers or any of their affiliates or advisors as to the past, present or future. No representation or warranty, express or implied, is made or given by or on behalf of us, Esas Holding, the Managers or any of their respective parent or subsidiary undertakings or the subsidiary undertakings of any such parent undertakings or any of such person's directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or statements contained in this Offering Circular and no responsibility or liability is accepted by any person for such information or statements. Accordingly, we, Esas Holding and the Managers disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this Offering Circular or any such statement.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase Shares by any person in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Prospective investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. The distribution of this Offering Circular and the offering or sale of the Shares in certain jurisdictions is restricted by law. This Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. Accordingly, neither this Offering Circular nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular may come are required by us and the Managers to inform themselves about and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Further information with regard to restrictions on offers and sales of the Shares and the distribution of this Offering Circular is set out under "Plan of Distribution—Selling Restrictions" and "Transfer Restrictions." None of us, Esas Holding or the Managers is making any representation to any offeree or purchaser of the Shares regarding the legality of an investment therein by such offeree or purchaser.

**The Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Shares are being offered and sold outside the United States in reliance**

**on Regulation S and within the United States only to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Shares and the distribution of this Offering Circular, see "Plan of Distribution—Selling Restrictions" and "Transfer Restrictions." Neither the U.S. Securities and Exchange Commission, any state securities commission nor any other regulatory authority has approved or disapproved the securities nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States**.

The Managers will be acting exclusively for us and no one else in connection with the Offering and will not regard any other person (whether or not a recipient of this Offering Circular) as their client in relation to the Offering and will not be responsible to anyone other than us for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Offering Circular.

In connection with the Offering, the Managers and any of their respective affiliates acting as investors for their own account may take up the Shares and in that capacity may retain, purchase or sell for their own account such securities and any of our securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Circular to the Shares being offered or placed should be read as including any issue, offering or placement of such securities to the Managers and any of their respective affiliates acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

None of us, Esas Holding or the Managers, or any of their respective representatives, is making any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. You should not construe anything in this Offering Circular as legal, business, investment or tax advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of a purchase of Shares needed to make your investment decision and to determine whether it is legally permitted to purchase the Shares offered hereby under applicable legal investment or similar laws or regulations. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

Prospective investors also acknowledge that: (i) they have not relied on the Managers or any person affiliated with such Managers in connection with any investigation of the accuracy of any information contained in this Offering Circular or their investment decision; and (ii) they have relied only on the information contained in this Offering Circular, and that no person has been authorized to give any information or to make any representation concerning Pegasus or the Pegasus Group or the Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, Esas Holding or the Managers.

A Turkish language prospectus (the "Domestic Prospectus") for use in the Domestic Offering has been prepared in accordance with the relevant Turkish regulations and has been approved by the CMB on April 11, 2013 pursuant to the provisions of the Capital Markets Law No. 6362 of the Republic of Turkey (the "Capital Markets Law"). Such approval does not constitute a guarantee or a recommendation by the CMB or any other public authority with respect to the Shares or us. Neither this Offering Circular nor any other offering material related to the International Offering of Shares may be used in connection with any general offering to the public within the Republic of Turkey without the prior approval of the CMB. Prospective investors proposing to subscribe in the Domestic Offering should procure a Domestic Prospectus from authorized institutions.

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## STABILIZATION

Esas Holding has agreed to allocate proceeds (calculated to be an amount equal to 15% of the gross proceeds of the Offering) from the sale of 4,813,000 Existing Shares and Additional Shares (the "Stabilization Funds") to İş Yatırım, as the Stabilization Manager, to conduct price stabilization activities. The Stabilization Manager may, after consultation with Barclays, use the Stabilization Funds to effect transactions with a view to supporting the market price of the Shares on the ISE at levels higher than those which might otherwise prevail for a limited period after the Offer Price is announced. In accordance with

the regulations of the CMB, stabilizing activities may be carried on for a maximum period of 30 days following the commencement of trading of the Shares on the ISE (the "Stabilization Period") and may be effected only on the ISE. Orders can be given only to stop a decline in the share price, may not be given at prices above the Offer Price and must otherwise comply with the regulations of the CMB and the ISE. Such transactions must be brought to an end at the expiry of the Stabilization Period or, if earlier, once the Stabilization Funds have been fully utilized. No representation is made as to the magnitude or effect of any such stabilizing or other transactions and any such activities or transactions would not constitute a guarantee of any share price. The Stabilization Manager is not obliged to engage in stabilization activities and may discontinue any of these activities upon notice of this on the Public Disclosure Platform (*Kamuyu Aydınlatma Platformu*) (the "Public Disclosure Platform"). See "Plan of Distribution—Over-allotment and Stabilization."

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## NOTICE TO EUROPEAN ECONOMIC AREA AND UNITED KINGDOM INVESTORS

This Offering Circular and the International Offering are only addressed to and directed at persons in member states of the European Economic Area, ("EEA") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (2003/71/EC, as amended by Directive 2010/73/EU) (the "Prospectus Directive"). In addition, in the United Kingdom, this Offering Circular is being distributed only to, and is directed only at, qualified investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), (ii) who fall within Article 49(2)(a) to (d) of the Order or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This Offering Circular must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not qualified investors. The Shares are only available to, and any investment or investment activity to which this Offering Circular relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, qualified investors, and will be engaged in only with such persons.

This Offering Circular has been prepared on the basis that all offers of the Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA from the requirement to produce a prospectus for offers of Shares. Accordingly, any person making or intending to make any offer within the EEA of Shares which are the subject of the Offering contemplated herein should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. None of the Company, Esas Holding or the Managers has authorized or does authorize the making of any offer of Shares through any financial intermediary, other than offers made by Managers which constitute the final placement of Shares contemplated herein.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## CERTAIN DEFINITIONS

### Industry Terms

As used in this Offering Circular, the following industry terms shall have the meanings indicated:

- "Advance sales ratio" refers to the average number of days that ticket sales occurred before the date of a scheduled flight;
- "ASK" refers to available seat kilometers, and is equal to the number of seats available for passengers during a specified period multiplied by the number of kilometers that those seats are flown;
- "ASL" refers to average stage length in kilometers, calculated by dividing available seat kilometers (ASK) by capacity;
- "Block hours" refer to the hours from an aircraft's take-off to landing (including taxi time);
- "CASK" refers to cost per available seat kilometer, and is equal to the sum of Pegasus Operation Cost of Sales (as defined in "Presentation of Financial Information—Non-IFRS Financial Measures"), general administrative expenses and selling and marketing expenses divided by available seat kilometers (ASK);
- "Charter flights" refer to flights that take place outside normal schedules through contracting for an aircraft with a particular customer, typically a tour operator;
- "Cycle" refers to the operation of an aircraft from take-off to its next landing;
- "Cycles per day" refers to the average number of cycles of an aircraft per day, calculated by dividing total cycles by the number of days operated by the aircraft;
- "Load factor" refers to the total number of passengers as a percentage of the total number of available seats during any given period;
- "Non-fuel CASK" refers to non-fuel cost per available seat kilometer, and is equal to CASK excluding jet fuel expenses;
- "On-time" refers to a flight departure in connection with which the door of the aircraft closes within 15 minutes of the scheduled departure time;
- "Point-to-point flight" refers to a flight that takes a passenger non-stop from the point of origin to the destination;
- "RASK" refers to Pegasus Operation Revenue (as defined in "Presentation of Financial Information—Non-IFRS Financial Measures") per available seat kilometer;
- "Revenue passenger" refers to a passenger for whose transportation an air carrier receives commercial remuneration;
- "Sale and leaseback" refers to an arrangement where an aircraft order, including the right to purchase an aircraft, is first transferred by a lessee that initially placed the aircraft order to a leasing company, after which the lessee enters into an operating lease agreement with the leasing company and leases the aircraft that the leasing company has purchased based on the transferred aircraft order;
- "Seat capacity" refers to the total number of passengers who can be seated in an aircraft;
- "Split charter flights" refer to arrangement whereby a tour operator purchases a certain number of seats on a charter flight, rather than commit to the entire aircraft capacity, as seat capacity on each flight is sold in parts to several tour operators. As opposed to standard charter flights, airlines, not tour operators, are ultimately responsible for filling the aircraft;
- "Turnaround time" refers to the time from the arrival of an aircraft to the subsequent departure of the aircraft;
- "Wet lease" refers to a leasing arrangement whereby one airline (lessor) provides an aircraft, complete crew, maintenance, and insurance ("ACMI") to another airline (lessee), which pays by hours operated. The lessee provides fuel and covers airport fees, and any other duties, taxes and similar costs. The flight uses the flight number of the lessee; and
- "Yield" refers to total Pegasus Operation Revenue divided by the number of passengers during any given period.

**General Definitions**

As used in this Offering Circular, the following terms shall have the meanings indicated:

- "Air Berlin" refers to Air Berlin PLC and its subsidiaries;
- "Airbus" refers to Airbus S.A.S.;
- "Airbus A320neo" and "Airbus A321neo" refer to the Airbus A320 "new engine option" and Airbus A321 "new engine option" aircraft, respectively;
- "Airbus Order" refers to the order we placed with Airbus in July 2012 for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft;
- "Air Manas" refers to Air Manas Air Company LLC;
- "Azal" refers to Azerbaijan Hava Yolları CJSC;
- "Boeing" refers to The Boeing Company;
- "Boeing 737-800NG" refers to the Boeing 737-800 "Next Generation" aircraft;
- "Central Bank" refers to Türkiye Cumhuriyet Merkez Bankası, the Central Bank of the Republic of Turkey;
- "Civil Aviation Authority" refers to Sivil Havacılık Genel Müdürlüğü, the Directorate General of Civil Aviation of the Republic of Turkey;
- "CMB" refers to Türkiye Cumhuriyeti Başbakanlık Sermaye Piyasası Kurulu, the Capital Markets Board of Turkey;
- "DHMİ" refers to Devlet Hava Meydanları İşletmesi Genel Müdürlüğü, the Directorate General of the Turkish State Airports Authority;
- "EASA" refers to the European Aviation Safety Agency, an agency of the European Union, which has been given regulatory and executive tasks in the field of civilian aviation safety;
- "Eurocontrol" refers to the European Organization for the Safety of Air Navigation;
- "European ECAs" refer to the export credit agencies of the United Kingdom, France and Germany;
- "Ex-Im Bank" refers to the Export-Import Bank of the United States;
- "FAA" refers to the Federal Aviation Administration, an agency of the United States Department of Transportation with authority to regulate and oversee all aspects of civil aviation in the United States;
- "Government" refers to the Government of Turkey;
- "IATA" refers to the International Air Transport Association;
- "ICAO" refers to the International Civil Aviation Organization;
- "ISE" refers to Borsa İstanbul Anonim Şirketi (formerly *İstanbul Menkul Kıymetler Borsası*);
- "ISG" refers to İstanbul Sabiha Gökçen Uluslararası Havalimanı Yatırım Yapım ve İşletme Anonim Şirketi, the operator of the passenger terminals at Sabiha Gökçen Airport in İstanbul;
- "İzAir" refers to IHY İzmir Havayolları Anonim Şirketi (İzmir Airlines);
- "JAR" refers to the comprehensive and detailed Joint Aviation Requirements of the civil aviation authorities of certain European countries that aim to minimize type certification problems on joint ventures, and also to facilitate the export and import of aviation products;
- "North Cyprus" refers to the Turkish Republic of North Cyprus;
- "OAG" refers to the Official Airline Guide, a company providing aviation information and data services;
- "Public Disclosure Platform" refers to Kamuyu Aydınlatma Platformu, the electronic platform operated by the ISE where information that is required to be publicly disclosed in accordance with

the Turkish capital markets legislation is submitted in an electronically signed format and disclosed to the public;

- "Sabiha Gökçen Airport" refers to İstanbul Sabiha Gökçen International Airport;
- "Treasury" refers to the Under Secretariat of Treasury of the Prime Ministry of the Republic of Turkey;
- "Turkey" and the "Republic" refer to the Republic of Turkey;
- "Turkish Airlines" refers to Türk Hava Yolları Anonim Ortaklığı; and
- "TurkStat" refers to Türkiye İstatistik Kurumu, the Turkish Statistical Institute.

## PRESENTATION OF FINANCIAL INFORMATION

### Statutory Financial Statements

We maintain our books of account and prepare our statutory financial statements in Turkish Lira in accordance with the requirements of the Turkish Commercial Code (the "TCC") and Turkish tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance of Turkey. We were incorporated as a joint stock company on January 12, 1990.

### IFRS Financial Statements

*General*

Our audited annual consolidated financial statements as of and for the years ended December 31, 2012, 2011 and 2010 (the "IFRS Financial Statements") included in this Offering Circular beginning on page F-3 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and presented in Turkish Lira. Our IFRS Financial Statements have been audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Deloitte Touche Tohmatsu Limited, independent auditor, as stated in their report included in this Offering Circular.

Our consolidated statements of comprehensive income for the year ended December 31, 2011 include certain differences from the amounts previously reported due to (i) a reclassification of commission costs to be presented on a basis consistent with the other years presented and (ii) a revision of the treatment of the revenue and costs associated with the agreement between us and Air Berlin governing the operation by İzAir of split charter flights between Antalya in Turkey and selected cities in Germany under the "AirBerlin Turkey" brand (the "AirBerlin Turkey Project") in order to present the amounts based on the nature of the contract and the associated risks and rewards of each party. The financial statement information presented throughout this Offering Circular for the year ended December 31, 2011 is presented on the revised basis. For further information, see Note 3.32 to the IFRS Financial Statements. For a discussion of recent changes to the AirBerlin Turkey Project, see "Business—Material Agreements—Agreements Relating to İzAir."

*Deconsolidation of İzAir*

On September 28, 2010, we acquired all of the shares of İzAir owned by Esas Holding, giving us a 72.57% stake in İzAir. We increased our ownership in İzAir to 96.79% in June 2011 and, in March 2012, further increased our ownership to 97.82%, both by way of share capital increases. Our IFRS Financial Statements included elsewhere in this Offering Circular report our results of operations for the years ended December 31, 2012, 2011 and 2010 as though the acquisition of İzAir had occurred at March 31, 2007, the earliest date that both we and İzAir were under the common control of Esas Holding.

On March 14, 2012, we entered into a framework agreement with Air Berlin that governs the operation by İzAir of the AirBerlin Turkey Project, which had commenced on November 1, 2011. The framework agreement and our other material agreements with Air Berlin relating to İzAir are described in more detail under "Business—Material Agreements—Agreements Relating to İzAir." We sold 46.82% of the shares of İzAir to Air Berlin as part of the AirBerlin Turkey Project on September 4, 2012. As a result, we deconsolidated İzAir from September 4, 2012 and our remaining 51.00% interest is treated as a joint venture between us and Air Berlin using the equity method of accounting as from that date in our IFRS Financial Statements.

As we revised the treatment of the revenue and costs associated with the AirBerlin Turkey Project in 2012, and in order to provide accurate comparative information, we have reclassified all AirBerlin Turkey Project related revenue and cost of sales for the period from November 1, 2011 to December 31, 2011 and these have been recognized in the IFRS Financial Statements as "AirBerlin Turkey operation revenue" and "AirBerlin Turkey operation cost of sales," respectively, as from November 1, 2011, which was the start date of operation of the AirBerlin Turkey Project.

Following the completion of the registration of the amendment to the articles of association and the capital increase approved by İzAir's shareholders on March 27, 2013 in which Air Berlin decided not to exercise its pre-emption rights, our ownership of İzAir is expected to increase to 68.31%. Subsequent to this, we plan to consolidate İzAir as our subsidiary for the purposes of our financial reporting as from April 1, 2013. For a discussion of the operations of İzAir and recent changes to the AirBerlin Turkey Project, see "Business—Material Agreements—Agreements Relating to İzAir."

***Functional and Reporting Currencies***

The euro is the functional currency of the Pegasus Group as it is the currency in which the operations of the Pegasus Group are primarily transacted. We have, however, selected Turkish Lira as the reporting currency in our IFRS Financial Statements for the purposes of the Offering and the listing of the Shares on the ISE. Accordingly, in preparing our IFRS Financial Statements, we have converted our financial statements prepared in euro as the functional currency into Turkish Lira as the reporting currency as follows:

- assets and liabilities have been translated into Turkish Lira using the Central Bank's official Turkish Lira ask rate (the "Central Bank exchange rate") for euro prevailing at the balance sheet date (December 31, 2012 EUR 1.00 = TL2.3517; December 31, 2011 EUR 1.00 = TL2.4438; December 31, 2010 EUR 1.00 = TL2.0491); and
- income and expenses have been translated into Turkish Lira at Central Bank exchange rates prevailing as of the dates of the relevant transaction.

Translation gains and losses arising from the translations listed above are disclosed as foreign currency translation reserve under equity. See Note 3.2 to the IFRS Financial Statements.

**Non-IFRS Financial Measures**

We have included certain measures in this Offering Circular that are not measures of performance under IFRS. These include the following:

- "Pegasus Operation Adjusted Net Debt," which represents net financial debt adjusted to reflect our capitalized operating lease obligations and is defined as the sum of current and non-current financial liabilities, current and non-current obligations under finance leases, and operating lease expenses multiplied by seven less cash and cash equivalents and 50% of advances on aircraft purchases (pre-delivery payments);
- "Pegasus Operation Cost of Sales," which is defined as cost of sales excluding cost of sales associated with the AirBerlin Turkey Project;
- "Pegasus Operation EBITDA," which is defined as net profit / (loss) before deferred income tax / (expense), finance income and costs, share in gain / (loss) of associates, and depreciation and amortization expenses ("EBITDA"), excluding revenue derived from and cost of sales associated with the AirBerlin Turkey Project;
- "Pegasus Operation EBITDA margin," which is defined as Pegasus Operation EBITDA divided by Pegasus Operation Revenue;
- "Pegasus Operation EBITDAR," which is defined as net profit / (loss) before deferred income tax / (expense), finance income and costs, share in gain / (loss) of associates, depreciation and amortization expenses, and operating lease expenses ("EBITDAR"), excluding revenue derived from and cost of sales associated with the AirBerlin Turkey Project;
- "Pegasus Operation EBITDAR margin," which is defined as Pegasus Operation EBITDAR divided by Pegasus Operation Revenue; and
- "Pegasus Operation Revenue," which is defined as revenue excluding revenue derived from the AirBerlin Turkey Project.

The non-IFRS financial measures disclosed in this Offering Circular are unaudited supplementary measures that are not required by, or presented in accordance with, IFRS. Non-IFRS financial measures should be considered as an alternative to, and not a substitute for, the measures determined in accordance with IFRS. For a reconciliation of these non-IFRS financial measures to the closest IFRS financial measures, see "Operating and Financial Review—Non-IFRS Financial Measures."

We believe that these non-IFRS financial measures provide useful information to prospective investors because these measures are used by our management in analyzing our core performance and ability to service indebtedness and fund ongoing capital expenditure as they exclude the results of certain decisions that are outside the control of management and can differ significantly from company to company. In addition, we believe that these measures are commonly used by investors, analysts and other interested parties in the airline industry. Specifically with regard to EBITDAR, we believe that it is also a useful benchmark in light of the airline industry's unique nature. Airlines typically acquire aircraft, the most important asset class of their operations, either through finance or operating leases. An operating lease is accounted for through recognition of operating lease payments as a cost of sales in the income statement. We believe that EBITDA, therefore, may not always be the best measure for an airline's operating performance since an airline with more operating leases (i.e., higher leasing expenses) should not be compared with an airline with more purchased aircraft (i.e., higher depreciation and potentially higher financing costs). As a result, we believe that EBITDAR, which adjusts for this difference, may be regarded as a more meaningful performance indicator.

These measures should not, however, be considered in isolation or as a substitute for operating profit as determined in accordance with IFRS, or for cash flows from operating activities as determined in accordance with IFRS, or as an indicator of operating performance, or as a measure of discretionary cash available to us to invest in the growth of our business. The non-IFRS financial measures disclosed in this Offering Circular may not be comparable to similarly titled measures disclosed by other companies, as these terms are not uniformly defined, limiting their usefulness as a comparative measure.

Some of the limitations of EBITDA and EBITDAR related measures (including Pegasus Operation EBITDA and Pegasus Operation EBITDAR) are that:

- they do not reflect our cash expenditures or future requirements for capital expenditure or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments in respect of any borrowings; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA and EBITDAR related measures do not reflect any cash requirements for such replacements.

Accordingly, undue reliance should not be placed on the EBITDA and EBITDAR related measures (including Pegasus Operation EBITDA and Pegasus Operation EBITDAR) presented in this Offering Circular.

**CMB Financial Statements**

The CMB requires that all public companies in Turkey prepare financial statements in accordance with the accounting principles of the CMB (the "CMB Accounting Principles"). In connection with the Domestic Offering and in accordance with CMB requirements, we have made public our audited annual financial statements as of and for the years ended December 31, 2012, 2011 and 2010 that have been prepared and presented in accordance with CMB Accounting Principles (the "CMB Financial Statements"). The CMB Financial Statements are included in the Domestic Prospectus. The only significant difference between the IFRS Financial Statements and the CMB Financial Statements relates to the format in which the notes to the IFRS Financial Statements and the CMB Financial Statements, respectively, have been presented.

**Currency Presentation**

In this Offering Circular, references to "TL" are to Turkish Lira; references to "Kr" are to Turkish kuruş with 100 kuruş equaling one Turkish Lira; references to "U.S. dollars" and "US$" are to United States dollars; and references to "euro" or "EUR" are to the currency of the member states of the European Union ("EU") participating in the European Economic and Monetary Union (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain).

### Exchange Rate Information

The Federal Reserve Bank of New York does not report a noon buying rate for Turkish Lira. The Central Bank exchange rate on April 19, 2013 for euro and U.S. dollars respectively was TL2.3421 = EUR 1.00 and TL1.7944 = US$1.00. We do not make any representation that the Turkish Lira, euro or U.S. dollar amounts in this Offering Circular have been, could have been or could be converted into any currency at any particular rate or at all. You should read "Exchange Rates" for historical information regarding the Central Bank exchange rates between the Turkish Lira and the euro and U.S. dollar. For a discussion of the effects on us of fluctuating exchange rates, see "Risk Factors—Risks Relating to Our Business—Currency fluctuations affect our business, financial condition and results of operations."

### Rounding Adjustments

Certain figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## MARKET AND INDUSTRY INFORMATION

This Offering Circular contains historical market data and forecasts which have been obtained from industry publications, market research and other publicly available information. Where third-party information has been used in this Offering Circular, the source of such information has been identified. We confirm that such third-party information provided has been accurately reproduced in this Offering Circular. We have not, however, independently verified the information in industry publications, market research or other publicly available information provided by third parties, although we believe the information contained therein to be reliable. None of Pegasus, Esas Holding nor any of the Managers represent that this information is accurate.

Certain information regarding market size, market share, market position, growth rates, economic performance, and other industry data pertaining to us and our business contained in this Offering Circular consists of estimates based on data reports compiled by professional organizations and on data from governmental and other external sources such as the Central Bank, DHMİ, Economist Intelligence Unit ("EIU"), Eurostat, IATA, ISE, OAG, the Treasury, Turkey's Presidency of Revenues Administration, TurkStat, United Nations, United States Bureau of Transportation Statistics and World Bank. Certain of the industry data contained in this Offering Circular are based on information published by other airlines on their respective websites. The market share information in this Offering Circular relating to our market share in international routes and in domestic routes, in each case measured in terms of passenger volumes, is based on market data of DHMİ and, with regard to Pegasus passenger data, passenger data generated by us. The market data provided by DHMİ include passengers on flights to all destinations we serve in Turkey as well as destinations that we do not serve.

In some cases, there is no readily available external information (whether from trade and business organizations and associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring us to rely on internally developed estimates. Although we believe our internal estimates to be reasonable, such estimates have not been verified by any independent sources and we cannot assure investors as to their accuracy or that a third party using different methods to assemble, analyze or compute market data would obtain the same results. Finally, behavior, preferences and trends in the marketplace tend to change.

With regard to both third-party and internally derived market and industry information, we do not intend, and do not assume any obligation, to update industry or market data set forth in this Offering Circular. As a result, you should be aware that data in this Offering Circular and estimates based on that data may not be reliable indicators of future airline market performance or our future results of operations.

Certain of the information contained in this Offering Circular under "Risk Factors," "Exchange Rates," "The Turkish Aviation Market" and "The Turkish Securities Market" has been extracted from summaries of information and data publicly released by official sources in Turkey. We have not independently verified this information.

The information provided from the sources referred to in this Offering Circular has been accurately reproduced and, as far as we are aware and have been able to ascertain from information published by

such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## FORWARD-LOOKING STATEMENTS

This Offering Circular contains "forward-looking statements" which relate to, without limitation, our plans, objectives, goals, strategies, future operational performance, and anticipated developments in the airline market and the performance of the Turkish and global economies. These forward-looking statements are characterized by words such as "anticipate," "estimate," "believe," "intend," "plan," "predict," "may," "will," "would," "should," "continue," "expect" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or our actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements are inherently based on numerous assumptions regarding, among other things:

- our ability to implement our growth strategy, including our ability to obtain traffic rights for further international destinations, and expand our aircraft fleet and customer base;
- our ability to achieve our fleet utilization goals, including block hour targets;
- our ability to take advantage of market opportunities and to increase our revenues;
- continued economic growth and continued stability of inflation rates in Turkey;
- the development of global economic and industry conditions;
- our ability to maintain or improve our position in the airline market;
- existing and future governmental regulations, including air traffic capacity controls;
- the amount and timing of any current or future capital expenditures;
- changes in our ability to fund our future operations and capital needs through borrowings or otherwise;
- our ability to compete effectively against other airlines;
- changes in our operating costs, including the cost of fuel and labor;
- estimates of the impact of inflation and fluctuating exchange rates on our financial condition and results of operations;
- the expected maturity of our contractual obligations and commercial commitments;
- the adequacy of our funding sources and liquidity;
- our financial performance for the periods after December 31, 2012;
- expectations regarding our use of the net proceeds of the Offering;
- the impact of economic, political and social developments in Turkey and surrounding areas; and
- our success in identifying other risks to our businesses and managing the risks of the foregoing factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved. Such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The forward-looking statements contained in this Offering Circular are based on the beliefs of our management, as well as the assumptions made by and information currently available to our management. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will prove to be correct. Given these uncertainties,

you are cautioned not to place undue reliance on such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this Offering Circular, including, without limitation, in conjunction with the forward-looking statements included in this Offering Circular and specifically under the section entitled "Risk Factors" or the underlying assumptions. If any of these risks and uncertainties materialize, or if any of our underlying assumptions prove to be incorrect, our actual results of operations or financial condition could differ materially from that described herein as anticipated, believed, estimated or expected. Under no circumstances should the inclusion of such forward-looking statements in this Offering Circular be regarded as a representation or warranty by us or the Managers or any other person with respect to the achievement of the results set out in such statements.

All subsequent written and oral forward-looking statements attributable to us are expressly qualified in their entirety by reference to these cautionary statements. Subject to the requirements of the CMB and ISE or as required by applicable law, we do not intend, and we do not assume any obligation, to update any forward-looking statement contained in this Offering Circular.

## ENFORCEABILITY OF CIVIL JUDGMENTS

We are a joint stock company organized under the laws of Turkey. Following the Offering, a majority of our directors, controlling shareholders and executive officers will reside in Turkey, and substantially all of the assets of such persons are, and all of our assets are, located outside the United States and the United Kingdom, principally in Turkey.

The courts of Turkey will not enforce a judgment obtained in a court established in a country other than Turkey unless:

- there is in effect a treaty between such country and Turkey providing for reciprocal enforcement of court judgments;
- there is "*de facto*" enforcement in such country of judgments rendered by Turkish courts; or
- there is a provision in the laws of such country that provides for the enforcement of judgments of the Turkish courts.

There is no treaty between the United States and Turkey or the United Kingdom and Turkey providing for reciprocal enforcement of judgments. There is no *de facto* reciprocity between Turkey and the United States. Turkish courts have rendered at least one judgment in the past confirming *de facto* reciprocity between Turkey and the United Kingdom. However, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of a shareholder to bring an original action in Turkey based on United States federal or any other non-Turkish securities laws.

In addition, the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey if:

- the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed and the defendant brings an objection before the Turkish court against the request for enforcement on either of these grounds;
- the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey;
- the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey;
- the judgment is not of a civil nature;
- the judgment is clearly against public policy rules of Turkey;
- the court rendering the judgment did not have jurisdiction to render such judgment;
- the judgment is not final and binding with no further recourse for appeal under the laws of the country where the judgment has been rendered; or

- the judgment was rendered by a foreign court which treated itself as competent even though it had no actual relationship with the parties or the subject matter at hand and the defendant brings an objection before the Turkish court against the request for enforcement on this ground.

As a result, it may not be possible to:

- effect service of process outside Turkey upon any of the directors and executive officers named in this Offering Circular; or
- enforce, in Turkey, court judgments obtained in courts of jurisdictions other than Turkey against the Company or any of the directors and executive officers named in this Offering Circular in any action, including actions under the civil liability provisions of federal securities laws of the United States.

In addition, it may be difficult, or impossible, to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon securities laws of the United States.

## AVAILABLE INFORMATION

For so long as any of the Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Shares or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act to facilitate resales of the Shares pursuant to Rule 144A.

## U.S. INTERNAL REVENUE SERVICE CIRCULAR 230

PURSUANT TO U.S. INTERNAL REVENUE SERVICE CIRCULAR 230, THE COMPANY HEREBY INFORMS HOLDERS THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SHARES. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

## NO INCORPORATION OF WEBSITE

The contents of our website or the website of Esas Holding do not form a part of this Offering Circular.

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## SUMMARY

*This summary highlights selected information from this Offering Circular and may not contain all of the information that is important to you. You should carefully read the entire Offering Circular, including the statements in "Risk Factors" and our IFRS Financial Statements and the notes thereto, before making an investment decision*.

**Overview**

We are the leading Turkish low-cost airline and the second largest airline in Turkey in terms of passenger numbers. In 2005, after the acquisition of Pegasus Airlines by Esas Holding, we changed the business model of the company by implementing a low-cost network carrier model and focused on providing an affordable, on-time air travel service with a young fleet. As a result of our successful implementation of this low-cost strategy, we have experienced rapid expansion of our operations both in domestic routes as well as internationally and we believe that we have achieved a broad awareness of our brand in Turkey and growing brand recognition internationally. Between 2006 and 2012, the compound annual growth rate of the number of passengers who travelled with us was 31.4% and the compound annual growth rate of the number of passengers who travelled on our scheduled flights was 43.7%. We believe that these growth rates compare favorably against the passenger growth in the overall Turkish market which was 12.8% during the same period. In addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, we were the fastest growing airline among the 25 largest European airlines in terms of capacity between 2011 and 2012, according to OAG.

We focus on providing high-frequency services on short- and medium-haul, point-to-point and transit routes on our domestic and international network primarily from our hub, the modern Sabiha Gökçen Airport in İstanbul. We also offer scheduled flights from our three other domestic hubs in Adana, Antalya and İzmir. As of the date of this Offering Circular, we offer scheduled passenger services on 29 domestic routes in Turkey and 41 international routes to European (including North Cyprus), CIS and Middle Eastern destinations (including two new international routes and two new domestic routes we have recently announced and started selling tickets for). In addition, we offer a number of services ancillary to the core air passenger services and generate revenue through the provision of these services, including revenue related to pre-order and in-flight sales of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees, and sales of duty-free items on board our international flights. We also operate a relatively low volume of charter and split charter flights for tour operators. We plan to continue our charter operations with a focus on established, higher margin, lower credit risk tour operators, but expect to move aircraft from the charter fleet to serve our international and domestic scheduled routes as we receive new traffic rights. We also provide wet lease and sub-charter of aircraft, cargo services and other selected services, including pilot, crew and technical training.

In 2012, we offered an average of approximately 1,800 weekly flights on our international and domestic routes. We carried a total of 13.6 million passengers in 2012, compared to 11.3 million passengers in 2011 and 8.6 million passengers in 2010. Our market share in 2012, measured in terms of passenger volumes, was 8.1% in international routes to and from Turkey and 25.7% in domestic routes. In line with our growth strategy, we plan to expand our international scheduled operations by opening new routes with an emphasis on routes that we believe have the potential for high-volume operations, with a special focus on destinations east, south and north of Turkey, in particular the Middle East, North Africa, Central and Eastern European and CIS countries, including Russia, subject to obtaining traffic rights to such destinations. In addition, we plan to increase the number of transit passengers on our existing international routes and to introduce new route connections that we expect to increase transit traffic in our network. We also aim to continue our growth in domestic flights and capture further market share, primarily through increasing the frequency of flights in our existing routes while also stimulating demand by adding new routes that meet our criteria.

As of the date of this Offering Circular, our operating fleet comprises 38 Boeing 737-800NG aircraft (with the maximum configuration of 189 seats in each plane) and one Boeing 737-400 aircraft (with the maximum configuration of 168 seats), in addition to which we operate three Boeing 737-800NG aircraft of our subsidiary İzAir under wet leases. The average age of our aircraft is 3.4 years as of the date of this Offering Circular, making our fleet the youngest among airlines in Turkey. We have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for

25 additional aircraft. The Airbus Order, which was announced in December 2012, was, at that time, the largest single aircraft order in Turkey's civil aviation history. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that 63 of the 75 firm order Airbus aircraft will be delivered after 2017. To satisfy our expected capacity needs in the near term, we plan to wet lease two additional Boeing 737-800NG aircraft from İzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013.

We operate from our hub, Sabiha Gökçen Airport in İstanbul. Sabiha Gökçen Airport, which began operations in 2001, is a modern airport on the Asian side of İstanbul with both a domestic and an international terminal in one building with a current annual capacity of 25 million passengers. According to ISG, approximately 14.9 million passengers passed through the airport in 2012, indicating that there is significant capacity for growth, which is in contrast to Atatürk airport which we believe is currently operating at near maximum capacity. Further, according to ISG, the capacity of the airport could increase to 50 million passengers a year if a second runway and additional facilities that are currently in the planning phase are completed in 2016 as currently expected. Sabiha Gökçen Airport is favorably located close to a significant potential customer base that we believe prefers the closer proximity of Sabiha Gökçen Airport compared to Atatürk airport on the European side of İstanbul. Overall, ISG reports that Sabiha Gökçen Airport has a catchment area covering a population of almost 20 million. We believe that this modern, high-capacity hub will provide us a strong platform for continued future growth. We began operating scheduled flights from Sabiha Gökçen Airport in 2005 and became the largest airline operator in the airport in 2007 in terms of passenger numbers. In 2012, our share of all passengers departing from and arriving to Sabiha Gökçen Airport was 67.5% in domestic routes and 66.3% in international routes (including passengers on charter and split charter flights).

As of the date of this Offering Circular, we are not a member of any major airline alliances and do not expect to join any such alliances in the near term. We have, however, a codeshare arrangement with Air Berlin that covers routes between Germany and İstanbul and connecting flights between Sabiha Gökçen Airport and Ankara and İzmir flown by us as the operating carrier, in addition to which we and Air Berlin have a website cross-linking arrangement. From November 1, 2011 through March 30, 2013, we also cooperated with Air Berlin in connection with the operation by İzAir of split charter flights between Antalya in Turkey and selected cities in Germany under the "AirBerlin Turkey" brand. We and Air Berlin have, however, agreed to suspend this split charter cooperation for the time being. We also offer flights between Sabiha Gökçen Airport and Baku in Azerbaijan on a codeshare basis with Azal as the operating carrier and flights between Sabiha Gökçen Airport and Bishkek in Kyrgyzstan with our subsidiary Air Manas that has wet leased aircraft from us for these flights. In addition, as of the date of this Offering Circular, we are in the final stages of entering into a codeshare arrangement with a large international airline. This planned new codeshare arrangement will not affect our low-cost carrier business model, including our pricing strategy and fare structure. See "Business—Customer Programs and Partnerships—Cooperation and Partnerships" for a description of our existing cooperation arrangements and our planned new codeshare arrangement.

Pegasus Operation Revenue in 2012 was TL1,791.8 million, compared to TL1,468.6 million in 2011 and TL977.9 million in 2010. The following table sets forth a breakdown of our revenue for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| | | **(TL)** | |
| Scheduled flight revenue | 1,429,924,400 | 1,124,368,319 | 743,790,613 |
| International scheduled flights[1] | 807,313,588 | 649,932,264 | 430,341,334 |
| Domestic scheduled flights | 622,610,812 | 474,436,055 | 313,449,279 |
| Ancillary revenue | 230,155,947 | 146,042,024 | 94,061,719 |
| Charter flights revenue | 106,689,046 | 179,199,270 | 128,272,152 |
| Other revenue | 24,989,432 | 18,980,950 | 11,738,632 |
| Pegasus Operation Revenue | 1,791,758,825 | 1,468,590,563 | 977,863,116 |
| AirBerlin Turkey operation revenue[2] | 128,133,398 | 15,489,190 | — |
| Total | 1,919,892,223 | 1,484,079,753 | 977,863,116 |

(1) Includes revenue from split charter flights.

(2) Includes the AirBerlin Turkey Project related revenue from November 1, 2011, which was the start date of the AirBerlin Turkey Project.

**Key Strengths**

We believe that we have a number of key strengths upon which we will continue to execute our strategy, including the following:

- strong platform for growth in a highly attractive market;
- low fixed costs and a flexible cost structure;
- dynamic low fare structure and advanced revenue management system;
- modern, young and growing fleet;
- modern hub close to underserved customers;
- strong brand; and
- experienced, entrepreneurial senior management and board of directors and committed and reputable principal shareholder.

**Strategy**

Our goal is to continue to strengthen our position by implementing the following business strategies:

- continue to grow operations both domestically and internationally;
- maximize aircraft utilization, increase operating efficiencies and maintain low costs;
- increase ancillary revenues; and
- increase focus on business customers.

**Current Trading**

Since December 31, 2012, our operations have developed favorably and better than our expectations, with increases in passenger numbers and load factors compared to the corresponding period in 2012. In the first two months of 2013, we carried a total of 2.1 million passengers and achieved a 77.7% load factor as compared to 1.6 million passengers and a 74.4% load factor in the corresponding period in 2012. On our international scheduled flights, the number of passengers increased by 31.7% in the first two months of 2013 as compared to the corresponding period in 2012 and the load factor was 73.2% as compared to 70.3% in the corresponding period in 2012. The increase in the number of passengers on our domestic scheduled flights in the first two months of 2013 was 26.7% as compared to the corresponding period in 2012 and the load factor was 80.4% as compared to 77.0% in the corresponding period in 2012. We operated our aircraft for an average of 10.7 block hours per day in the first two months of 2013 as compared to 9.2 block hours per day in the corresponding period in 2012, and our capacity in terms of number of seats increased by 22.8% in the first two months of 2013 as compared to the corresponding period in 2012. Our yields have also developed favorably since December 31, 2012 and have increased both for international scheduled flights and domestic scheduled fights in the first two months of 2013 as compared to the corresponding period in 2012. In the first two months of 2013, our CASK decreased as compared to the corresponding period in 2012.

## THE OFFERING

| | |
|---|---|
| **Issuer** | Pegasus Hava Taşımacılığı A.Ş. |
| **Offering** | 27,272,000 New Shares are being offered by the Company and 4,813,000 Existing Shares are being offered by Esas Holding. In addition, 3,209,000 Additional Shares will be sold by Esas Holding on the Closing Date for the purpose of covering over-allotments. |
| **International Offering** | 22,459,500 Shares are being offered in the International Offering. The Shares are being offered and sold (i) outside the United States and Turkey to institutional investors in offshore transactions in reliance on Regulation S and (ii) in the United States only to QIBs in reliance on Rule 144A. |
| **Domestic Offering** | 9,625,500 Shares are being offered in the Domestic Offering to retail and institutional investors in Turkey in reliance on Regulation S. The Domestic Offering will be open from April 18, 2013 to April 19, 2013 and will be conducted pursuant to an intermediary and consortium agreement with a syndicate of Turkish financial institutions led by İş Yatırım.<br><br>The allocation of Shares between the International Offering and the Domestic Offering is subject to change in accordance with applicable Turkish regulations. |
| **Share Capital** | Immediately after the Offering, the Company's share capital will consist of 102,272,000 ordinary shares, with a nominal value of TL1.00 each. The Shares have the rights described under "Description of Our Share Capital." |
| **Stabilization** | Esas Holding has agreed to allocate proceeds (calculated to be an amount equal to 15% of the gross proceeds of the Offering) from the sale of 4,813,000 Existing Shares and Additional Shares to İş Yatırım, as the Stabilization Manager, to effect, after consultation with Barclays, transactions with a view to supporting the market price of the Shares on the ISE, as described more fully under "Plan of Distribution—Over-allotment and Stabilization." |
| **Offer Price** | TL18.40 per Share. |
| **Use of Proceeds** | We intend to use the net proceeds from the Offering to finance the expansion of our fleet of aircraft and route network, to enhance our liquidity position, and for general corporate purposes. We will not receive any proceeds from any sale of Existing Shares or Additional Shares by Esas Holding, all of which will be paid to Esas Holding, after deducting the commissions, expenses and applicable taxes (if any) payable. See "Use of Proceeds." |
| **Lock-up Arrangements** | We, Esas Holding and our other shareholders have agreed that, subject to certain exceptions, neither we, Esas Holding, our other shareholders nor any of our or their respective subsidiaries or other affiliates over which we, Esas Holding or any of our other shareholders exercises management or voting control, nor any person acting on our or their behalf will, for a period of 365 days from the date of the Underwriting Agreement (as defined in "Plan of Distribution"), without the prior written consent of Barclays (such consent not to be unreasonably withheld or delayed), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) any of our shares or securities convertible |

or exchangeable into or exercisable for our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary shares representing the right to receive any such securities. See "Plan of Distribution—Lock-up Arrangements." For a discussion of certain restrictions on sales by shareholders holding at least 10% of the shares in a company undertaking an initial public offering or, irrespective of their shareholding, by shareholders exercising management control over such company, see "Description of Share Capital—Transfer of Shares."

**Transfer Restrictions** . . . . . . . . . . . . The Shares will be subject to certain restrictions on transfer as described under "Transfer Restrictions."

**Disclosure of Beneficial Interests in Shares** . . . . . . . . . . . . . . . . . . . . . Persons becoming direct or indirect holders of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of a public company in Turkey are required to notify the ISE of such acquisition and, thereafter, to notify the ISE of their transactions in the shares or voting rights of such company when the total number of the shares or voting rights they hold falls below or exceeds such thresholds. The name of the investor, date of the transaction, the nominal value of the shares subject to the transaction, the value of the transaction and the ratio of the shares in the capital of the public company prior to and following the transaction should be included in the notice sent to the ISE. The notices sent to the ISE are made public through the Public Disclosure Platform.

In addition, persons becoming direct or indirect holders of 5%, 10%, 20%, 25%, 33%, 50%, 67% or 100% of the issued share capital of a Turkish company are required to notify the company of such acquisition and, thereafter, to notify the company of their transactions in the shares of such company when the total number of the shares they hold falls below or exceeds such thresholds. Information notified to the company has to be registered with the relevant Trade Registry and publicly announced in the Trade Registry Gazette.

With respect to the disclosure to be made following the subscription of Shares in the Offering, the CMB regulations require that only persons who purchase 5% or more of the shares offered in a public offering, and, whether or not they purchase 5% or more of the shares offered in a public offering, persons having access to information which might affect the share price be disclosed to the CMB and the ISE by the lead manager of the domestic underwriting consortium. With regard to such persons, as a matter of market practice, the Domestic Coordinator will disclose the following information to the public through the Public Disclosure Platform:

(i) name;

(ii) field of activity;

(iii) nationality;

(iv) purpose of the purchase; and

(v) the nominal value of the purchased shares.

| | |
|---|---|
| | See "Description of Our Share Capital—Disclosure of Material Events" and "—Registration and Announcement of Changes in Shareholding." |
| **Dividends** . . . . . . . . . . . . . . . . . . . . . | Holders of the Shares will be entitled to receive dividends payable, if any, on the Shares in respect of the year ending December 31, 2013 and any dividends payable in subsequent years. The timing and amount of any future dividend payments will depend on our existing and future financial condition, results of operations, liquidity needs and other matters that we may consider relevant from time to time, including, without limitation, capital expenditures, our financial performance and equity market conditions. We are currently focused on significantly increasing the scale of our operations. Our near-term priority is to reinvest our profits into our business with the aim of creating long-term shareholder value. See "Dividends and Dividend Policy" and "Taxation." |
| **Voting Rights** . . . . . . . . . . . . . . . . . . | Holders of the Shares are entitled to one vote per Share on all matters submitted to a vote of holders of our shares. Following the Offering, 65.5% of our shares will continue to be owned by Esas Holding and members of the Sabancı family. See "Principal Shareholders" and "Description of Our Share Capital—Voting Rights." |
| **Taxation** . . . . . . . . . . . . . . . . . . . . . . | For a discussion of certain tax considerations relevant to an investment in the Shares, see "Taxation." |
| **Proposed Listing and Trading** . . . . . . | We have applied for listing of the Shares on the ISE under the symbol "PGSUS." No public trading market currently exists for any of our securities. Trading in the Shares on the ISE is expected to commence on or about April 26, 2013. |
| **Settlement and Delivery** . . . . . . . . . . | Payment for the Shares is expected to be in Turkish Lira in same-day funds. If you do not maintain a custody account in Turkey, you are required to open a custody account with a Turkish depositary that is a member of the Central Registry Agency in order to make payments of Turkish Lira and receive Shares. You must provide details of such custody accounts to the Managers no later than April 19, 2013. The Shares will be delivered to your Turkish custody account on or about the closing date by means of book-entry registration, subject to timely and satisfactory provision of account details. See "Plan of Distribution—Subscription, Settlement and Trading." |
| **Identification Number for the Shares** . | ISIN: TREPEGS00016 |
| **Sole Global Coordinator and Joint Bookrunner** . . . . . . . . . . . . . . . . . | Barclays Bank PLC |
| **Domestic Coordinator and Joint Bookrunner** . . . . . . . . . . . . . . . . . | İş Yatırım Menkul Değerler A.Ş. |
| **Risk Factors** . . . . . . . . . . . . . . . . . . . | You should read "Risk Factors" for a discussion of factors that you should consider carefully before deciding to invest in the Shares. |

## SUMMARY CONSOLIDATED HISTORICAL FINANCIAL AND OPERATIONAL DATA

The following tables set forth, for the periods indicated, summary consolidated financial data. The summary income statement, balance sheet and cash flow data have been derived from our IFRS Financial Statements, which were prepared in accordance with IFRS. You should read the following information in conjunction with "Presentation of Financial Information," "Selected Consolidated Historical Financial and Operational Data," "Operating and Financial Review" and our IFRS Financial Statements and the notes thereto included elsewhere in this Offering Circular.

**Income Statement**

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Revenue | 1,919,892,223 | 1,484,079,753 | 977,863,116 |
| Cost of sales | (1,600,787,909) | (1,376,748,406) | (867,782,511) |
| **Gross profit** | **319,104,314** | **107,331,347** | **110,080,605** |
| Selling and marketing expenses | (80,353,989) | (67,845,635) | (38,823,562) |
| General administrative expenses | (50,250,429) | (44,887,428) | (35,077,321) |
| Share in gain / (loss) of associates | (1,513,990) | 409,670 | (109,663) |
| Finance costs | (49,113,836) | (31,522,079) | (17,175,753) |
| Finance income | 13,278,513 | 13,984,584 | 4,856,873 |
| Other income (net) | 4,189,016 | 9,850,948 | 7,199,355 |
| **Net profit / (loss) before tax** | **155,319,599** | **(12,678,593)** | **30,950,534** |
| Current income tax | — | — | — |
| Deferred tax (expense) | (29,016,083) | (1,407,307) | (10,713,224) |
| **Net profit / (loss)** | **126,303,516** | **(14,085,900)** | **20,237,310** |
| Cumulative translation adjustment | 3,555,138 | 30,247,314 | 1,177,467 |
| Cash flow hedge | 8,727,235 | 3,317,598 | (126,249) |
| Total comprehensive income for the year | 138,585,889 | 19,479,012 | 21,288,528 |

**Balance Sheet**

| | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| **ASSETS** | | | |
| Total current assets | 339,329,147 | 198,137,315 | 109,016,329 |
| Total non-current assets | 1,869,681,888 | 1,634,051,533 | 1,127,029,245 |
| **Total assets** | **2,209,011,035** | **1,832,188,848** | **1,236,045,574** |
| **LIABILITIES AND EQUITY** | | | |
| Total current liabilities | 538,075,762 | 557,525,418 | 390,733,503 |
| Total non-current liabilities | 1,343,583,125 | 1,085,966,355 | 676,331,651 |
| **Total liabilities** | **1,881,658,887** | **1,643,491,773** | **1,067,065,154** |
| **Total equity** | **327,352,148** | **188,697,075** | **168,980,420** |
| **Total liabilities and equity** | **2,209,011,035** | **1,832,188,848** | **1,236,045,574** |

**Cash Flow Statement Data**

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Net cash from operating activities | 462,447,667 | 47,467,049 | 126,622,093 |
| Net cash (used in) / generated from investing activities | 10,545,034 | 33,610,221 | (101,798,816) |
| Net cash (used in) / generated from financing activities | (282,391,827) | (110,812,375) | 18,143,006 |
| Net (decrease) / increase in cash and cash equivalents | 190,600,874 | (29,735,105) | 42,966,283 |
| Cash and cash equivalents at the beginning of year | 19,549,364 | 49,284,469 | 6,318,186 |
| Cash and cash equivalents at the end of year | 210,150,238 | 19,549,364 | 49,284,469 |

**Non-IFRS Financial Data**

The following table sets forth certain non-IFRS financial measures as of and for the periods indicated. For a description of these non-IFRS financial measures, see "Presentation of Financial Information—Non-IFRS Financial Measures" and, for reconciliation of these non-IFRS financial measures to the closest IFRS financial measures, see "Operating and Financial Review—Non-IFRS Financial Measures."

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Pegasus Operation Revenue[(1)] (TL) | 1,791,758,825 | 1,468,590,563 | 977,863,116 |
| Pegasus Operation EBITDA[(2)] (TL) | 306,866,993 | 86,690,271 | 82,927,236 |
| Pegasus Operation EBITDA margin[(3)] (%) | 17.1 | 5.9 | 8.5 |
| Pegasus Operation EBITDAR[(4)] (TL) | 391,628,753 | 198,332,656 | 161,316,442 |
| Pegasus Operation EBITDAR margin[(5)] (%) | 21.9 | 13.5 | 16.5 |
| Pegasus Operation Adjusted Net Debt[(6)] (TL) | 1,765,424,406 | 1,993,971,965 | 1,213,809,652 |
| Pegasus Operation Adjusted Net Debt / Pegasus Operation EBITDAR[(7)] | 4.5 | 10.1 | 7.5 |

(1) Pegasus Operation Revenue = Revenue − AirBerlin Turkey Project operation revenue

For a reconciliation of Pegasus Operation Revenue to our revenue, see "Operating and Financial Review—Non-IFRS Financial Measures."

(2) Pegasus Operation EBITDA = Net profit / (loss) before tax + AirBerlin Turkey operation cost of sales − AirBerlin Turkey operation revenue + finance expenses − finance income + share in gain / (loss) of associates + depreciation and amortization expenses

For a reconciliation of Pegasus Operation EBITDA to our net profit / (loss), see "Operating and Financial Review—Non-IFRS Financial Measures."

(3) Pegasus Operation EBITDA margin = $\frac{\text{Pegasus Operation EBITDA}}{\text{Pegasus Operation Revenue}}$

(4) Pegasus Operation EBITDAR = Pegasus Operation EBITDA + operating lease expenses

For a reconciliation of Pegasus Operation EBITDAR to our net profit / (loss), see "Operating and Financial Review—Non-IFRS Financial Measures."

(5) Pegasus Operation EBITDAR margin = $\frac{\text{Pegasus Operation EBITDAR}}{\text{Pegasus Operation Revenue}}$

(6) Pegasus Operation Adjusted Net Debt = Current and non-current financial liabilities + current and non-current obligations under finance leases + operating lease expenses × 7 − cash and cash equivalents − 50% of advances on aircraft purchases (pre-delivery payments)

For a reconciliation of Pegasus Operation Adjusted Net Debt, see "Operating and Financial Review—Non-IFRS Financial Measures." Pegasus Operation Adjusted Net Debt, as adjusted for an increase in cash and cash equivalents of TL481,435,013 reflecting the receipt of the estimated net proceeds to us of the Offering as discussed under "Capitalization," as of December 31, 2012 would have been TL1,283,989,393.

(7) Pegasus Operation Adjusted Net Debt / Pegasus Operation EBITDAR, as adjusted for an increase in cash and cash equivalents of TL481,435,013 reflecting the receipt of the estimated net proceeds to us of the Offering as discussed under "Capitalization," as of December 31, 2012 would have been 3.3.

**Operational Data**

The following table sets forth certain operational data as of and for the periods indicated. The figures below do not include the operations of the AirBerlin Turkey Project from and including November 1, 2011.

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Number of aircraft at period end | 40 | 39 | 32 |
| Average number of aircraft during period | 39.6 | 37.7 | 28.3 |
| Seats | 17,357,311 | 15,017,546 | 11,239,295 |
| Passengers | 13,578,184 | 11,335,280 | 8,573,795 |
| Passenger load factor[1] (%) | 78.2 | 75.5 | 76.3 |
| Cycle[1] | 93,800 | 84,548 | 66,872 |
| Passengers per cycle | 145 | 134 | 128 |
| Block hours[1] | 159,340 | 149,354 | 121,650 |
| ASL[1] (km) | 947 | 996 | 1,078 |
| ASK[1] (million) | 16,429 | 14,956 | 12,113 |
| RASK[1] (kuruş) | 10.91 | 9.82 | 8.07 |
| CASK[1] (kuruş) | 9.70 | 9.81 | 7.77 |
| Non-fuel CASK[1] (kuruş) | 5.42 | 5.73 | 4.98 |

(1) For definition, see "Certain Definitions."

# RISK FACTORS

*Prior to making an investment decision, you should carefully consider all of the information in this Offering Circular, including, without limitation, the risks described below. The risks and uncertainties described below are those that we currently believe could materially affect us and any investment you make in us. If any of these events occur, the trading price of the Shares could decline and you could lose all or part of your investment. Additional risks and uncertainties that do not currently exist or of which we are unaware or which we currently do not believe to be material may also become important factors that adversely affect us and your investment. You should refer to the other information set out in this Offering Circular, including our IFRS Financial Statements and the related notes thereto and the information in "Operating and Financial Review." For additional information concerning Turkey, its economy and other related matters, see "Exchange Rates," "The Turkish Aviation Market," "Business," "The Turkish Securities Market," "Regulatory Framework" and "Foreign Investment and Exchange Controls."*

## Risks Relating to Our Business

***We are exposed to risks associated with fuel price trends and increases in fuel costs could have a material adverse effect on our business, financial position and results of operations.***

Fuel costs constitute our largest operating expense, representing 38.9%, 45.1% and 48.0% of Pegasus Operation Cost of Sales for the years ended December 2010, 2011 and 2012, respectively. Historically, fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation, and such fluctuations are likely to continue in the future. The fluctuations in fuel prices have had a significant impact on our cost of sales and, in turn, on our results of operations. Following a significant decline in 2009, fuel prices increased in each of 2010, 2011 and 2012. This has been reflected in the average price per ton (net of any gain/loss on our hedging instruments) we have paid for our fuel purchases, which amounted to TL1,203 in 2010, TL1,833 in 2011 and TL1,949 in 2012 and has remained high in 2013. For more detailed information on historical fuel prices, see "Operating and Financial Review—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Changes in Fuel Prices." Fuel prices are affected by fuel availability, which is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline as well as crude oil and refining capacity. Due to the effect of these and other events on the price and availability of fuel, we cannot predict the cost of fuel with any degree of certainty. Further, our suppliers of fuel are contractually permitted to pass on to us any increases in their cost of supplying fuel to us. Our ability to pass on such increased costs of fuel to passengers by increasing fares or by implementing fuel surcharges is limited by our low-cost model and the competitive nature of the airline industry. For these reasons, increases in fuel costs have had, and are expected to continue to have from time to time, a material adverse effect on our business, financial position and results of operations. Our fuel costs are also subject to certain exchange rate risks as international prices for fuel are denominated in U.S. dollars. See "—Currency fluctuations affect our business, financial condition and results of operations."

Weather-related events, natural disasters, political disruptions or wars involving oil-producing countries, changes in governmental policy concerning fuel production, transportation or marketing, changes in fuel production capacity, environmental concerns and other unpredictable events may result in unexpected fuel supply shortages and fuel price increases in the future. Unexpected increases in fuel costs or disruptions in fuel supplies would have a material adverse effect on our business, financial condition and results of operations.

***Currency fluctuations affect our business, financial condition and results of operations.***

As our functional currency is euro but we incur a significant part of our cost of sales and expenses in non-euro currencies, fluctuations in exchange rates, particularly the U.S. dollar against the euro and the Turkish Lira against the euro, may have a material adverse effect on our business, financial condition and results of operations. Our foreign exchange risk arises mainly from our significant U.S. dollar denominated liabilities under bank loans and finance leases, which accounted for approximately 17% of all of our financial liabilities as of December 31, 2012, and U.S. dollar denominated expense items including operating lease payments, fuel costs and maintenance expenses, which accounted for approximately 57% of all of our operating costs in 2012. Our most significant capital expenditures, the acquisition of aircraft and their spare parts, are also mainly denominated in U.S. dollars. Our significant Turkish Lira denominated items include revenue from domestic scheduled flights and payroll expense. Overall, Turkish Lira denominated revenue accounted for approximately 45% of our total revenue in 2012. Further, in

preparing our financial statements, we record the book values of assets, liabilities, income and expenses that are incurred in other currencies in euro. As a result, fluctuations in the value of the U.S. dollar or Turkish Lira against the euro may materially adversely affect our results of operations, as reported in euro. See also "Presentation of Financial Information," "Operating and Financial Review—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Exchange Rate Fluctuations and Foreign Currency Translation" and "—Risks Relating to Turkey—The level of inflation in Turkey could adversely affect our business, financial condition and results of operations."

***The effectiveness of our hedging transactions may be limited or we may be unable to successfully hedge our exposure at all, which could cause us to suffer losses.***

To improve fuel planning certainty and manage our fuel price risk, it is our policy to enter into options and swap arrangements with financial institutions as counterparties for up to 60% of the estimated cost of our anticipated future fuel consumption for terms of up to 12 months. In 2012, the first full year of our fuel price hedging program, we hedged 45% of our fuel consumption for the year. As of March 31, 2013, we had hedged 47.3% of our anticipated total annual fuel requirement for 2013. We also seek to manage uncertainty arising from exchange rate fluctuations and, since we introduced a currency hedging program in August 2011, we have aimed to hedge our euro, Turkish Lira, British pound sterling and Swiss franc denominated surplus totaling up to 100% of our U.S. dollar needs through each year. However, derivative instruments do not fully protect against the effects of fuel price increases or fluctuations in exchange rates as there can be no assurance that, at any given time, we will have derivatives in place to provide any particular level of protection against these risks. This strategy also reduces our ability to benefit from potential fuel price decreases and could cause us to suffer losses due to fuel price volatility. Similarly, our hedging strategies may also limit any benefit that we might otherwise receive from favorable movements in exchange rates and could cause us to suffer losses. For information on our exposure to commodity (including fuel) price risk and foreign exchange risk and hedging, see "Operating and Financial Review—Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk" and "—Commodity Price Risk."

***Our failure to successfully implement our growth strategy could harm our business.***

Since we started operating as a low-cost carrier in 2005, we have grown rapidly. We have significantly increased our revenue and the number of aircraft in our fleet as well as expanded our route network. In 2012 alone, for example, we announced 10 new international routes and eight new domestic routes, and intend to continue to expand our fleet, add new destinations and increase the frequency of flights on our routes. The successful implementation of our growth strategy is critical in order for our business to achieve economies of scale and for us to sustain or increase our profitability. Our ability to increase flight frequencies and the number of destinations we serve depends on our ability to identify appropriate markets, to access suitable airports and to obtain and maintain aircraft arrival and departure times and slots, as the case may be, at peak times both at Sabiha Gökçen Airport, our primary hub, and other airports located in our targeted geographic markets in a manner that is consistent with our low-cost strategy. Our ability to increase the number of international destinations is also subject to our obtaining traffic rights to such destinations. See also "—Our ability to expand into new markets may be limited due to international air traffic agreements, which could affect the implementation of our growth strategy" and "—Risks Relating to the Airline Industry—If we are unable to obtain and maintain departure or arrival times or slots at Sabiha Gökçen Airport or at other key airports, this could have an adverse effect on our operations." Any condition that would deny, limit or delay our access to the airports and destinations we seek to serve in the future will constrain our ability to grow. Further, new markets we enter may not provide sufficient passenger traffic to make our operations in those new markets profitable, which may result in termination of new routes and adversely affect our business, financial condition and results of operations. In the short term, the implementation of our growth strategy will lead to higher operating costs resulting from the purchase and lease of additional aircraft, increased fuel costs and higher maintenance and labor expenses prior to generating offsetting revenue. Following the launch of a new route, we also commonly offer discounted fares for a specific period to stimulate demand on that route, which can affect our yield and passenger revenues from new routes after their launch.

Growing our fleet of aircraft, increasing flight frequencies and opening new destinations has required and will continue to require us to make significant investments in new aircraft. Since the beginning of 2005, we have placed firm purchase orders with Boeing for 40 new Boeing 737-800NG aircraft, of which 35 have been delivered to us. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a

firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. See "Business—Aircraft." The actual purchase prices of aircraft at the date of delivery will reflect confidential price and payment term concessions from the listed purchase prices as well as adjustments based on escalation adjustment clauses (in the case of the Airbus aircraft, subject to a maximum limit). Based on expected prices at the date of delivery (i.e., list prices that exclude price and payment term concessions but take into consideration our expectation of applicable escalation adjustments and aircraft configurations), our expected capital expenditures related to the remaining five firm order Boeing 737-800NG aircraft and the 75 firm order aircraft and 25 option aircraft (assuming this option is exercised in full) under the Airbus Order amount to approximately US$12.5 billion. For a general discussion of the capital expenditures related to our aircraft orders, see "Operating and Financial Review—Capital Expenditures." Although we expect to use a portion of the proceeds of the Offering to finance investments in new aircraft, there can be no assurance that we will have the financial resources to make all the investments we have planned, and, as a result, we may be subject to delays in aircraft deliveries and resulting delays in implementing our growth strategy. If growth in passenger traffic and our revenues fail to keep pace with the planned expansion of our fleet, we also could suffer from overcapacity and our results of operations and our ability to fund scheduled aircraft purchases and service our debt could be materially adversely affected. See also "—Risks Relating to the Airline Industry—Economic and industry conditions constantly change and worsening negative economic conditions in Turkey or elsewhere could result in overcapacity."

Expansion also will require us to invest in a substantial amount of resources, including additional skilled personnel, equipment and facilities, even before the new services commence. An inability to hire and retain skilled personnel or to secure the required equipment and facilities efficiently and cost-effectively may affect our ability to achieve our growth strategy. See also "—We are dependent on attracting and retaining qualified personnel at reasonable cost." In addition, increasing the number of our destinations and expanding our services may strain our existing management resources and operational, financial and management information systems, including our online reservation system, to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We expect that we will need to develop further financial, operational and management controls, reporting systems and procedures to accommodate future growth. There can be no assurance that we will be able to develop these controls, systems or procedures on a timely basis, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations. In addition, as we expand into geographic areas where we may have limited operating experience, we may encounter operating, marketing, financial and legal challenges that are different from those we encounter in our existing markets, which could have a material adverse effect on our results of operations.

***Our ability to expand into new markets may be limited due to international air traffic agreements, which could affect the implementation of our growth strategy.***

The regulatory system for international air transport is based upon the general principle that each state has sovereignty over its air space and has the right to control the operation of air services over its territory. As a consequence, international air transport rights are based primarily on traffic rights, that is, rights to overfly or to land at a specific destination, granted by individual states to other states in bilateral air traffic agreements. As of the date of this Offering Circular, Turkey is a party to 138 bilateral air traffic agreements. Some of these bilateral agreements are so-called "single designated" agreements, meaning that a second airline, other than Turkish Airlines as the state-controlled legacy carrier, is not allowed to fly to that destination or that flight permits are subject to the countries' civil aviation authorities' approval. Further, in some multiple designated bilateral air traffic agreements with countries that are of interest to us, Turkish Airlines is assigned as the only Turkish airline allowed to operate in such countries. Thus, we may, from time to time, face difficulties in expanding our scheduled international services to such countries or to countries with "single designated" agreements where Turkish Airlines is the only eligible Turkish carrier, which could have a material adverse effect on our business, financial condition and results of operations.

***If we are unable to maintain sufficient cash resources, our existing and future debt obligations, including those related to our significant planned fleet expansion, could impair our liquidity and financial condition.***

Liquidity risk is the risk that we will be unable to meet our obligations as they fall due or that we will be able to meet our liquidity commitments only at an increased cost. A substantial part of our liquidity and funding requirements is met through cash flow from operations and debt financing. Historically, we have

held relatively low cash reserves, due in particular to our advance payments ("pre-delivery payments") for our orders of Boeing 737-800NG aircraft with Boeing. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. The Airbus Order also includes a pre-delivery payment mechanism. Pre-delivery payments made by us relating to our firm order Boeing 737-800NG aircraft amounted to US$77.4 million in 2010, US$42.9 million in 2011 and US$24.7 million in 2012. In 2012, we also made pre-delivery payments relating to the Airbus Order of US$8.8 million. See "Operating and Financial Review—Liquidity and Capital Resources."

We expect to use a portion of the proceeds from the Offering to finance the expansion of our fleet of aircraft, including the funding of pre-delivery payments for aircraft and to enhance our liquidity position, as discussed in "Use of Proceeds." In order to provide additional liquidity and to finance the operating and capital expenditures necessary to support our business strategy when cash flows from operations and cash on hand have been insufficient, we have utilized and may in the future utilize our short-term credit lines and loans from various Turkish and international banks as well as from Esas Holding, our principal shareholder. As of the date of this Offering Circular, we have no outstanding shareholder loans. However, we may not continue to be able to obtain, on a timely basis or on terms acceptable to us, sufficient funds from these sources to provide adequate liquidity to finance the operating and capital expenditures necessary to support our business strategy in case cash flows from operations and cash on hand are insufficient. Failure to generate additional funds, whether from operations or additional debt or equity financing, may require us to delay or abandon some or all of our anticipated new aircraft expenditures or to modify our growth strategy, which could have a material adverse effect on our business, financial condition and results of operations.

***We rely on maintaining high aircraft utilization rates to maximize our revenue, which makes us vulnerable to a decline in revenue caused by delays or cancellations.***

Our business model features high utilization of our aircraft to increase the level of revenue we generate from our assets. High aircraft utilization rates are achieved by keeping the number of "block hours," that is, the hours from an aircraft's take-off to landing (including taxi time), as high as possible to enable our aircraft to fly more hours on average each day. High block hours are achieved by reducing turnaround time at airports, including the amount of ground time for loading and unloading, cleaning, refueling and crew changes. As a result of our high aircraft utilization, we are exposed to, and adversely affected by, delays and flight cancellations caused by various factors, many of which may be beyond our control, including air traffic congestion, processing delays on the ground (such as in ground handling), adverse weather conditions, increased security measures at airports, industrial action by air traffic controllers or other employees, delays or non-performance by third-party service providers and unscheduled maintenance.

Our utilization rates also could be affected if the airports in which we operate approach full user capacity and, as a result, any delay to the addition of capacity at airports or upgrade of facilities at which we operate could adversely affect our business. In addition, an increase in the number of airlines operating at our hub, Sabiha Gökçen Airport, or other airports located in our targeted geographic markets may result in an increase in congestion and delays at those airports which could have a material adverse effect on our aircraft utilization and on-time performance. See also "—Risks Relating to the Airline Industry—Airlines are often affected by factors beyond their control, including traffic congestion at airports, weather conditions and increased security measures, any of which could harm our operating results and financial condition." A delay or cancellation of one flight could affect our other flight operations by resulting in delays or cancellations of subsequent flights. If our flights become subject to regular or severe delays or cancellations, our reputation may suffer and our customers may choose to fly with other airlines in the future. These adverse effects may be further exacerbated to the extent we are required to make refunds and provide assistance to passengers for flight delays and cancellations. Lower aircraft utilization rates due to these or other factors could have a material adverse effect on our business, financial condition and results of operations.

***If we cannot secure future financing for payments of firm aircraft orders, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs.***

Our strategy of continued growth is dependent on our ability to acquire additional aircraft. To this end, since 2005, we have placed firm purchase orders with Boeing for a total of 40 new 737-800NG aircraft,

of which 35 have been delivered to us as of the date of this Offering Circular. We expect one firm order Boeing 737-800NG aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. In July 2012, we placed the Airbus Order, which comprises a firm order for 57 A320neo aircraft and 18 A321neo aircraft that we expect to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022 and an option for 25 additional aircraft. Based on expected prices at the date of delivery (i.e., list prices that exclude price and payment term concessions but take into consideration our expectation of applicable escalation adjustments and aircraft configurations), our expected capital expenditures related to the remaining five firm order Boeing 737-800NG aircraft and the 75 firm order aircraft and 25 option aircraft (assuming this option is exercised in full) under the Airbus Order amount to approximately US$12.5 billion, consisting of capital expenditures of approximately US$0.5 billion related to our outstanding orders of Boeing 737-800NG aircraft and approximately US$12.0 billion related to our orders for Airbus A320neo and A321neo aircraft.

The balance of the total amount of committed loans we had obtained for the acquisition of the 26 Boeing 737-800NG aircraft we have acquired through finance leases as of December 31, 2012 totaled TL1,376.2 million. Typically, approximately 85% of the acquisition price of aircraft we acquire is debt financed. While our purchase orders with Boeing and Airbus are subject to confidential price and payment term concessions from the listed purchase prices and the actual purchase price we pay for the aircraft we have ordered will typically be lower than their list prices, we expect to need to raise significant additional debt to finance future payments of our firm aircraft orders. We may also, by exercising future purchase options or otherwise, order additional aircraft in the future, which could substantially increase our financing needs. For a general discussion of the pricing terms of our aircraft orders, see "Operating and Financial Review—Capital Expenditures."

In addition to a portion of the proceeds from the Offering, we currently expect to finance our new aircraft acquisitions with cash flow from operations and additional debt financing and also to continue to use aircraft lease financing as required to meet our financing needs. Whether we will be successful in obtaining the required financing for our new aircraft that we have entered into a contract for, or for any new aircraft not already contracted for, on commercially acceptable terms or at all will be dependent on a range of factors, including the condition of capital and credit markets, the general availability of credit which has been adversely impacted by the recent turmoil in the financial markets, prevailing interest rates and our perceived creditworthiness. We may be unable to secure such financing on commercially acceptable terms, or at all.

We do not expect to seek Ex-Im Bank supported financing for any of the remaining five Boeing 737-800NG aircraft we are obligated to purchase under our contracts with Boeing. We expect, however, to finance some of the 57 Airbus A320neo aircraft and 18 Airbus A321neo aircraft that we have placed on firm order with Airbus through credit facilities supported by the European ECAs. However, there can be no assurance that such agencies will offer such credit support on commercially acceptable terms, or at all. Further, if in the future we are unable to obtain the credit support pre-approval of these agencies, whether due to changes in our financial condition or changes in the underlying criteria, or if the agencies discontinue providing credit enhancements, or otherwise, then we will no longer be able to access such favorable credit support, causing the terms of the debt financing that we are able to obtain, if any, to be less favorable. In addition, from 2013, exposure fees for future credit support from the European ECAs and Ex-Im Bank increased for all borrowers and there can be no assurance that these fees will not increase further in the future. Accordingly, we cannot assure you that, in the future, we will be able to access long-term financing or credit support from the European ECAs or Ex-Im Bank on favorable terms, if at all. Our inability to access such financing or credit support on favorable terms would materially adversely affect our growth strategy and results of operations.

To the extent that we cannot secure financing for our future firm aircraft orders, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. Further, we do not have a right to reschedule or delay the delivery date for any Boeing 737-800NG aircraft without the consent of Boeing, and our ability to reschedule or delay the delivery date of the aircraft to be delivered under the Airbus Order is also limited, and we do not have the right to terminate the agreements based on our inability to obtain financing. Should any of these agreements be terminated by Airbus or Boeing due to our inability to obtain the necessary financing or any default of our payment obligations, we may be subject to various penalties, including, but not limited to, forfeiting any pre-delivery payments already made by us and liquidated damages. In addition, the financing of new and existing aircraft has and may continue to significantly increase the total amount of our outstanding debt and the payments that we are obliged to make to service such debt. Our ability to generate sufficient cash flow to service our indebtedness over the longer term will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside our control.

***The acquisition of some of our aircraft is financed with credit support provided by Ex-Im Bank, which may result in the repossession of such aircraft by Ex-Im Bank or the lenders in the event we or Esas Holding default under the related financing documents.***

The acquisition of 26 Boeing 737-800NG aircraft in our fleet has been financed with Ex-Im Bank supported credit facilities. These facilities require non-affiliated special purpose vehicles ("SPVs") to hold title to such aircraft, which are leased to us under finance leases. See "Operating and Financial Review—Liquidity and Capital Resources—Borrowings—Ex-Im Bank Financing." Each such aircraft is subject to a first priority mortgage in favor of a security trustee for the benefit of Ex-Im Bank and the lenders under our aircraft financing arrangements. Furthermore, each of our Ex-Im Bank supported credit facilities contains cross-default and cross-collateralization provisions, which could result in Ex-Im Bank and the lenders having a right to repossess our aircraft that are financed under one Ex-Im Bank supported credit facility upon the occurrence and continuation of an event of default under another Ex-Im Bank supported credit facility. This would put us in a position where we are unable to operate our business, which would have a material adverse effect on our business, financial condition and results of operations. Rent payable by us to the SPV under these finance leases must equal, in all circumstances, the amount of principal and interest payable by the SPVs under the corresponding loans. Moreover, our obligation to pay rent under the finance leases is absolute and unconditional. Furthermore, as required by Ex-Im Bank, Esas Holding has guaranteed all of our obligations under each of our Ex-Im Bank supported credit facilities. Any breach or disavowal of such Esas Holding guarantees, which is not within our control, would also constitute an event of default under the financing documents and may trigger the repossession of our aircraft. The termination of Esas Holding's ownership of the majority of our issued share capital may also result in the acceleration of such loans. There can be no assurance that Esas Holding will agree to provide guarantees in respect of any future credit facility, which may, in turn, adversely affect the availability and cost of any such credit facility for future acquisitions of aircraft. To the extent that we are able and choose to finance aircraft purchased under the Airbus Order with European ECA supported credit facilities, we expect the structure of these financings to largely follow the structure of our Ex-Im supported credit facilities.

***We are subject to the risks of having a limited number of suppliers for our aircraft and aircraft parts.***

As of the date of this Offering Circular, our operating fleet comprises 38 Boeing 737-800NG aircraft (with the maximum configuration of 189 seats in each plane) and one Boeing 737-400 aircraft (with the maximum configuration of 168 seats), in addition to which we operate three Boeing 737-800NG aircraft of our subsidiary IzAir under wet leases. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. Thus, we are currently dependent on Boeing as our primary supplier for aircraft and many of our aircraft parts, and will be similarly dependent on Airbus for the supply of the Airbus A320neo and A321neo aircraft and many parts for these aircraft. This dependence makes us vulnerable to any significant problems associated with the aircraft type we currently use or aircraft types we will use in the future, including, but not limited to, design defects, mechanical problems or regulatory issues, which could result in downtime for part or all of our fleet. The Airbus A320neo and A321neo aircraft also use a new engine model, and thus these engines have a limited operating history and may be subject to issues, such as design defects, that are currently unknown. Our business would also be harmed by any negative perception by the flying public that the aircraft types in our fleet are less safe or reliable than other aircraft. In addition, we depend on Boeing and Airbus remaining financially stable and manufacturing the aircraft and parts for these aircraft we have ordered and that we need to run our operations and fulfilling their contractual obligations to us. There have also been recent, well-publicized delays by Boeing and Airbus in meeting stated deadlines to deliver new aircraft to the market. Under the terms of the Airbus Order, the aircraft delivery schedule may be modified by Airbus due to certification and industrialization planning and production ramp-up constraints of the Airbus A320neo and A321neo aircraft. Missed or late delivery of aircraft ordered by us could, among other things, result in lost or delayed revenues and lower growth rates.

***Our new routes and expanded operations may have an adverse effect on our business, financial condition or results of operations.***

When we commence new routes, our load factors initially tend to be lower than those on our established routes and our advertising and other promotional costs tend to be higher, which may result in initial losses that could have a material adverse effect on our results of operations as well as require a substantial amount of cash to fund. In addition, we may have difficulty winning customer acceptance of our low-cost service on new routes. We also periodically run special promotional fare campaigns, in particular

in connection with the opening of new routes. If they fail to generate sufficient additional passenger volumes, promotional fares may have the effect of reducing our yield and passenger revenues on such routes during the periods that they are in effect.

***There are risks associated with our presence in some of our international emerging markets, including political or economic instability and failure to adequately comply with existing legal requirements.***

We currently operate flights to a number of emerging markets and, in line with our growth strategy, plan to continue to expand our route network with new scheduled flights to other emerging markets, in particular to the Middle East, North Africa and Central and Eastern European and CIS countries. Expansion to new emerging markets may have risks due to factors specific to those markets. Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, high levels of inflation, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us and any resulting instability may materially adversely affect our business and results of operations.

We have recently expanded our service to new emerging markets, some of which have less developed legal systems, financial markets, and business and political environments than Turkey and most of our existing international markets, and therefore present greater political, legal, economic and operational risks. We emphasize legal compliance and have implemented policies, procedures and ongoing training of employees with regard to operating in these markets. However, if we fail to enforce our policies and procedures properly, we may be subject to sanctions and related costs which, in turn, could materially adversely affect our results of operations and cash flow.

***We are dependent on third-party service and facility providers.***

In order to operate our business, we are dependent on the availability of terminal space, aircraft parking and other facilities and the provision of services by third parties including air traffic controllers, security personnel, towing and push-back vehicles, passenger transporters, caterers, check-in staff, ground handling and fuel service providers. In addition, we contract with certified outside maintenance providers for heavy base maintenance checks of our aircraft as well as aircraft engine, auxiliary power unit and landing gear (off-wing) maintenance services. If any third-party services or facilities on which we rely in conducting our business become restricted, are temporarily halted (for example, as a result of loss of certification, technical problems or industrial action), cease permanently or are not available at commercially acceptable terms, this could have a material adverse effect on our business, financial condition and results of operations. This material adverse effect also could occur as a result of the loss or expiration of any of our contracts with third-party service or facility providers and our inability to negotiate replacement contracts with other service providers on comparable terms or at all or to enter into such contracts in any new markets we may access. In addition, the efficiency, timeliness and quality of contract performance by third-party providers are largely beyond our direct control and any failure of third-party service providers to perform services for us in a timely manner and in accordance with agreed levels of service could have a material adverse effect on our business, financial condition and results of operations. See "Business—Aircraft—Maintenance."

***We depend on the uninterrupted operation of our own and third-party automated systems and technology and disruption to these systems or technology could significantly impair our ability to conduct our business efficiently.***

Our ability to manage ticket pricing and sales, receive and process reservations, manage our traffic network, perform flight operations and maintenance and engage in other critical business tasks is dependent on the efficient and uninterrupted operation of our information technology and communication systems and on the systems used by third parties, including operators of ticket distribution systems and providers of ground and passenger handling services, in the course of their cooperation with us. Thus, the performance and the reliability of technology are critical to our ability to attract and retain customers and our ability to compete effectively. Our website and reservation system must be able to accommodate a high volume of traffic. Particularly during periods when we offer promotional fares, traffic on our website can be very high, which could result in an interruption or slowdown in the online booking services that we offer to customers. As information technology and communication systems are vulnerable to disruptions, damage, power outages, acts of terrorism or sabotage, computer viruses, fires and other events, and programming errors can never be entirely avoided, there can be no assurance of efficient and uninterrupted operation of systems used by us or third parties, including those used by our sales partners,

such as our online agency booking system or global distribution systems ("GDSs") used by travel agencies. These systems require upgrades or replacements periodically, which involve implementation and other risks. Any disruption to computer and communication systems used by us or third parties, particularly if the disruptions persist, could significantly impair our ability to conduct our business efficiently, result in our customers purchasing tickets from other airlines, and could harm our reputation, which could result in a material adverse effect on our business, financial condition and results of operations.

***We are dependent on attracting and retaining qualified personnel at reasonable cost.***

We are dependent on qualified personnel, in particular pilots, cabin personnel and employees with qualifications in aircraft maintenance, information technology and sales, and we compete against both full-service and low-cost airlines for these personnel. Employee turnover historically has been relatively high in the low-cost airline industry as employees move from one airline to another. We believe that an additional driver behind pilot turnover are the wage and benefit packages that full-service airlines offer and that can often exceed those offered by low-cost airlines, such as Pegasus. Should other airlines, and in particular full-service airlines, need to recruit a significant number of new employees due to, for example, their fleet expansion, this could increase our employee turnover, adversely affect our ability to recruit qualified personnel and require us to increase salaries and benefits in order to retain and recruit qualified personnel. The implementation of our growth strategy also will require hiring of new personnel on a continuing basis. Further, the introduction of new Airbus A320neo and A321neo aircraft to our fleet may require us to hire a significant number of new employees, including pilots and maintenance personnel, and have these employees, together with some of our existing employees, trained so that they obtain the necessary qualifications to work with the new type of aircraft. We may not be able to retain employees in key positions or recruit and train a sufficient number of new employees with appropriate qualifications at reasonable cost to enable us to pursue our strategy and to remain competitive. See also "Business—Employees." We are also dependent on the principal members of our management staff in the implementation of our strategy. The loss of one or more members of the senior management team could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to insure against all risks we face and we may incur losses not covered by insurance.***

We are exposed to potential significant losses in the event that any of our aircraft is subject to an accident, terrorist incident or other disaster. Any such accident or incident could involve costs related to repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. In addition, an accident or incident could result in significant legal claims against us arising from death or injury affecting passengers and others, including ground victims. We carry insurance for legal liability, liability to third parties (covering liability to passengers, baggage and cargo), property damage, war risk and all-risk coverage for damage to our aircraft. We do not carry insurance for business interruptions, loss of profit or revenue or consequential business losses arising from mechanical breakdown. In the aftermath of the terrorist attacks on September 11, 2001, airline insurers raised premiums for airline insurance and published clauses which are intended to exclude or significantly curtail coverage for certain risks involving so-called weapons of mass destruction. If insurers or re-insurers exclude coverage for these risks or such coverage is not available on commercially reasonable terms or rates and insurance coverage is not available from any other source (for example, a government entity), we may not be able to insure those risks and would not be able to carry on our air transportation business and ultimately would be forced to cease our airline operations. In addition, we do not insure against losses we may incur in connection with litigation, arbitration or other administrative proceedings or investigations which, if decided against us, could have a material adverse effect on our business, financial condition and results of operations. See "Business—Legal Proceedings." Furthermore, although we believe we currently maintain insurance in amounts and of the type generally consistent with industry practice, our insurance premiums may increase and our insurance coverage may not be adequate to cover actual losses incurred by us exceeding the insured amount or outside the scope of our insurance coverage, which may have a material adverse effect on our business, financial condition and results of operations.

***We are exposed to interest rate risk on our variable rate borrowing.***

We are subject to the effects of interest rate fluctuations on our variable rate financing arrangements and aircraft leases. As of December 31, 2012, our total variable rate borrowings amounted to approximately TL1,376.2 million. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, international and domestic economic and political conditions, and other factors beyond our control. We do not currently use derivative financial instruments to manage

our interest rate risk. As a result of these variable rate borrowings, an increase in interest rates would cause an increase in the amount of our interest payments on existing debt and the cost of new financing and could have a material adverse effect on our business, results of operations and financial condition. For more information on our interest rate risk, see "Operating and Financial Review—Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk." The payments we are required to make pursuant to our aircraft purchase agreements and leases for aircraft that have not yet been delivered to us may also be subject to interest rate fluctuations.

***The introduction of a new line of aircraft could cause some of our aircraft to become less desirable, which could adversely affect our ability to sell them.***

As part of our fleet management, we expect to sell some of our existing Boeing 737-800NG aircraft as we take delivery of new aircraft to be delivered under the Airbus Order. As of the date of this Offering Circular, we have 42 aircraft in our fleet, including three aircraft of our subsidiary İzAir that we operate under wet leases. Of these 42 aircraft, 27 aircraft (including 26 aircraft operated under finance leases) are owned by us. There is a risk that we will not be able to sell these aircraft on favorable terms, if at all, and realize their residual value. For example, aircraft of a particular model tend to become less in demand over time as newer, more advanced and more efficient aircraft are manufactured. In August 2011, Boeing announced the new Boeing 737 Max aircraft type that will be equipped with more efficient engines than the current Boeing 737 family aircraft, including the 737-800NG model. The new engine is scheduled for entry into service in 2017. The introduction of this new engine option could decrease the desirability of Boeing 737-800NG aircraft that are not equipped with the new engine, and thereby have an adverse effect on their residual value. The introduction of the Boeing 737 Max aircraft type could also increase the supply of Boeing 737-800NG aircraft in the marketplace as airlines look to renew their fleets with the new model, which may also negatively affect the value of Boeing 737-800NG aircraft. Decreases in the value of Boeing 737-800NG aircraft and our ability to sell our Boeing 737-800NG aircraft on favorable terms, if at all, may have a material adverse effect on our financial condition and results of operations.

***Our financial performance and results of operations are subject to seasonality.***

We generally record higher revenue during the summer season from and including April and to and including October each year, as demand is higher during this period, while the majority of our costs are incurred more evenly throughout the year. As a result, we generally generate lower revenue during the winter season from November through March and record lower operating results in the first and fourth quarters of the financial year. Any prolonged disruption in our operations during the peak season could have a material adverse effect on our business, financial condition and results of operations. If any of the travel operators that use our charter flights cancel the capacity they have booked due to any such disruptions, this could further adversely affect our results of operations.

***We may incur losses as a result of the accrued value-added tax liability and tax penalty imposed on us in connection with the value-added tax rates on our finance lease transactions.***

Following an audit by the Ministry of Finance of Turkey on our accounts and transactions for 2009, 2010, 2011 and January 2012 in respect of value-added tax ("VAT") on finance lease transactions, the relevant tax office determined in December 2012 that we had an accrued VAT liability of TL30,872,430 (excluding any interest applicable thereon) and, in addition, imposed a tax penalty of TL46,308,645 on us in connection with the VAT rates remitted on behalf of the non-resident aircraft lessor companies that are party to our finance leases. We estimate that the default interest on the accrued VAT liability as of December 31, 2012, based on the default interest rates announced by the Presidency of Revenue Administration as of the same date, was TL8,340,919. As of the date of this Offering Circular, we have not filed any lawsuits relating to the accrued VAT liability or the tax penalty. On December 21, 2012, we applied to the Presidency of the Tax Settlement Commission of the Revenue Administration to challenge the entire accrued additional VAT liability and tax penalty and, as of the date of this Offering Circular, we are waiting for the Presidency to set a date to hear our arguments. If a settlement is not reached between us and the Tax Settlement Commission following such hearing, we have the right to challenge the decision of the tax office regarding the accrued VAT liability and tax penalty before the Turkish tax courts. See "Business—Legal Proceedings—Tax Investigation Regarding Value-Added Tax on Finance Lease Agreements."

We have obtained opinions from legal and tax advisers and have also evaluated the private rulings issued by the Revenue Administration of the Republic of Turkey. On this basis, we believe that we correctly applied the 1% VAT rates promulgated by Government Decrees. Likewise, based on the opinions of such

tax advisers and our evaluation of the rulings, we have concluded that payment related to the accrued liability and penalty is not probable, including for the period which has not been audited, and we have not provided for this contingent liability. However, in the event we are not successful in challenging the accrued VAT liability (including any interest applicable thereon) and tax penalty imposed on us, we may be required to pay these amounts, and, potentially, additional amounts in respect of the period which has not been audited, which could have a material adverse effect on our financial condition and results of operations.

***We may incur losses arising from our contractual obligations, including, but not limited to, our obligations under our aircraft purchase and aircraft lease agreements, as well as from any contractual change of control provisions we may be subject to in the future.***

As of the date of this Offering Circular, we are party to aircraft purchase agreements with Boeing and Airbus. In addition, we are party to a number of finance lease agreements and operational lease agreements relating to the aircraft in our fleet. We may be exposed to certain risks if we fail to meet our obligations under these agreements. For example, a failure by us to make payments required under these agreements may result in the accrual of default interest, the obligation to indemnify our contractual counterparties against any losses which may in certain instances include loss of profit, delay in aircraft deliveries, termination of the relevant agreement and, in the case of lease agreements, the repossession of leased aircraft by the relevant lessor. In the event of termination of an aircraft purchase agreement by Boeing or Airbus, as the case may be, due to reasons attributable to us, we would forfeit the pre-delivery payments we have made for aircraft that have not yet been delivered prior to such termination and we may also be required to pay default interest and to indemnify the relevant manufacturer for any additional losses, which given the magnitude of such agreements would have a material adverse effect on our business, financial condition and results of operations. If the aircraft purchase agreements are terminated by Boeing and Airbus, depending on the circumstances surrounding such terminations, we estimate that, as of the date of this Offering Circular, our minimum liability would amount to approximately US$250 million.

Furthermore, certain events, such as an event of default in respect of the repayment of our financial indebtedness or payments under our aircraft lease agreements, invalidity of the licenses necessary for our civil aviation operations, our becoming subject to bankruptcy, liquidation or similar insolvency proceedings, violation of our undertakings with respect to maintenance, insurance, lease period and redelivery obligations relating to leased aircraft and, in certain instances, adverse changes in our financial condition and our operations may trigger the cross-default provisions under our aircraft lease agreements. In addition, under certain of our agreements, our counterparty has the right to terminate the agreement in the event Esas Holding's shareholding in us falls below 51% or a change of control in us otherwise occurs, if such counterparty does not approve such change of control. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

**Risks Relating to the Airline Industry**

***Competition in the airline industry is intense and, if we are not able to respond to competition, this could have a material adverse effect on our business, financial condition and results of operations.***

We operate in a highly competitive market and are in intense competition with a number of other air carriers for travelers. The market situation is also continually changing as a result of new airlines entering the market, expansion of operations of existing airlines, new routes and destinations, promotional campaigns, formation of marketing or operational alliances between airlines and consolidation of the airline industry. As the growth in the low-cost airline sector evolves, we may face increased competition from existing and potential new low-cost, low-fare operators. The intensity of competition varies from route to route, depending in particular on the number and nature of the market participants. The primary competitive factors in the airline industry include prices, route network, flight schedule, reputation, safety record, range and quality of services provided and type and age of aircraft.

Our competitors include other domestic and international carriers, other established commercial and charter airlines, travel conglomerates with integrated airlines and new market entrants. For a description of our current main competitors, see "Business—Competition." We expect that there will be increasing market consolidation among air carriers in the future. Our existing competitors and new entrants into the market may enter into partnerships and alliances to operate jointly or share their facilities and infrastructure, with a view to reducing costs or otherwise strengthening their market position. Any consolidation or significant alliance activity within the airline industry in Turkey or our targeted geographic

markets could increase the size and resources of our competitors, strengthen their market position or reduce their cost base, and further increase competition. Some of these airlines may be larger and have significantly greater financial resources, bargaining power or name recognition or lower operating costs than we do. Certain of our competitors are also state-owned or state-controlled flag carriers and may receive subsidies and other state aid or benefits from their respective governments. In addition, under certain bilateral air traffic agreements that the Government has negotiated with foreign countries, Turkish Airlines, which in the past operated as Turkey's sole flag carrier, is designated as the only Turkish airline permitted to operate in the subject markets. Furthermore, Turkish Airlines has recently announced expanded services from our main hub, Sabiha Gökçen Airport, which may increase competition on some of our existing routes.

Our competitors may seek to protect or gain market share through promotional campaigns, fare-matching or price-discounting, by offering more attractive flight schedules or services, by introducing new routes, or by placing large orders for new aircraft and transferring excess capacity to markets and routes already served by us or which we are considering serving. Some competitors may also be able to offer lower fares than us as a consequence of, for example, having lower fixed and/or variable costs. We may be vulnerable to price-discounting by competitors because air travel, and tourist travel in particular, is very price sensitive and we are generally required to respond to competitors' fares in order to maintain or grow our passenger traffic levels through price leadership. If our competitors engage in price-cutting or make other changes in their services in an attempt to increase their market shares and we are not able to respond effectively to maintain our market share, our passenger revenues could decline, which could have a material adverse effect on our business, financial condition and results of operations.

In the domestic market, we also face competition from other means of transportation, primarily ground transportation. For example, the new high-speed train connection between İstanbul and Ankara, which is expected to open during the next few years, will significantly reduce the travel time by train between the two cities and is likely to attract travelers who would otherwise be considering air travel. Other infrastructure projects, such as the highway from Gebze (a city approximately 50 kilometers east of İstanbul) to İzmir that will reduce the travel time between the two cities by car to four hours may also have an adverse effect on the demand for air travel on selected domestic routes.

***Economic and industry conditions constantly change and worsening negative economic conditions in Turkey or elsewhere could result in overcapacity.***

Our business and results of operations are significantly impacted by general economic and industry conditions. Industry-wide passenger air traffic varies from year to year. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of the global and local economies, the level of tourist traffic to our destinations, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. For leisure travelers, air transportation is a discretionary purchase that they can eliminate from their spending in difficult economic times. In addition, during periods of poor economic conditions, businesses usually reduce the volume of their business travel, either due to cost-saving initiatives or as a result of decreased business activity requiring travel. For example, overall demand for air transportation in Turkey was negatively impacted by adverse changes in and continued deterioration of the Turkish and global economies in 2008 and in the first half of 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009 and has grown, in terms of GDP, in each of 2010, 2011 and 2012, which has also been reflected in increased demand for air transportation in Turkey. However, any renewed economic weakness, further deterioration of public finances of certain European countries and economic and financial instability in the euro area generally, political instability in Turkey, the Middle East, North Africa or globally, and potential political and military tensions could have a significant negative impact on demand for air travel or on the prices we are able to realize, which may adversely affect our future results of operations. These or other factors may also lead us to reduce capacity, which would have a material adverse effect on our business, financial condition and results of operations. See "—Risks Relating to Turkey—Our business is vulnerable to declining or low economic growth in Turkey."

***If we are unable to obtain and maintain departure or arrival times or slots at Sabiha Gökçen Airport or at other key airports, this could have an adverse effect on our operations.***

Air traffic is limited by the infrastructure of airports and the number of departure and arrival times and slots available for aircraft at airports that operate at close to or full capacity. It is important for us to operate at peak times at Sabiha Gökçen Airport, our primary hub, in order to maintain and develop our

network and hub connectivity. Likewise, it is important to secure favorable departure and arrival times and slots at other key airports in our network. With the increase of global air traffic, departure and arrival slots at many airports have become a scarce commodity and a number of major European airports and other major international airports are currently operating at close to or at full capacity, indicating that the capacity available for expansion at these airports is limited. The civil aviation authority of each country typically coordinates the allocation of slots at airports that have capacity restrictions. Once allocated, the slots typically remain in the hands of the airline in future years under so-called "grandfather" rights. See "Regulatory Framework—National and International Aviation Regulations—Slot Allocation."

Our future growth materially depends on our ability to access suitable airports located in our targeted geographic markets at costs that are consistent with our low-cost strategy. Issues, such as a lack of suitable departure and arrival times and slots, that deny, limit, or delay our access to airports we serve or seek to serve in the future would constrain our ability to grow. For example, while the capacity of Sabiha Gökçen Airport, which qualifies as a "schedules facilitated" airport that has no slot allocation but potential for congestion during certain peak times, is currently adequate to meet the capacity demands of users, an increase in passenger traffic at Sabiha Gökçen Airport in the future may negatively impact our ability to easily obtain additional departure and arrival times during the busiest times of the day. In the event our share of flights departing from Sabiha Gökçen Airport were to decrease as a result of not being able to obtain additional departure and arrival times, the bargaining power we have for services at the airport also may be reduced. There can be no assurance that we will be able to acquire and maintain flight times or slots, as the case may be, either at Sabiha Gökçen Airport or at other key airports in the future, which could have a material adverse effect on our business, financial condition and results of operations. See "—Risks Relating to Our Business—Our failure to successfully implement our growth strategy could harm our business."

In addition, regulatory authorities may impose additional operating restrictions at airports, such as landing and take-off curfews, limits on aircraft noise and emission levels, mandatory flight paths, runway restrictions, limits on the number of average daily departures and increased or additional access fees. These restrictions may limit our ability to provide or increase services at such airports and may cause us to incur additional costs, which could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to extensive international and domestic regulations and changes in, or our non-compliance with, these regulations could adversely affect our financial condition and business model.***

We operate our business in a highly regulated environment. Regulations have an impact on various aspects of our operations including slot allocations, our ability to fly to other international destinations and the terms under which we can operate an airline business. In addition, we are subject to other Turkish and EU laws and regulations relating to protection of the environment, employment and other matters. For further details, see "Regulatory Framework." The existing regulations are also subject to change and new regulations could have a negative impact on our costs and low-cost business model. For example, more onerous airport safety or security requirements could impact our ability to manage quick turnarounds and therefore may reduce aircraft utilization rates or impose additional costs. Similarly, any new regulations relating to emissions caused by aircraft could result in additional costs to us. We may not be able to pass such costs on to our passengers and therefore our financial performance and results of operations could be adversely affected. New regulations that open our existing routes that can currently be operated by only a limited number of carriers to new competition could also have a material adverse effect on our business, financial condition and results of operations.

We are authorized to operate by virtue of an air operator certificate issued by the Civil Aviation Authority. The continuation of such authority is subject to our ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any new rules and regulations that may be adopted in the future. We are required to comply with a number of requirements relating to a wide range of corporate, operational and financial matters under the Civil Aviation Law and the Regulation on Commercial Air Carrier Entities (the "SHY-6A") to maintain the effectiveness of our air operator certificate. Corporate obligations include the majority of the air carrier entity's capital being owned by Turkish shareholders, Turkish citizens making up the majority of those authorized to govern and represent such entity, obtaining the approval of the Civil Aviation Authority prior to the transfer of registered shares or the public offering of shares in the air carrier entity or any merger or de-merger and the shareholders (other than the holders of shares that are traded on the ISE) and directors with representative authority of the air carrier entity not having been declared bankrupt or not being subject to a general settlement with creditors and not having been convicted of the crimes set out in the said

regulations, including infamous crimes such as embezzlement, bribery, fraud, forgery, breach of confidence, fraudulent bankruptcy, crimes against the Turkish state, national security and national defense and crimes defined under the Turkish banking and capital markets legislation. Operational requirements include maintaining the registration of a minimum number of aircraft registered to the name of the air carrier in the Turkish Aircraft Registry (five aircraft with a minimum seat capacity of 100 for carriers authorized to operate scheduled flights, such as Pegasus) and maintaining a sufficient number of operational personnel fulfilling the requirements set out in the SHY-6A, complying with domestic and international flight safety standards as well as ICAO and EASA requirements. Turkish air carriers are also required to comply with any remedies and warnings raised by the Civil Aviation Authority as to their financial condition and financial operations and to be in a position to meet their operating costs such as aircraft rent, fuel, personnel, maintenance, insurance, ground handling expenses, airport and Eurocontrol related expenses.

A Turkish carrier, such as Pegasus, must be able to demonstrate the foregoing at any time, or when required by the Civil Aviation Authority, as may be applicable. Any failure by us to do so may result in the temporary suspension or revocation of our air operator certificate and an inability to continue our air transportation business.

***The airline industry is, in general, characterized by low profit margins and high fixed costs, and we may be unable to compete effectively against other airlines with greater financial resources or lower operating costs.***

The airline industry and scheduled traffic, in particular, are generally characterized by low profit margins and high fixed costs. We believe our low-cost structure is one of our primary competitive advantages as it has enabled us to offer low fares and increase traffic volume. However, the airline industry is capital intensive and we have limited control over increases in many of our costs, such as fuel, personnel and aircraft, airframe and engine repairs, as well as environmental, safety, security, and regulatory compliance costs. Because costs of operating any particular flight do not vary significantly with the number of passengers or cargo carried, a relatively small change in the number of passengers, in the amount of cargo or in fare pricing or traffic mix could lead to a disproportionate fall in profits, as fixed costs generally cannot be reduced on short notice. Accordingly, a shortfall from expected revenue levels could have a material adverse effect on our business, financial condition and results of operations.

***Airport, transit and landing fees and security charges, along with other costs airlines must pay to ensure air traffic security, may increase further, which could adversely affect our results of operations.***

Airport, transit and landing fees, security charges and taxes represent a significant portion of our operating costs and directly affect the fares that we must charge our passengers in order to operate cost-effectively. Such expenses, which are not fixed but typically vary based on passenger and flight volumes and fleet profile, may rise in the future and we may incur additional new costs. New costs could arise if, for example, airports, noise or landing charges or fees were levied based on environmental criteria such as aircraft noise or emission levels, or if airlines were required to assume additional security responsibilities. In addition, if other airlines reduce their capacity due to, for example, consolidation in the airline industry, airport costs could be allocated among fewer total flights, which, in turn, could result in increased landing fees and other costs for the remaining flights, including ours. Future events or developments, such as terrorist acts or other conflicts, also could result in heightened security regulations and increased security charges for air traffic. Any of these developments could cause our operating costs to increase. If we are unable to pass on increases in fees, charges or other costs to passengers, these increases could have a material adverse effect on our business, financial condition and results of operations.

***Aviation could be adversely affected by an outbreak of a disease or the occurrence of a natural or man-made disaster that affects travel behavior.***

There has been substantial publicity in recent years regarding certain potent influenza viruses and other disease epidemics. Publicity of this type may have a negative impact on demand for air travel as the spread of these epidemics is seen to be increased by air travel. Past outbreaks of SARS, foot and mouth disease, avian flu and swine flu have adversely impacted the travel and tourism industries, including aviation, in certain regions of the world, including Europe. We believe that if any influenza or other pandemic becomes severe in Europe, including Turkey, or in other areas where we operate, its effect on demand for air travel in our markets could be material, and it could therefore have a materially adverse impact on our operations. A severe outbreak of SARS, foot and mouth disease, avian flu, swine flu or another pandemic or livestock-related disease also may result in international or domestic authorities imposing restrictions on travel, further damaging the aviation industry. A serious pandemic could therefore result in the cancellation or loss of bookings and materially adversely affect our business, financial condition and results of operations.

***We are exposed to the risk of significant losses from air crashes or other disasters.***

As with all airlines, we are exposed to potential significant losses in the event that any of our aircraft is lost or subject to an accident, terrorist incident or other disaster, including significant costs related to passenger claims, repairs or replacement of a damaged aircraft and temporary or permanent loss from service. However much we strive to reduce such risks, we cannot be certain that our aircraft will not be involved in any such event in the future. Moreover, any aircraft accident or incident, even if fully insured, could create a public perception that Pegasus is less safe or reliable than other airlines, which could cause passengers to lose confidence in Pegasus and switch to other airlines or other means of transportation. This risk is not limited to Pegasus because passengers could also lose confidence in air travel generally if any airline were to suffer such loss or damage. Any accident involving an aircraft of a type operated by us could create a public perception that such aircraft type and thus our aircraft are not safe or reliable. A loss of passenger confidence would have a material adverse effect on our business, financial condition and results of operations.

Moreover, our insurance coverage may not be adequate in the event such circumstances arise, and any such event could cause a substantial increase in our insurance premiums. See "—Risks Relating to Our Business—We may not be able to insure against all risks we face and we may incur losses not covered by insurance." Any of these circumstances could have a material adverse effect on our business, financial conditions and results of operations.

***Future terrorist incidents, or the threat of such incidents, could result in a significant reduction in airline passenger travel.***

The September 11, 2001 terrorist attacks in the United States significantly undermined consumer confidence in air travel. More recently, in January 2011 and July 2012, the Domodedovo airport in Moscow, Russia and the Burgas airport in Bulgaria, respectively, were subject to serious terrorist attacks. Any threat or occurrence of a new major terrorist attack, in Turkey or elsewhere, could have a material adverse effect on customer demand for air travel and could have a material adverse effect on our business, financial condition and results of operations. Increased security measures imposed by airports resulting from the increased threat of terrorist attacks have in the past disrupted, and may in the future disrupt, the aviation industry on a temporary or long-term basis. Any future security-related costs or complications may disrupt our business or affect customers' propensity to travel and, by reducing demand for our services, have a material adverse effect on our business, financial condition and results of operations. See also "—Risks Relating to Turkey—Terrorism within Turkey or conflicts in or with neighboring countries may have a material adverse effect on our business, financial condition and results of operations."

***Airlines are often affected by factors beyond their control, including traffic congestion at airports, weather conditions and increased security measures, any of which could harm our operating results and financial condition.***

Airlines are subject to delays caused by factors beyond their control, including air traffic congestion at airports, adverse weather conditions and increased security measures. For example, our on-time performance was adversely affected in late 2009 and the first half of 2010 due to capacity and infrastructure limitations imposed by the terminal operator and the terminal ground handler at Sabiha Gökçen Airport in connection with the opening of the new passenger terminal at the airport. Delays frustrate passengers, reduce aircraft utilization, harm our reputation and increase costs, all of which in turn affect our profitability. During periods of fog, snow, rain, storms or other adverse weather conditions, flights may be cancelled or significantly delayed. For example, the majority of the airspace over northern Europe was temporarily closed in April 2010 by authorities as a result of safety concerns presented by emissions of ash from an Icelandic volcano, followed by periodic closures of parts of the European airspace due to further emissions of ash from the same volcano, requiring, among other things, airlines to reimburse passengers who had their flights cancelled for certain reasonable, documented expenses. We had to cancel a total of 106 flights during this period. In May 2011, there were further periodic closures of parts of European airspace due to emissions of ash from another Icelandic volcano, which resulted in the cancellation of a limited number of our flights. Cancellations or delays due to weather conditions, volcanic emissions or other similar atmospheric disturbances, traffic control problems and breaches in security could have a material adverse effect on our business, financial condition and results of operations. See also "—Risks Relating to Our Business—We rely on maintaining high aircraft utilization rates to maximize our revenue, which makes us vulnerable to a decline in revenue caused by delays or cancellations."

**Risks Relating to Our Relationship with the Sabancı Family and Esas Holding**

***We are controlled by majority shareholders whose interests may not be aligned with our interests or those of other holders of our shares.***

Currently, Esas Holding and certain members of the Sabancı family, who control Esas Holding, hold 100.0% of our shares, and they will continue to hold 65.5% of our shares after the Offering. See "Principal Shareholders." Thus, after the completion of the Offering, members of the Sabancı family, through their direct and indirect ownership in us, will continue to be able to control all matters requiring shareholder approval, including approving significant transactions, authorizing payments of dividends to the extent permissible under applicable rules and restricting the pre-emption rights of shareholders.

The interests of our majority shareholders may differ from those of our other shareholders, and the majority shareholders may prevent us from making certain decisions or taking certain actions that would protect the interests of our other shareholders. This may also have the effect of delaying, deferring or preventing a change in control or distribution of dividends and discourage bids for the Shares, which could deprive holders of Shares of an opportunity to receive a premium for their shares as part of a future sale of the business and may adversely affect the value of the Shares. In Turkey, the rights of minority shareholders and the fiduciary duties of directors and majority shareholders may not be as developed as those in other countries such as the United States or the United Kingdom. See "Description of our Share Capital—Protection of Minority Shareholders."

For a discussion of our arrangements and transactions with Esas Holding and its affiliates, see "Related Party Transactions."

**Risks Relating to Turkey**

Our operations are affected by economic and political developments in Turkey, which, in, turn are influenced by international developments. Turkey is generally considered by international investors to be an emerging market. In general, investing in the securities of issuers, such as us, that have operations primarily in emerging markets, like Turkey, involves a higher degree of risk than investing in the securities of issuers with operations in more developed markets such as the United States, EU countries and similar jurisdictions. Additional risks and uncertainties relating to Turkey that do not currently exist or of which we are unaware may also become important factors that could have a material adverse effect on our results of operations and financial condition and an investment in the Shares. Further, as with equity securities of many emerging market issuers, the market value of the Shares may be subject to significant fluctuation, which may not necessarily be related to our financial performance.

***Our business is vulnerable to declining or low economic growth in Turkey.***

A substantial portion of our operations is conducted, and most of our customers and a significant portion of our destinations are located, in Turkey. Accordingly, the success of our operations is dependent on the economic conditions prevailing in Turkey and any downturn or constraint on economic growth in Turkey's economy in the future, or its attractiveness as a destination, could have a material adverse effect on our business, financial condition and results of operations.

Following an annual average GDP growth of 7.2% between 2002 and 2006, GDP in Turkey grew 4.7% in 2007 and 0.7% in 2008. As the global financial crisis spread to non-financial sectors of the world economy, emerging markets, including Turkey, faced a sharper economic slowdown and pressure on their exchange rates as a result of falling industrial production and private sector expenditures, rising unemployment and deteriorating credit conditions. In 2009, the Turkish GDP contracted by 4.8%. However, following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009 and has grown, in terms of GDP, in each of 2010, 2011 and 2012. In 2010 and 2011, Turkey's GDP grew by 9.2% and 8.8%, respectively, followed by 2.2% GDP growth in 2012.

The current mid-term financial plan prepared by the Turkish Ministry of Development and published in the Official Gazette dated October 9, 2012 (the "Mid-Term Plan") sets GDP growth targets of 4.0% for 2013 and 5.0% for 2014 and 2015. However, conditions for sustained growth remain fragile. Turkey remains vulnerable to both external and internal shocks, including liquidity problems, escalating oil prices, and domestic political uncertainty. Further, despite the positive economic developments in Turkey during the past years, and even though global economic conditions improved somewhat in the latter part of 2012, markets have remained volatile with renewed concerns regarding the ability of certain European countries,

including Greece, Spain, Portugal, Italy, Ireland and Cyprus, to service their sovereign debt obligations as well as the risk of contagion to other countries. Due, in part, to these uncertainties and concerns, the outlook for the global economy over the near to medium term remains challenging. If these circumstances continue to persist, global economic conditions could be materially adversely affected, which, in turn, could have a negative impact on the Turkish economy.

In order to continue to stimulate sustainable economic growth, Turkey may need to undertake further structural reforms, including easing of business and labor market regulation, and continue privatizing state-owned companies. Since such measures may lead to a temporary increase in the unemployment rate, higher energy prices or other unfavorable consequences, there is a risk that the government could compromise or delay its plans to open the economy to further competition. This may limit capital inflows and economic growth.

With a significant portion of our revenues, assets and business derived from or located in Turkey, these and other adverse developments in Turkey could have a material adverse effect on our business, results of operations and financial condition.

***Turkey's growing budget deficit and government debt may have negative consequences for our business, results of operations and financial condition.***

In 2012, the budget deficit in Turkey amounted to 2.0% of GDP, compared to 1.3% and 3.6% in 2011 and 2010, respectively, and government debt was 36.1% of GDP, compared to 40.1% and 38.6% in 2011 and 2010, respectively. According to the Mid-Term Plan, the budget deficit in Turkey is expected to be 2.2%, 2.0% and 1.8% of GDP in 2013, 2014 and 2015, respectively.

In order to keep the economy competitive, the Government will likely need to spend more funds on education and development of Turkey's infrastructure, including in the transport sector. Without making progress in formalization of the shadow economy, such spending may further increase the existing budget deficit and, consequently, government debt. A growing budget deficit can be expected to reduce supply of credit for private investments and drive up interest rates. An increase in interest rates could negatively affect our financing costs and impede our growth. In addition, to balance the budget deficit and decrease public debt, the Government could impose higher taxes, which would further reduce our net profit.

Furthermore, higher interest rates could attract more foreign and domestic investors in search for higher return on Turkish assets. As a result, the real exchange rate of the Turkish Lira could appreciate relative to other currencies. An increase in interest rates and appreciation of the Turkish Lira could diminish the competitive advantage of relatively low labor costs in Turkey, which could lead to a decrease in long-term investments in and exports from Turkey. As a consequence, the economy's growth rate could decline and current account deficit rise. Since both indicators are considered by investors as important measures of profitability, a negative trend in their development may have adverse effects on long-term direct foreign investments in Turkey, particularly in GDP-driven industries, such as air transport.

An increase in Turkey's budget deficit and government debt could have a material adverse effect on our business, results of operations and financial condition.

***Political developments in Turkey may have a material adverse effect on our business, financial condition and results of operations.***

Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the 89 years since establishing its parliamentary system, Turkey has had 61 governments, with political disagreements frequently resulting in early elections. Furthermore, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process a number of times, including military coups in 1960, 1971 and 1980.

The Justice and Development Party (*Adalet ve Kalkınma Partisi*) ("AKP") has been in power since 2002, when it became the first party since 1987 to have a parliamentary majority. AKP established a new single party government that same year and has been able to govern without reliance upon a coalition since then. AKP maintained its position in the most recent legislative elections held on June 12, 2011. The current Government's agenda includes controversial reforms, such as the drafting of a new constitution.

Turkey has, both historically and recently, experienced controversies between the Government and the military. For example, in 2007, a series of investigations was commenced involving military officers, scholars, journalists and others based upon allegations of a planned coup. The Government has also

proposed changes to the Constitution restructuring the Constitutional Court and the High Council of Judges and Prosecutors. On July 7, 2010, the Constitutional Court of Turkey passed the majority of the amendments but cancelled several amended provisions when it published its decision in the Official Gazette on August 1, 2010. Subsequently, the constitutional amendments were subject to a public referendum that was held on September 12, 2010. Of the votes cast, 57.88% were in favor of the amendments, resulting in their approval by the public.

Any negative changes in the political environment, including further conflicts between senior politicians in Turkey and any failure of the Government to devise or implement required or appropriate economic programs may materially adversely affect the Turkish economy and, in turn, our business, financial condition and results of operations.

***Terrorism within Turkey or conflicts in or with neighboring countries may have a material adverse effect on our business, financial condition and results of operations in the future.***

Political uncertainty and terrorism within Turkey and in certain neighboring countries, such as Iran, Iraq, Syria, Georgia and Armenia has historically been one of the potential risks associated with investments in Turkish companies. Political instability in the Middle East and elsewhere remains a concern, including the recent escalation in tensions between Iran and Israel. Since January 2011, there have also been varying degrees of political instability and public protests in certain Middle Eastern and Northern African countries, including Bahrain, Egypt, Iran, Libya, Mali, Syria and Tunisia. As a result of the unrest in Syria, thousands of Syrian refugees have fled to Turkey and more can be expected to cross the Turkish-Syrian border if the unrest in Syria continues. Moreover, tensions between Turkey and Syria have recently escalated and hostilities between Turkey and Syria have broken out over a series of incidents, including mortar fire by Syrian forces into Turkey that killed a number of Turkish civilians. On October 14, 2012, Turkey's foreign minister announced a ban on all Syrian aircraft entering Turkey's airspace. Such tensions and hostilities between Syria and Turkey may escalate further and there can be no assurance that they will not have political repercussions within Turkey. These and any similar disturbances or continued political instability and military tensions in the Middle East or North Africa could have a material adverse effect on the Turkish economy and on our business, financial condition and results of operations.

In the past 10 years, there have been bombings in several Turkish cities, including in İstanbul, Ankara and Diyarbakır and in the coastal holiday resorts of Antalya, Marmaris, Mersin, Çeşme and Kuşadası, as well as attacks against the Turkish armed forces in the south-eastern part of Turkey. Most recently, the United States embassy in Ankara was subject to a terrorist attack on February 1, 2013. Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organization that is listed as a terrorist organization by states and organizations including Turkey, the EU and the United States). The issue of civil rights for Kurdish citizens remains a potential source of political instability, which may be exacerbated by continuing instability in the Middle East. Conflicts in or with neighboring countries or domestic terrorist attacks could have a material adverse effect on the Turkish economy and the levels of tourism and foreign investment in Turkey may suffer. Such developments may, in turn, have a material adverse effect on our business, financial conditions and results of operations.

***The level of inflation in Turkey could adversely affect our business, financial condition and results of operations.***

In the past, Turkey has experienced high annual inflation rates. This has historically been considered one of the most significant problems faced by the Turkish economy. Over the five-year period ended December 31, 2002, the Turkish economy experienced annual inflation averaging approximately 55.1% per year as measured by the Consumer Price Index (the "CPI"). Disinflationary measures were adopted in 2002, and by 2005, annual CPI had fallen to 7.7%. Although Turkey adopted a framework with binding inflation targets in 2006, inflation, as measured by the CPI, remained in the range of 9% to 11% between 2006 and 2008, above the Central Bank's medium-range target of 4%, and was driven by a succession of inflationary shocks such as the depreciation of the Turkish Lira in 2006 and a surge of commodity prices in 2007 and 2008. Annual CPI climbed to 9.5% in 2006 (compared to the target rate of 5%) and, in 2007 and 2008, the annual CPI rates were 8.4% and 10.1%, respectively. As a result of weak domestic demand and declining energy prices, the annual CPI in 2009 was 6.5%, the lowest level in many years. From December 31, 2009 to April 30, 2010, inflation increased by 3.7% to 10.2%, due in part to temporary increases in government expenditure and increased taxes. However, as government expenditure was curtailed in the first half of 2010, inflation decreased, and CPI amounted to 6.4% in 2010 and 6.2% during

the first half of 2011, although inflation increased by 10.5% on a year-to-year basis by December 2011, driven by depreciation of the Turkish Lira and upward change in energy prices following the trend in petroleum prices. The increase in CPI was lower at 6.2% in 2012 in line with a gradual slowdown in economic growth. The target inflation rates set out in the Mid-Term Plan are 5.3%, 5.0% and 5.0% for 2013, 2014 and 2015, respectively.

If the level of inflation in Turkey were to fluctuate significantly, it is possible that our business, financial condition and results of operations as well as the market price of the Shares would be materially adversely affected. Further, the implementation of austerity measures by the Government to control inflation could have a material adverse effect on the Turkish economy and on the value of Turkish equity securities. Although the rate of inflation has decreased in recent years, there can be no assurance that this trend will not reverse, particularly if the Government fails to continue its current economic policies or if those policies cease to be effective.

***The state of the current account deficit in Turkey could lead to exchange rate adjustments and inflation, which could lead to increased volatility in the Turkish economy.***

The current account deficit in Turkey was 6.1%, 9.6% and 6.6% of GDP in 2012, 2011 and 2010, respectively. This high account deficit reflects both Turkey's long-standing structural economic problems and current economic and market conditions. Structural economic problems include dependence on imported energy and a high proportion of imports for manufacturing and domestic consumption, an inflexible labor market, a low savings rate and the shadow economy. The effect of these factors has been, and may continue to be, exacerbated by the Turkish Lira's relative strength that mitigates the advantage of relatively low labor costs, tentative recoveries in Turkey's main export markets and difficulties in reducing export dependence on European markets. For example, a significant decline in the economic growth of any of Turkey's major trading partners due to a decline in demand for imports into these markets could have a further adverse impact on Turkey's balance of trade and adversely affect Turkey's economic growth.

In a period of global economic uncertainty, the persistent growth of Turkey's current account deficit may lead to a sudden and significant adjustment in the Turkish Lira, with inflationary consequences. To date, Turkey's current account deficit has been funded largely through short-term foreign capital borrowing and foreign portfolio investments. If the uncertainty in the global financial markets continues, it could have a material adverse effect on Turkey's ability to finance its deficits, leading to increased volatility in the Turkish economy. If the Turkish economy runs a current deficit consistently or if the deficit increases, it could have a material adverse effect on Turkey's ability to finance its deficits, leading to increased volatility in the Turkish economy.

***Earthquakes could adversely affect the Turkish economy.***

Almost all of Turkey is classified by seismologists as being in a high risk earthquake zone. Almost 45% of Turkey's population and most of its economic resources are located in a first degree earthquake risk zone (the zone with the highest level of risk of damage from earthquakes). In August 1999, an earthquake measuring 7.6 on the Richter scale struck the area surrounding İzmit, near İstanbul. In November 1999, another earthquake measuring 7.2 on the Richter scale occurred in the city of Düzce, between Ankara and İstanbul. More recently, in October 2011, an earthquake measuring 7.2 on the Richter scale struck Eastern Turkey near the city of Van. The occurrence of a severe earthquake could have a material adverse effect on the Turkish economy, including air travel, and our business, results of operations and financial condition.

**Risks Relating to an Investment in the Shares**

***There has been no prior public market for our Shares and the Shares may experience price and volume fluctuations.***

Prior to this Offering, there has been no public market for any class of our securities in or outside of Turkey. There can be no assurance that a market for the Shares will develop or, if such a market does develop, that it will continue. After the Offering, we expect that approximately 34.5% of our shares will be held by persons other than our existing shareholders. The limited public market for the Shares may impair holders' ability to sell them in the amount and at the price and time such holders may wish to do so, and may increase the volatility of the price of the Shares.

The Offer Price of the Shares may not be indicative of the market price for such securities after the listing. Our operating results or financial performance may fail to meet the expectations of analysts or

investors due to the circumstances described in these risk factors or otherwise. The trading price of the Shares could also be subject to significant fluctuations in response to variations in our and our competitors' financial performance, general market conditions and other factors as well as the circumstances described in these risk factors or otherwise. Fluctuations in our operating results or failure to meet the expectations of analysts or investors may cause the price of the Shares to decline, and investors may not be able to sell the Shares they purchased in the Offering at or above the Offer Price, or at all. As a result, investors who purchase Shares in this Offering could lose all or part of their investment in the Shares.

Like the equity securities of many emerging market issuers, the value of the Shares may be subject to significant fluctuation from time to time, which may not necessarily be related to our financial performance. Consequently, the general decline in the market or any declines in the market for similar securities may have a material adverse effect on the trading market for, and the liquidity of, the Shares.

***The ISE is smaller and less liquid than other major exchanges and may be more volatile, which may adversely affect investors' ability to trade the Shares purchased in the Offering.***

The only trading market for the Shares will be the ISE and we have no plans to list the Shares on any other stock exchange in the near future. The ISE is considerably smaller and thus less liquid than more developed securities markets, such as those in the United States or the United Kingdom. As of December 31, 2012, the total market capitalization of all the companies listed on the ISE was approximately TL546 billion and a disproportionately large percentage of the market capitalization and trading volume of the ISE is represented by a small number of listed companies. As of December 31, 2012, the shares of 382 companies were traded on the ISE and the combined market capitalization of the 10 companies with the greatest market capitalizations was approximately 47% of the market capitalization of all companies trading on the ISE. As of December 31, 2012, the combined market capitalization of the 10 companies with the greatest market capitalizations on the ISE was approximately TL255 billion. The average daily trading volume in the shares of the 10 most traded companies on the ISE was approximately TL1,183 million during 2012, which represented approximately 46% of the average daily trading value of all stocks traded on the ISE in 2012, which was TL2,550 million.

The ISE is also a volatile market, which is illustrated by ISE-100 index figures that have fluctuated between 21,228 and 78,579 from January 1, 2005 to December 31, 2012. Trading on the ISE has traditionally been characterized by a high degree of short-term speculative trading, which is at least partially attributable to the relatively underdeveloped institutional investor base in Turkey and the relatively small size of the retail investor base.

As is the case for the equity securities of many emerging market issuers, the market value of the Shares may be subject to significant fluctuation, which may not necessarily be related to our consolidated financial performance. The relatively small size and low liquidity of the ISE in general and the limited public market for the Shares in particular may impair the ability of holders of the Shares to sell them in the amount and at the price and time such holder may wish to do so, and may increase the volatility of the price of the Shares. See "The Turkish Securities Market—Borsa İstanbul (ISE)—Market Volatility."

***Turkish disclosure standards may differ in certain significant respects from those in more developed markets leading to a relatively limited amount of information being available.***

In recent years, the corporate governance and accounting, financial and other disclosure standards applicable to Turkish companies, public companies in particular, have been subject to significant updates, including the new Communiqué on the Determination and Implementation of Corporate Governance Principles Series: IV, No: 56 (the "Corporate Governance Communiqué") of the CMB at the end of 2011 and a number of changes to the TCC in mid-2012. In addition, the new Capital Markets Law entered into force at the end of 2012, although certain disclosure rules and other rules relating to corporate governance had been adopted earlier. The interpretation and application of these recently introduced rules are still evolving. Furthermore, many aspects of laws and regulations in Turkey relating to public companies and the capital markets have not yet been subject to judicial or regulatory interpretation or review and are, therefore, still subject to certain uncertainties with respect to their application. Despite the recent improvements, the implementation of corporate governance, accounting, financial and other disclosure standards under Turkish law may still be less extensive than those in the United States, the United Kingdom or other jurisdictions with major capital markets, and the level of publicly available information, responsibilities of board members and rights of securities holders in Turkey may be different in certain

material respects from what is customary in jurisdictions with major capital markets. See "Presentation of Financial Information," "Description of Our Share Capital" and "The Turkish Securities Market."

***Future sales of substantial amounts of the Shares, or the perception that such sales could occur, could adversely affect the market value of the Shares.***

Immediately following the completion of the Offering, there will be a total of 102,272,000 Shares issued and outstanding. We, Esas Holding and our other shareholders have agreed that, subject to certain exceptions, neither we, Esas Holding, our other shareholders nor any of our or their respective subsidiaries or other affiliates over which we, Esas Holding and any of our other shareholders exercises management or voting control, nor any person acting on our or their behalf will, for a period of 365 days from the date of the Underwriting Agreement, without the prior written consent of Barclays (such consent not to be unreasonably withheld or delayed), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) any of our shares or securities convertible or exchangeable into or exercisable for our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary shares representing the right to receive any such securities. However, sales of substantial amounts of any of our shares after that period, or the perception that such sales could occur, could adversely affect the market price of the Shares and our ability to raise capital through future capital increases.

***A holder of the Shares may have limited recourse against our assets and our directors and executive officers because we conduct our operations in Turkey.***

Our presence outside the United States and the United Kingdom may limit the legal recourse of a holder of Shares against us and our directors. We are incorporated under the laws of Turkey, and the majority of the members of our Board and our executive officers reside in Turkey. A substantial portion of our assets and the assets of the directors and executive officers are located outside the United States and the United Kingdom, principally in Turkey. As a result, investors may not be able to effect service of process within the United States and the United Kingdom upon us or our directors and executive officers or to enforce United States and United Kingdom court judgments obtained against us or our directors and executive officers in jurisdictions outside the United States and the United Kingdom. See "Enforceability of Civil Judgments."

***We may not pay dividends to holders of our shares or declare dividends in the future.***

Public companies in Turkey are required to distribute dividends in accordance with the law and the dividend policies adopted by their shareholders, which policies may also be affected by certain principles the CMB may determine from time to time. Public companies may, at their discretion, distribute dividends in the form of cash and/or bonus shares, or retain the mandatory dividend amount. Accordingly, there can be no assurance that holders of the Shares will receive cash dividends in the future. There is flexibility in how any such mandatory dividends are calculated and the amount and formula for calculating such mandatory dividends may be changed by the CMB. Our ability to pay dividends is contingent on achieving adequate profits and the timing and amount of any future dividend payments will depend on our existing and future financial condition, results of operations, liquidity needs, any restrictions on payment of dividends in our financing agreements and other matters that we may consider relevant from time to time, including, without limitation, capital expenditures, our financial performance and equity market conditions. Even if we generate significant profits, we may not pay dividends if our board of directors believes that shareholder value may be increased more effectively by using any such profit for other purposes, for example through re-investment or in acquisitions. We have not paid any dividends to the holders of our shares for the years ended December 31, 2012, 2011 and 2010. According to our statutory financial statements as of December 31, 2012, we had an accumulated loss from previous years of TL289,228,154, and we must first set off this accumulated loss before we would be able to distribute any dividends in the future. The accumulated loss primarily reflects our use of the accelerated, non-linear depreciation formula for our aircraft in our statutory financial statements in line with the valuation principles stemming from the Turkish Tax Procedural Law as well as the depreciation period of 10 years used for aircraft in our statutory financial statements. See "Operating and Financial Review—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Aircraft Depreciation and Lease Expenses" and "Dividends and Dividend Policy."

***Fluctuations in the value of the Turkish Lira could significantly affect the value of the Shares and any dividends we pay with respect to the Shares.***

The quoted price of the Shares will be in Turkish Lira. In addition, dividends, if any, that we pay in respect of the Shares will be paid in Turkish Lira. As a result, fluctuations in the value of the Turkish Lira in relation to other currencies can affect the value of the Shares and dividend payments upon conversion into other currencies for investors outside Turkey. See "Dividends and Dividend Policy."

***There is only a limited free float of the Shares and this may have a negative impact on the liquidity of and market price for the Shares.***

After the completion of the Offering, 35,294,000 of our shares or 34.5% of our outstanding share capital will be publicly held. The limited free float may have a negative impact on the liquidity of the Shares and result in a low trading volume of the Shares, which could adversely affect the then prevailing market prices for the Shares. For more information on the free float of our shares, see "Principal Shareholders."

***The pre-emption rights granted to holders of our shares may be unavailable to U.S. holders of our shares.***

In the case of an increase of our capital, holders of our shares are entitled to subscribe for new shares in proportion to their respective holdings even though such pre-emption rights may be restricted by our shareholders. See "Description of Our Share Capital." To the extent that pre-emption rights are granted, holders of our shares in certain jurisdictions outside of Turkey, including the United States, may not be able to exercise such pre-emption rights unless our shares are registered under the laws of the relevant jurisdiction or an exemption from the registration requirement thereunder is available. We cannot assure you that any registration statement would be filed in such case.

## DIVIDENDS AND DIVIDEND POLICY

As a public company in Turkey, we will be subject to the dividend distribution requirements imposed by the CMB, as described below. The timing and amount of any future dividend payments will depend on our existing and future financial condition, results of operations, liquidity needs and other matters that we may consider relevant from time to time, including, without limitation, capital expenditures, our financial performance and equity market conditions. See "Risk Factors—Risks Relating to an Investment in the Shares—We may not pay dividends to holders of our shares or declare dividends in the future."

Pursuant to the Capital Markets Law, public companies are required to have a dividend distribution policy which must be determined by the General Assembly of the relevant company. Based on the non-mandatory provisions of the Corporate Governance Principles (as defined below) the dividend distribution policy should include the minimum information allowing the investors to foresee the procedures and the principles that will apply to the distribution of the profits in the upcoming periods.

We are currently focused on significantly increasing the scale of our operations. Our near-term priority is to reinvest our profits into our business with the aim of creating long-term shareholder value. We have not paid any dividends to the holders of our shares for the years ended December 31, 2012, 2011 and 2010.

The following is a description of certain information relating to the payment of dividends, including requirements under the TCC, the Capital Markets Law, the CMB regulations and our articles of association.

### Regulatory and Legal Framework

In line with the dividend distribution policy to be determined by the General Assembly and the provisions of Turkish law, the distribution of profits and the payment of any annual dividend in respect of the preceding financial year will be recommended by our board of directors each year for approval by the shareholders at the annual (ordinary) General Assembly, which must be held within three months following the end of the preceding financial year. Dividends are payable on a date and in the form determined at the annual General Assembly. Each share entitles its holder to a pro rata share of any dividends distributed and dividend distributions are made to all shares existing as of the distribution date, regardless of their date of issuance. Public companies have the option to distribute dividends in the form of cash or in the form of bonus shares to the shareholders, to distribute a combination of cash and bonus shares, or to keep all or part of the earnings for the relevant financial year as retained earnings, subject to the limitations discussed below. According to the requirements of the CMB, public companies are required to distribute dividends (i) by the end of the fifth month following the end of the preceding financial year if the dividends are distributed in the form of cash; (ii) by the end of the sixth month following the end of the preceding financial year if the dividends are distributed in the form of bonus shares provided that application for the registration of those bonus shares is made within five months following the end of the preceding financial year; and (iii) within the periods mentioned in (i) and (ii) separately if the distribution is in the form of a combination of cash and bonus shares.

Distributable profits are calculated in accordance with our articles of association after deducting all expenses, depreciation and similar payments and setting aside legally required reserves, taxes and the previous year's losses, if any, from the revenues for the prior fiscal period. The amount of distributable profits is the lesser of the amounts derived by performing this calculation using (i) our statutory financial statements, which are prepared in accordance with the TCC and Turkish tax legislation and (ii) our accounts prepared in accordance with CMB Accounting Principles, which may differ from our accounts prepared in accordance with IFRS. According to our statutory financial statements as of December 31, 2012, we had an accumulated loss from previous years of TL289,228,154, and we must first set off this accumulated loss before we would be able to distribute any dividends in the future. The accumulated loss primarily reflects our use of the accelerated, non-linear depreciation formula for our aircraft in our statutory financial statements in line with the valuation principles stemming from the Turkish Tax Procedural Law as well as the depreciation period of 10 years used for aircraft in our statutory financial statements. See "Operating and Financial Review—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Aircraft Depreciation and Lease Expenses."

Once distributable profits have been calculated, they are then allocated in the following order:

(a) 5% of the distributable profit is allocated to a first legal reserve until the first legal reserve reaches 20% of our paid-in capital;

(b) the remaining amount after adding the value of any donations made within the relevant annual term will be distributed to our shareholders as a first dividend in accordance with the TCC and Turkish capital markets regulations;

(c) the remainder of the distributable profit may be (i) distributed in full or in part to our shareholders as a second dividend or distributed to our directors, officers and employees as a share of our profit or (ii) set aside as year-end profits or as part of non-mandatory reserves; and

(d) after deducting an amount equal to 5% of our paid-in capital from the amount to be distributed to shareholders and persons participating in profit as stated above in (b), we allocate 10% of the remaining amount as a second legal reserve and add it to the statutory reserve. If all distributable profits are proposed to be distributed to shareholders under (b) above, then the second legal reserve is required by the CMB and the provisions of the TCC to be set aside prior to such distribution.

Unless and until the statutory funds and other financial obligations required by law are set aside and the dividend determined in accordance with the articles of association is distributed in cash or as bonus shares, we cannot resolve (i) to set aside any reserve, (ii) to transfer a dividend to the next year or (iii) to make distributions to the members of our board of directors, managers, employees and foundations or similar institutions established for various purposes.

If the calculated first dividend amount is less than 5% of the paid-in capital, we may not distribute the first dividend. However, the amount retained will be added to the calculation of the first dividend for the following fiscal year.

Pursuant to the Capital Markets Law, public companies may distribute interim dividends provided that the interim dividends do not exceed 50% of the distributable profits of the previous fiscal year. No dividends or additional interim dividends can be distributed until the interim dividends of the previous year are completely set off. Pursuant to the provisions of the CMB's Communiqué Series: IV, No: 27 on the Principles Regarding the Distribution of Dividends and Dividend Advance by Public Companies, public companies may distribute interim dividends in accordance with the following criteria:

(a) any interim dividends previously paid must be deducted from the amount used to calculate any subsequent interim dividend payments within the same fiscal year;

(b) the articles of association of the company must permit the distribution of interim dividends and the General Assembly must authorize the board of directors to declare such distributions, for each year that they wish to have interim dividend distributions;

(c) the board of directors must decide on whether to distribute interim dividends within six weeks following the end of the relevant quarter and such decision is required to be disclosed to public; and

(d) holders of privileged classes of shares and any non-shareholders entitled to receive dividends are not allowed to receive interim dividends.

As of the date of this Offering Circular, our articles of association do not permit us to distribute interim dividends.

Under Turkish law, the statute of limitations in respect of dividend payments, including interim dividends, is five years following the date of the General Assembly that approved the distribution, after which time uncollected dividends are transferred to the Treasury.

**Dividend Currency**

To the extent we declare cash dividends in the future, we will pay those dividends solely in Turkish Lira. Because the value of the Turkish Lira fluctuates continuously, a holder of our shares will be exposed to currency fluctuations generally and particularly between the date on which dividends are declared and the date on which dividends are paid. See "Exchange Rates."

**Taxation of Dividends**

Under current Turkish regulations, any dividends or other distributions paid in respect of any of our shares will be subject to withholding taxes. The withholding tax rates may be reduced pursuant to tax treaty provisions. See "Taxation—Turkish Taxation."

## EXCHANGE RATES

The Turkish Lira has historically been and continues to be a volatile currency. Although until February 2001 it was a stated policy of the Central Bank to devalue the Turkish Lira in line with the domestic inflation rate, the Central Bank has since adopted a floating exchange rate policy.

The following table sets forth the high, low, period average and period end exchange rates for U.S. dollars announced by the Central Bank, expressed as the number of Turkish Lira per U.S. dollar, for the periods indicated.

| Year ended December 31, | High | Low | Period average[(1)] | Period-end[(2)] |
|---|---|---|---|---|
| 2007 | 1.4498 | 1.1626 | 1.2948 | 1.1703 |
| 2008 | 1.6956 | 1.1449 | 1.2929 | 1.5196 |
| 2009 | 1.7958 | 1.4365 | 1.5491 | 1.5130 |
| 2010 | 1.5978 | 1.3921 | 1.5079 | 1.5460 |
| 2011 | 1.9065 | 1.4955 | 1.6839 | 1.9065 |
| 2012 | 1.8889 | 1.7375 | 1.7872 | 1.7826 |
| 2013 (through April 19) | 1.8187 | 1.7459 | 1.7831[(3)] | 1.7944 |

*Source: Central Bank.*

(1) Represents the average of the daily Central Bank exchange rates for the relevant period. Averages were computed by using the average of the Central Bank's U.S. dollar buying rates on the last business day of each month during the relevant period.

(2) Represents the Central Bank's exchange rate on the last business day for the relevant period.

(3) The period average for 2013 is a daily average of the Central Bank's U.S. dollar buying rates and footnote (1) does not apply to this.

The following table sets forth the high and low exchange rates for U.S. dollars announced by the Central Bank, expressed as the number of Turkish Lira per U.S. dollar, for the periods indicated.

| | High | Low |
|---|---|---|
| **2012** | | |
| April | 1.7981 | 1.7535 |
| May | 1.8390 | 1.7483 |
| June | 1.8589 | 1.8011 |
| July | 1.8162 | 1.7925 |
| August | 1.8070 | 1.7708 |
| September | 1.8152 | 1.7820 |
| October | 1.8062 | 1.7843 |
| November | 1.7968 | 1.7681 |
| December | 1.7893 | 1.7706 |
| **2013** | | |
| January | 1.7800 | 1.7510 |
| February | 1.8069 | 1.7459 |
| March | 1.8187 | 1.7914 |
| April (through April 19) | 1.8099 | 1.7830 |

*Source: Central Bank.*

The Central Bank exchange rate for U.S. dollars on April 19, 2013 was TL1.7944 = US$1.00.

The following table sets forth the high, low, period average and period end exchange rates for euro announced by the Central Bank, expressed as the number of Turkish Lira per euro, for the period indicated.

| Year ended December 31, | High | Low | Period average[1] | Period-end[2] |
|---|---|---|---|---|
| 2007 | 1.9015 | 1.6624 | 1.7790 | 1.7184 |
| 2008 | 2.2003 | 1.6928 | 1.9040 | 2.1511 |
| 2009 | 2.2999 | 2.0295 | 2.1561 | 2.1707 |
| 2010 | 2.1427 | 1.8939 | 1.9889 | 2.0491 |
| 2011 | 2.5685 | 2.0201 | 2.3514 | 2.4592 |
| 2012 | 2.4438 | 2.1778 | 2.3045 | 2.3517 |
| 2013 (through April 19) | 2.3873 | 2.3118 | 2.3473[3] | 2.3421 |

*Source: Central Bank.*

(1) Represents the average of the daily Central Bank exchange rates for the relevant period. Averages were computed by using the average of the Central Bank's U.S. dollar buying rates on the last business day of each month during the relevant period.

(2) Represents the Central Bank's exchange rate on the last business day for the relevant period.

(3) The period average for 2013 is a daily average of the Central Bank's U.S. dollar buying rates and footnote (1) does not apply to this.

The following table sets forth the high and low exchange rates for euro announced by the Central Bank, expressed as the number of Turkish Lira per euro, for the periods indicated.

| | High | Low |
|---|---|---|
| **2012** | | |
| April | 2.3664 | 2.3173 |
| May | 2.3249 | 2.2857 |
| June | 2.2926 | 2.2550 |
| July | 2.2742 | 2.1916 |
| August | 2.2473 | 2.1893 |
| September | 2.3442 | 2.2750 |
| October | 2.3515 | 2.3038 |
| November | 2.3210 | 2.2615 |
| December | 2.3657 | 2.3021 |
| **2013** | | |
| January | 2.3850 | 2.3118 |
| February | 2.3873 | 2.3522 |
| March | 2.3608 | 2.3206 |
| April (through April 19) | 2.3452 | 2.3149 |

*Source: Central Bank.*

The Central Bank exchange rate for euro on April 19, 2013 was TL2.3421 = EUR 1.00.

These rates are provided solely for the convenience of the reader. No representation is made that the U.S. dollar or euro amounts could have been converted into Turkish Lira at the rates shown or at any other rate for such periods or at such dates. Exchange rates for the Turkish Lira historically have been and continue to be volatile. See also "Risk Factors—Risks Relating to Our Business—Currency fluctuations affect our business, financial condition and results of operations" and "—Risks Relating to Turkey—The state of the current account deficit in Turkey could lead to exchange rate adjustments and inflation, which could lead into increased volatility in the Turkish economy."

For currency exchange rates used in the preparation of the IFRS Financial Statements, see "Presentation of Financial Information" and Note 3.2 to the IFRS Financial Statements.

## USE OF PROCEEDS

We are conducting the Offering and applying for the Shares to be admitted to trading on the ISE in order to raise funds and to create a public trading market for the Shares. The gross proceeds of the Offering to us will be approximately TL501.8 million. We estimate that the net proceeds that we will receive from the Offering, after deducting estimated underwriting commissions, fees and expenses incurred in connection with the Offering, will be approximately TL481.4 million. We will not receive any proceeds from any sale of Existing Shares or Additional Shares by Esas Holding, all of which will be paid to Esas Holding, after deducting the commissions and applicable taxes (if any) payable.

We intend to use the net proceeds from the Offering to finance the expansion of our fleet of aircraft and route network, to enhance our liquidity position, and for general corporate purposes. See "Operating and Financial Review—Capital Expenditures."

## CAPITALIZATION

The following table sets forth, as of December 31, 2012, our cash and cash equivalents, our total financial debt and our total equity, and our capitalization, on an actual basis and as adjusted to reflect the receipt of the estimated net proceeds to us of the Offering, after deducting estimated underwriting commissions, fees and expenses incurred in connection with the Offering.

This table should be read in conjunction with our IFRS Financial Statements and notes thereto included elsewhere in this Offering Circular.

| | As of December 31, 2012 | |
|---|---|---|
| | Actual | As adjusted |
| | (TL) | |
| **Cash and cash equivalents** | **210,150,238** | **691,585,251** |
| Current financial liabilities | 50,722,463 | 50,722,463 |
| Current obligations under finance leases | 135,232,251 | 135,232,251 |
| Total current financial debt | 185,954,714 | 185,954,714 |
| Non-current financial liabilities | — | — |
| Non-current obligations under finance leases | 1,240,919,331 | 1,240,919,331 |
| Total non-current financial debt | 1,240,919,331 | 1,240,919,331 |
| **Total financial debt** | **1,426,874,045** | **1,426,874,045** |
| **Equity:** | | |
| Share capital | 75,000,000 | 102,272,000 |
| Other equity attributable to equity holders | 252,352,148 | 706,515,161 |
| **Total equity** | **327,352,148** | **808,787,161** |
| **Total capitalization** | **1,754,226,193** | **2,235,661,206** |

For a discussion of our capital resources, see "Operating and Financial Review—Liquidity and Capital Resources," and for information on our net financial debt and Pegasus Operation Adjusted Net Debt (including as adjusted to reflect the estimated net proceeds to us of the Offering), see "Operating and Financial Review—Non-IFRS Financial Measures."

There have not been any significant changes in our capitalization since December 31, 2012.

## THE TURKISH AVIATION MARKET

*The following information relating to the Turkish aviation market has been provided for background purposes only. Certain industry, market and third-party information has been extracted from third-party sources that we believe to be reliable but we have not independently verified such information. See "Market and Industry Information."*

### Overview of the Turkish Aviation Market

The regulation and supervision of civil aviation in Turkey is the responsibility of the Ministry of Transportation, Maritime Affairs and Communications ("Ministry of Transportation"). The Ministry of Transportation is responsible for carrying out activities to seek to improve the Turkish aviation sector, including the determination of national transportation strategy and goals, the implementation of civil aviation projects and carrying out of international activities in the civil aviation field. The Ministry of Transportation oversees two important aviation-related institutions: the Civil Aviation Authority and DHMİ.

The Civil Aviation Authority is the main regulator in the Turkish civil aviation sector and is responsible for licensing of air carriers, especially on matters relating to air safety, aircraft certification, personnel licensing and training, maintenance, manufacture, repair, airworthiness, operation of aircraft and ground services, investigation of incidents and approval and generation of all air traffic management rules and regulations in coordination with stakeholders.

The responsibilities of DHMİ include the administration and operation of aerodromes and the provision of ground services and air traffic control services. DHMİ is also responsible for the provision of air navigation services and is the sole institution responsible for these services throughout the Turkish airspace. In order to accelerate growth and incentivize private capital flow into the industry, DHMİ has transferred the operating rights of terminals at a number of airports to private companies since 1994, while keeping airside operations under state control (see "—Growth of Airport Infrastructure").

Similar to many other countries, the legacy carrier in Turkey, Turkish Airlines, although a listed company on the ISE, is ultimately controlled by the Turkish Government. The Turkish domestic aviation market is liberal and there are no restrictions on where airlines may fly domestically. However, the domestic market is protected by cabotage rules which do not allow foreign carriers to operate scheduled services on domestic routes. Also, an airline must own at least five aircraft to operate scheduled services in Turkey. As in other countries, international traffic in and out of Turkey is governed by bilateral air traffic agreements between the Turkish state and foreign states. These bilateral air traffic agreements typically include conditions governing the designation of airlines and airports for the operation of specified routes, the capacity offered by such airlines and procedures for the agreement of tariffs.

The Turkish civil aviation market has undergone a series of key changes since 2001, starting with the elimination of the fare approval process for domestic flights. Before 2003, only Turkish Airlines provided scheduled services on domestic routes and other charter airlines provided limited unscheduled services. In 2003, the removal of taxes on airfares except for VAT facilitated competition on domestic flights and removed barriers that constrained the ability of private airlines to enter the market. These changes have been widely regarded as key catalysts that have facilitated the growth of the Turkish aviation market by making flying more affordable for Turkish citizens.

For more information on Turkish civil aviation regulations, including a list of bilateral air traffic agreements Turkey has signed and that are in effect, see "Regulatory Framework—National and International Aviation Regulations."

### Growth of Turkish Aviation Market

The Turkish aviation market has grown significantly since the regulatory changes that took place in 2001 and 2003 which stimulated demand for air travel in Turkey and allowed new carriers to enter the market. The total number of passengers increased at a compound annual growth rate of 14.1% from 29.9 million passengers in 2003 to 97.7 million passengers in 2012. Domestic passenger volumes increased at a compound annual growth rate of 24.2% from 4.6 million passengers in 2003 to 32.3 million passengers in 2012, while the number of international passengers increased at a compound annual growth rate of 11.1% from 25.3 million passengers in 2003 to 65.4 million passengers in 2012.

The following table sets forth information on the annual growth in passenger numbers in Turkey between 2003 and 2012.

| Year | Domestic scheduled passengers | Growth | International passengers | Growth | Total | Growth |
|---|---|---|---|---|---|---|
| 2003 | 4.6 | 4.8% | 25.3 | 1.0% | 29.9 | 1.5% |
| 2004 | 7.2 | 58.1% | 30.6 | 21.0% | 37.8 | 26.6% |
| 2005 | 10.3 | 42.0% | 35.0 | 14.5% | 45.3 | 19.8% |
| 2006 | 14.4 | 40.2% | 32.9 | (6.2)% | 47.3 | 4.3% |
| 2007 | 16.0 | 11.0% | 38.4 | 16.6% | 54.3 | 14.9% |
| 2008 | 17.9 | 12.2% | 43.6 | 13.7% | 61.5 | 13.3% |
| 2009 | 20.6 | 15.1% | 44.3 | 1.5% | 64.9 | 5.5% |
| 2010 | 25.3 | 22.7% | 52.2 | 17.9% | 77.5 | 19.4% |
| 2011 | 29.1 | 15.2% | 59.4 | 13.7% | 88.5 | 14.2% |
| 2012(1) | 32.3 | 10.8% | 65.4 | 10.2% | 97.7 | 10.4% |

*Source: DHMİ (DHMİ double counts domestic passenger numbers and the numbers above adjust for such double counting).*

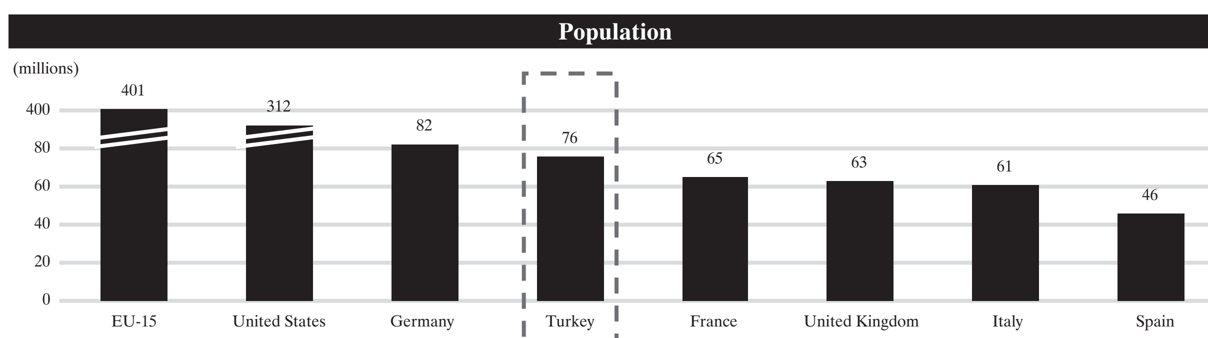
(1) Preliminary data.

Other key drivers behind the growth in passenger numbers have included the favorable demographics and improved macroeconomic conditions in Turkey, an underpenetrated aviation market with limited competing modes of alternative transportation infrastructure, the growing attractiveness of Turkey as a tourism destination globally and the significant development of airport infrastructure. See also "—Domestic and Global Traffic Outlook."

**Demographic and Macroeconomic Drivers**

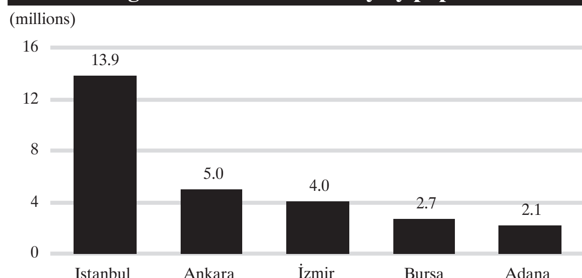
Turkey is a large and populous country. As of December 31, 2012, there were approximately 76 million people living in Turkey. Turkey is, after Russia and Germany, the third largest country in Europe by population, according to TurkStat and EIU data. The five largest cities in Turkey are İstanbul, Ankara, İzmir, Bursa and Adana, which together account for approximately 28 million inhabitants. The country has 29 cities with a population of more than 750,000. In addition to its sizeable population, Turkey benefits from a population that is still growing and young with a median age of approximately 30 years.

The following charts provide information on the population of Turkey and of selected cities in Turkey as well as the age distribution in Turkey.



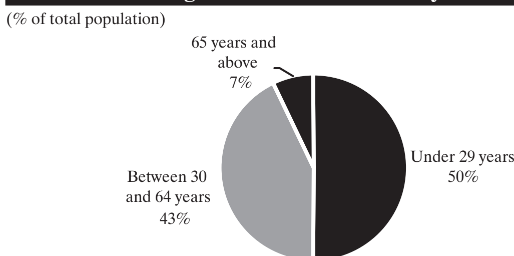

*Source: World Bank (United States, 2012), Eurostat (European countries, 2011) and TurkStat (Turkey, 2012).*

**Largest five cities in Turkey by population**




*Source: TurkStat 2012 data.*

**Age distribution in Turkey**




*Source: TurkStat 2012 data.*

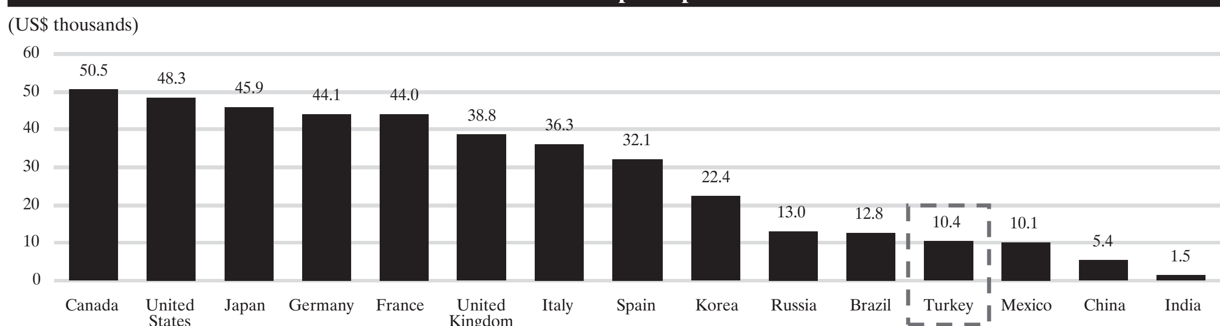
Over the last decade, Turkey's economic development has been supported by structural and financial reforms and political stability. According to 2011 World Bank data, Turkey was the 15th largest economy globally and the 7th largest in Europe by GDP. From 2001 to 2011, Turkey's real GDP grew at a compound annual growth rate of 5.4%, a cumulative increase of approximately 68.6% during the period. During the same period, Turkey's annual inflation measured by consumer price index declined from 68.5% in 2001 to 6.5% in 2011 and total debt-to-GDP ratio of 77.9% in 2001 improved significantly to 39.3% in 2011. The following table sets forth historical information related to Turkey's real GDP, inflation and debt-to-GDP ratio.

| Year | Real GDP (TL millions) | Change | Inflation | Debt-to-GDP ratio |
|---|---|---|---|---|
| 2001 | 68,309 | (5.7)% | 68.5% | 77.9% |
| 2002 | 72,520 | 6.2% | 29.7% | 74.0% |
| 2003 | 76,338 | 5.3% | 18.4% | 67.7% |
| 2004 | 83,486 | 9.4% | 9.3% | 59.6% |
| 2005 | 90,500 | 8.4% | 7.7% | 52.7% |
| 2006 | 96,738 | 6.9% | 9.5% | 46.5% |
| 2007 | 101,255 | 4.7% | 8.4% | 39.3% |
| 2008 | 101,922 | 0.7% | 10.1% | 40.0% |
| 2009 | 97,003 | (4.8)% | 6.5% | 46.1% |
| 2010 | 105,886 | 9.2% | 6.4% | 42.4% |
| 2011 | 115,175 | 8.8% | 6.5% | 39.3% |

*Source: TurkStat.*

Despite this strong growth over the last decade, Turkey still has one of the lowest GDP per capita ratios among the world's top 15 countries by GDP. The following chart sets forth information on GDP per capita in selected countries in 2011, the latest year for which this information is available.

**2011 GDP per capita**

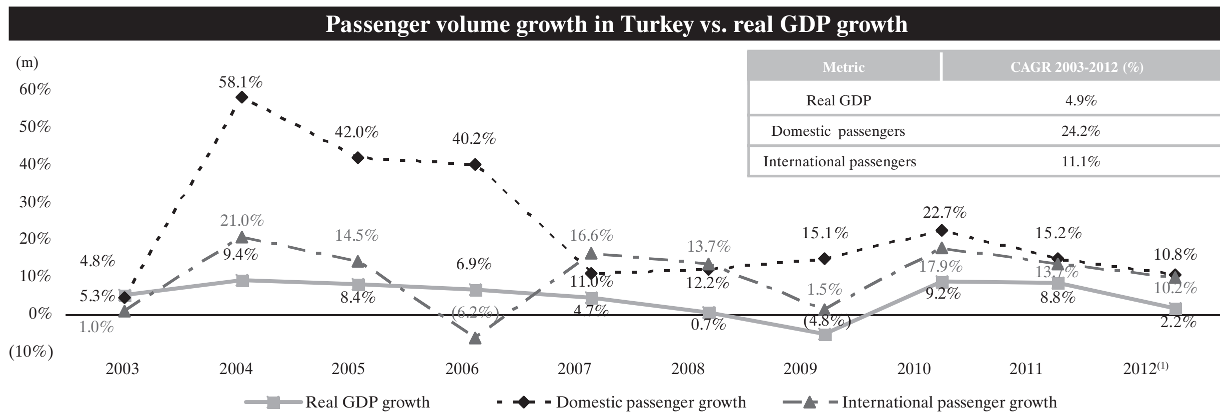



*Source: TurkStat, IMF.*

The Turkish aviation industry has recorded significantly stronger growth than GDP and has been more resilient than GDP over the last 10 years. From 2003 to 2012, when the compound annual growth rate of real GDP was 4.9%, domestic passenger growth in Turkey was 4.9 times the GDP growth in the same period. For the same period, international passenger volumes grew at 11.1%, which was 2.3 times the growth of real GDP. Moreover, the aviation market in Turkey has generally been resilient to

macroeconomic fluctuations. For example, in 2009, when real GDP contracted by 4.8%, domestic passenger volumes in Turkey increased by 15.1% and international passengers increased by 1.5%. The following chart provides information on historical passenger volume and real GDP growth in Turkey.

**Passenger volume growth in Turkey vs. real GDP growth**

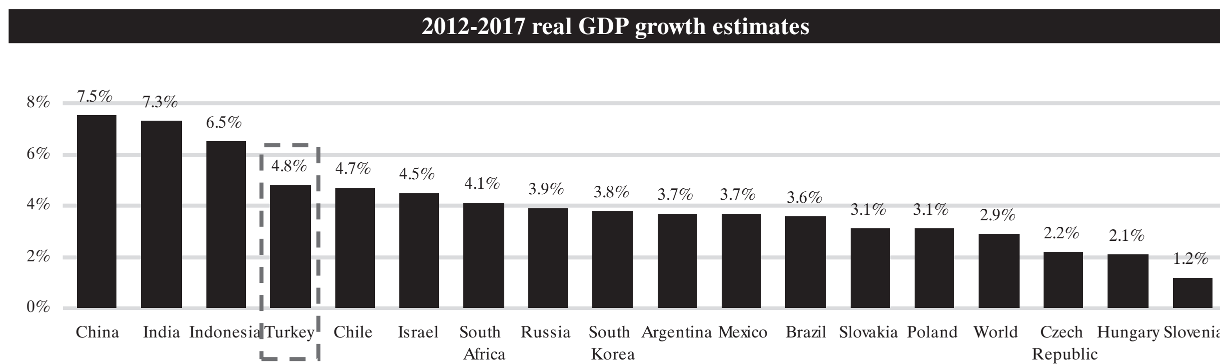



| Metric | CAGR 2003-2012 (%) |
|---|---|
| Real GDP | 4.9% |
| Domestic passengers | 24.2% |
| International passengers | 11.1% |

*Source: DHMİ for passenger numbers (DHMİ double counts domestic passenger numbers and the above numbers have been adjusted for that), TurkStat for GDP figures.*

Going forward, Turkey's real GDP is estimated to grow at a compound annual growth rate of approximately 4.8% between 2012 and 2017, according to EIU. This also compares well against other emerging market economies and to the expected global GDP average growth rate of 2.9%, according to EIU. The following chart sets forth real GDP growth estimates for selected emerging markets and other economies as well as the world average.

**2012-2017 real GDP growth estimates**

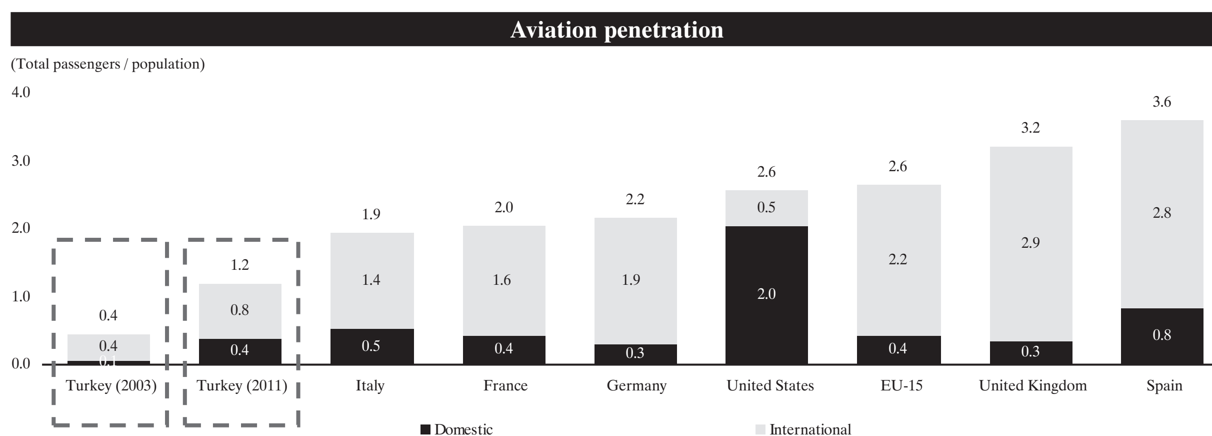



*Source: EIU.*

**Underpenetration of the Turkish Aviation Market**

In 2003, the Turkish aviation market was highly underpenetrated, in terms of passengers divided by population, with a total ratio of 0.4 and domestic and international penetration of 0.1 and 0.4, respectively. Despite the strong growth since 2003, both the domestic and international aviation markets in Turkey remain underpenetrated compared to more mature markets. For example, in 2011, Turkey had a domestic penetration of 0.4 and international penetration of 0.8 in terms of passengers divided by population. On the other hand, Spain, a relatively close peer of Turkey in terms of attractiveness as a tourism destination, had a domestic and international penetration of 0.8 and 2.8, respectively.

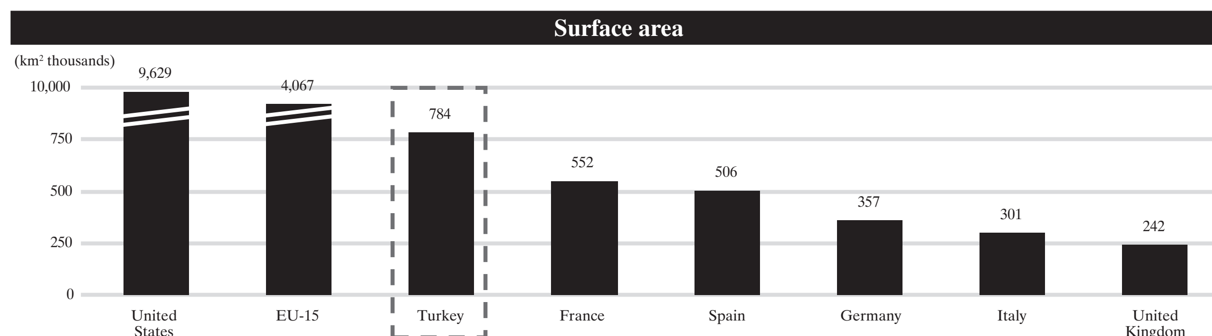
The following chart provides information on the aviation penetration in selected countries and areas.




*Note: 2011 data unless indicated otherwise.*
*Passengers: Turkey DHMİ; United States Bureau of Transportation Statistics; other countries Eurostat.*
*Population: Turkey EIU; United States World Bank; other countries Eurostat.*

In addition, Turkey is a large, mountainous country with few motorways and limited high-speed rail connections, indicating limited scope for using alternative modes of transportation for domestic travel. Turkey has a low absolute and relative level of high-speed rail coverage in comparison to other major European countries. There are currently some alternative transport infrastructure projects planned. The current high-speed rail investments in progress are connections between Eskişehir and İstanbul (connecting Ankara and İstanbul) and Ankara and Sivas, while planned investments include high-speed railway connections between Ankara and İzmir, İstanbul and Edirne and Sivas and Iğdır. There are also planned highway projects, including between İstanbul and İzmir.

The following chart provides information on the surface area of selected countries and areas.

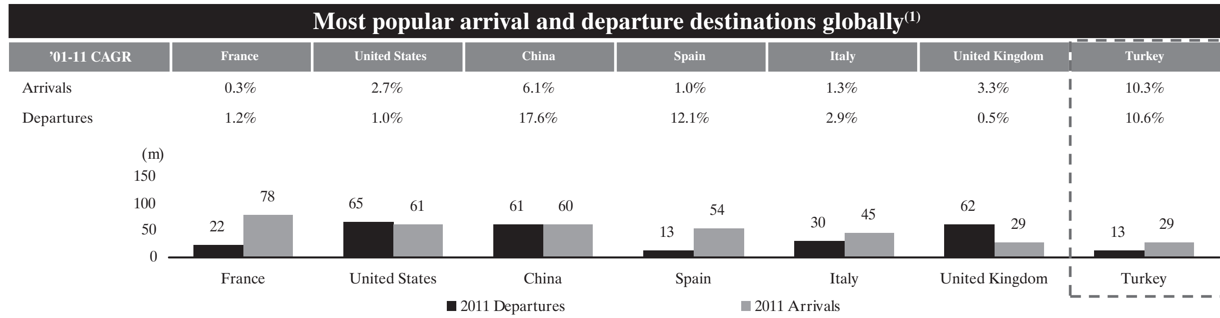



*Source: United Nations.*

**Turkey as a Tourism Destination**

In line with the improving macroeconomy over the last decade, Turkey has become one of the most popular tourism destinations in the world. In 2001, Turkey was the 12th most popular tourist destination in Europe with 10.8 million arriving tourists and was 18th most popular in the world, according to EIU. By 2011, the number of arriving tourists had increased to 28.7 million, making Turkey the fifth most popular tourist destination in Europe and the seventh most popular in the world. The other global top tourist destinations by arrivals, which include, for example, France, the United States, China, Spain, Italy and the United Kingdom, have grown at slower rates during the same period.

The following chart provides information on the most popular arrival and departure destinations globally.



**Most popular arrival and departure destinations globally(1)**

| '01-11 CAGR | France | United States | China | Spain | Italy | United Kingdom | Turkey |
|---|---|---|---|---|---|---|---|
| Arrivals | 0.3% | 2.7% | 6.1% | 1.0% | 1.3% | 3.3% | 10.3% |
| Departures | 1.2% | 1.0% | 17.6% | 12.1% | 2.9% | 0.5% | 10.6% |



Source: EIU.

(1) By arrivals. Excludes Hong Kong data.

The Government's policy has been to strongly support and promote growth in the tourism sector in Turkey by improving infrastructure and facilitating private investments in the sector. In 2007, Turkey's Ministry of Culture and Tourism released a report, "Tourism Strategy of Turkey—2023" in which Turkey announced a target to become a global top five tourism destination by 2023. According to the report, the Government plans to restore existing airports and build new ones with a view to promoting tourism activities countrywide.

In recent years, the Government has also launched new initiatives that have been favorable to the development of the tourism sector. For example, the Government has entered into bilateral air traffic agreements with several countries and eased visa requirements, while the Turkish aviation industry has increased the number of direct flights from and to other countries and added new destinations.

**Growth of Airport Infrastructure**

According to ICAO, in the beginning of 2013 there were 117 aerodromes in Turkey, among which 90 airports had paved runways. Of these airports, 18 were international airports (14 with scheduled traffic), 27 were domestic airports, and 16 were military airports. Turkey's busiest airports in 2012 in terms of passenger volumes were Atatürk airport in İstanbul, Antalya airport, Sabiha Gökçen Airport in İstanbul, Adnan Menderes international airport in İzmir and Esenboğa international airport in Ankara.

The map below illustrates the geographic location of key airports in Turkey.

Source: DHMİ.

The following table sets forth information on the passenger volumes of Turkey's largest airports.

| Airport | Domestic passengers | International passengers | Total |
|---|---|---|---|
| | | (millions) | |
| İstanbul Atatürk | 15.3 | 29.7 | 45.0 |
| Antalya | 5.0 | 20.0 | 25.0 |
| Sabiha Gökçen Airport | 9.8 | 5.1 | 14.9 |
| İzmir Adnan Menderes | 6.9 | 2.4 | 9.4 |
| Ankara Esenboğa | 7.7 | 1.6 | 9.2 |
| Muğla Dalaman | 0.8 | 3.0 | 3.8 |
| Adana | 3.2 | 0.6 | 3.8 |
| Muğla Milas-Bodrum | 1.6 | 1.9 | 3.5 |
| Trabzon | 2.4 | 0.1 | 2.4 |
| Gaziantep | 1.3 | 0.2 | 1.4 |

*Source: DHMİ.*

Note: 2012 preliminary data.

DHMİ operates the airports in Turkey, save for a few exceptions, and controls the Turkish airspace. In the 1990s, several Turkish airports began to face potential capacity constraints. In 1994, the government decided to enact the Law No. 3996 on the Realization of Certain Investments and Services within the Framework of Build-Operate-Transfer ("BOT") model which, according to ICAO, has formed the legal basis for numerous categories of infrastructure investments to be built under the BOT model. One of the main reasons for privatization was the necessity of investing in terminals to solve the potential capacity constraints. This way, the Turkish state was able to shift the burden of financing and operation of terminals to the private sector. Since 1994, DHMİ has transferred the operating rights of terminals in six airports to private companies, while keeping the airside operations under state control:

- In January 2013, DHMİ announced the tender for the construction and operation of a new airport on the European side of İstanbul under the BOT model. The project consists of four stages which would eventually encompass terminals with a total capacity to serve 150 million passengers each year. The bids for the tender must be submitted by May 3, 2013.

- In 2007, a joint venture of Fraport AG (51% ownership) and Turkish IC Holding (49% ownership), won the tender to operate the terminals at Antalya airport for 17 years until the end of 2024. Since 2007, the joint venture has been jointly managing the International Terminal 1 as well as domestic and CIP terminals. In 2009, the joint venture also took over operation of the second international terminal previously operated by IC Holding and Çelebi Holding. The concession for the operation of these terminals and the right to use all assets listed in the concession agreement extends to the end of 2024.

- The right to operate the international terminal of Atatürk airport in İstanbul was granted in 1997 to TAV, a joint venture led by Tepe İnşaat and Akfen Holding, two Turkish conglomerates. After construction, TAV started operating the terminal in 2000. In 2005, TAV was further awarded the right to operate Atatürk airport international and domestic terminal buildings, parking garage and general aviation terminal for 15.5 years. TAV is a publicly traded company. Recently, French airport operator Aéroports de Paris acquired a 38% stake in TAV.

- An agreement was executed between TAV Esenboğa and DHMİ in 2004 regulating the construction, investment and operations of the Esenboğa international airport in Ankara (international and domestic terminals) under the BOT model until 2023.

- An agreement was executed between TAV and DHMİ in 2005 regulating the reconstruction, investment and operations of Adnan Menderes airport international terminal in İzmir under the BOT model. According to the agreement, TAV was required to complete the construction within 24 months after the agreement date and would then have the right to operate the terminal facilities of Adnan Menderes airport in İzmir for a period of approximately six years. An addendum was signed in 2006, according to which, in return for additional works, the originally agreed operation period of TAV İzmir was extended by approximately 11 months through 2015. Most recently, in 2011, TAV was awarded the reconstruction work and the operation of its domestic terminal at

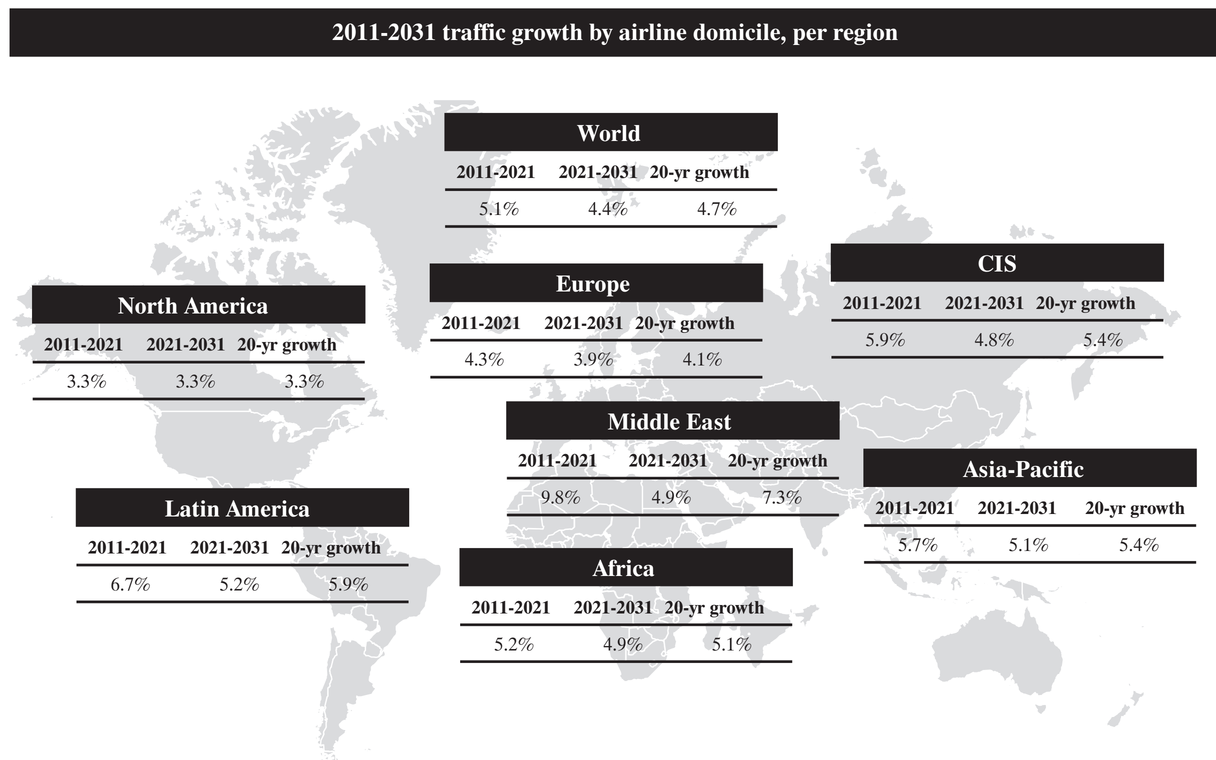
Adnan Menderes airport under the BOT model, also extending the operations at the international terminal until 2032.

- The construction and operation of the international terminal of Muğla Dalaman Airport was awarded in 2004 for an 8.5-year period to an ATM-led consortium (which comprises Turkey's Aksa, Turkuaz, and Manas firms).
- The construction and operation of the international terminal at Milas-Bodrum airport was awarded to Mondial in 2007 under the BOT model for a period of 45 months. The terminal has been in operation since 2012.
- The construction and operation of the new international passenger terminal and several other facilities at the Sabiha Gökçen Airport were awarded to ISG in 2008 for a 20-year period under the BOT model. ISG is a consortium formed by Turkish conglomerate Limak, India's GMR Group and Malaysia Airport Holding Berhad. Sabiha Gökçen Airport is owned by the Turkish Undersecretariat of Defense Industries, which carried out the tender. Although DHMİ has no operations relating to the terminals at the airport, it does provide air navigation services.

Other commercial airports are still managed by DHMİ, with the exception of a few airports whose operations were granted to private companies through long-term lease concession agreements (e.g., Zonguldak Çaycuma Airport and Antalya-Gazipaşa Airport) as well as the airport in Eskişehir which is operated by the Anadolu University in Eskişehir.

**Domestic and Global Traffic Outlook**

DHMİ expects the Turkish aviation market to grow in terms of passenger numbers at a compound annual growth rate of approximately 8.7% between 2011 and 2015. This compares to a compound annual growth rate of 4.7% and 5.0% for global revenue passenger kilometers, a measure of traffic, for the period from 2011 to 2031, according to Airbus and Boeing, respectively. The following chart sets forth the expected revenue passenger kilometer growth globally.




*Source: "Global Market Forecast 2012" — Airbus.*

## BUSINESS

### Overview

We are the leading Turkish low-cost airline and the second largest airline in Turkey in terms of passenger numbers. In 2005, after the acquisition of Pegasus Airlines by Esas Holding, we changed the business model of the company by implementing a low-cost network carrier model and focused on providing an affordable, on-time air travel service with a young fleet. As a result of our successful implementation of this low-cost strategy, we have experienced rapid expansion of our operations both in domestic routes as well as internationally and we believe that we have achieved a broad awareness of our brand in Turkey and growing brand recognition internationally. Between 2006 and 2012, the compound annual growth rate of the number of passengers who travelled with us was 31.4% and the compound annual growth rate of the number of passengers who travelled on our scheduled flights was 43.7%. We believe that these growth rates compare favorably against the passenger growth in the overall Turkish market which was 12.8% during the same period. In addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, we were the fastest growing airline among the 25 largest European airlines in terms of capacity between 2011 and 2012, according to OAG.

We focus on providing high-frequency services on short- and medium-haul, point-to-point and transit routes on our domestic and international network primarily from our hub, the modern Sabiha Gökçen Airport in İstanbul. We also offer scheduled flights from our three other domestic hubs in Adana, Antalya and İzmir. As of the date of this Offering Circular, we offer scheduled passenger services on 29 domestic routes in Turkey and 41 international routes to European (including North Cyprus), CIS and Middle Eastern destinations (including two new international routes and two new domestic routes we have recently announced and started selling tickets for). In addition, we offer a number of services ancillary to the core air passenger services and generate revenue through the provision of these services, including revenue related to pre-order and in-flight sales of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees, and sales of duty-free items on board our international flights. We also operate a relatively low volume of charter and split charter flights for tour operators. We plan to continue our charter operations with a focus on established, higher margin, lower credit risk tour operators, but expect to move aircraft from the charter fleet to serve our international and domestic scheduled routes as we receive new traffic rights. We also provide wet lease and sub-charter of aircraft, cargo services and other selected services, including pilot, crew and technical training.

In 2012, we offered an average of approximately 1,800 weekly flights on our international and domestic routes. We carried a total of 13.6 million passengers in 2012, compared to 11.3 million passengers in 2011 and 8.6 million passengers in 2010. Our market share in 2012, measured in terms of passenger volumes, was 8.1% in international routes to and from Turkey and 25.7% in domestic routes. In line with our growth strategy, we plan to expand our international scheduled operations by opening new routes with an emphasis on routes that we believe have the potential for high-volume operations, with a special focus on destinations east, south and north of Turkey, in particular the Middle East, North Africa, Central and Eastern European and CIS countries, including Russia, subject to obtaining traffic rights to such destinations. In addition, we plan to increase the number of transit passengers on our existing international routes and to introduce new route connections that we expect to increase transit traffic in our network. We also aim to continue our growth in domestic flights and capture further market share, primarily through increasing the frequency of flights in our existing routes while also stimulating demand by adding new routes that meet our criteria.

As of the date of this Offering Circular, our operating fleet comprises 38 Boeing 737-800NG aircraft (with the maximum configuration of 189 seats in each plane) and one Boeing 737-400 aircraft (with the maximum configuration of 168 seats), in addition to which we operate three Boeing 737-800NG aircraft of our subsidiary IzAir under wet leases. The average age of our aircraft is 3.4 years as of the date of this Offering Circular, making our fleet the youngest among airlines in Turkey. We have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. The Airbus Order, which was announced in December 2012, was, at that time, the largest single aircraft order in Turkey's civil aviation history. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that 63 of the 75 firm order Airbus aircraft will be delivered after 2017. To satisfy our expected capacity needs in the near term,

we also plan to wet lease two additional Boeing 737-800NG aircraft from İzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013.

We operate from our hub, Sabiha Gökçen Airport in İstanbul. Sabiha Gökçen Airport, which began operations in 2001, is a modern airport on the Asian side of İstanbul with both a domestic and an international terminal in one building with a current annual capacity of 25 million passengers. According to ISG, approximately 14.9 million passengers passed through the airport in 2012, indicating that there is significant capacity for growth, which is in contrast to Atatürk airport which we believe is currently operating at near maximum capacity. Further, according to ISG, the capacity of the airport could increase to 50 million passengers a year if a second runway and additional facilities that are in the planning phase are completed in 2016 as currently expected. Sabiha Gökçen Airport is favorably located close to a significant potential customer base that we believe prefers the closer proximity of Sabiha Gökçen Airport compared to Atatürk airport on the European side of İstanbul. Overall, ISG reports that Sabiha Gökçen Airport has a catchment area covering a population of almost 20 million. We believe that this modern, high-capacity hub will provide us a strong platform for continued future growth. We began operating scheduled flights from Sabiha Gökçen Airport in 2005 and became the largest airline operator in the airport in 2007 in terms of passenger numbers. In 2012, our share of all passengers departing from and arriving to Sabiha Gökçen Airport was 67.5% in domestic routes and 66.3% in international routes (including passengers on charter and split charter flights).

As of the date of this Offering Circular, we are not a member of any major airline alliances and do not expect to join any such alliances in the near term. We have, however, a codeshare arrangement with Air Berlin that covers routes between Germany and İstanbul and connecting flights between Sabiha Gökçen Airport and Ankara and İzmir flown by us as the operating carrier, in addition to which we and Air Berlin have a website cross-linking arrangement. From November 1, 2011 through March 30, 2013, we also cooperated with Air Berlin in connection with the operation by İzAir of split charter flights between Antalya in Turkey and selected cities in Germany under the "AirBerlin Turkey" brand. We and Air Berlin have, however, agreed to suspend this split charter cooperation for the time being. We also offer flights between Sabiha Gökçen Airport and Baku in Azerbaijan on a codeshare basis with Azal as the operating carrier and flights between Sabiha Gökçen Airport and Bishkek in Kyrgyzstan with our subsidiary Air Manas that has wet leased aircraft from us for these flights. In addition, as of the date of this Offering Circular, we are in the final stages of entering into a codeshare arrangement with a large international airline. This planned new codeshare arrangement will not affect our low-cost carrier business model, including our pricing strategy and fare structure. See "—Customer Programs and Partnerships—Cooperation and Partnerships" for a description of our existing cooperation arrangements and our planned new codeshare arrangement.

Pegasus Operation Revenue in 2012 was TL1,791.8 million, compared to TL1,468.6 million in 2011 and TL977.9 million in 2010. The following table sets forth a breakdown of our revenue for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Scheduled flight revenue | 1,429,924,400 | 1,124,368,319 | 743,790,613 |
| International scheduled flights[(1)] | 807,313,588 | 649,932,264 | 430,341,334 |
| Domestic scheduled flights | 622,610,812 | 474,436,055 | 313,449,279 |
| Ancillary revenue | 230,155,947 | 146,042,024 | 94,061,719 |
| Charter flights revenue | 106,689,046 | 179,199,270 | 128,272,152 |
| Other revenue | 24,989,432 | 18,980,950 | 11,738,632 |
| Pegasus Operation Revenue | 1,791,758,825 | 1,468,590,563 | 977,863,116 |
| AirBerlin Turkey operation revenue[(2)] | 128,133,398 | 15,489,190 | — |
| Total | 1,919,892,223 | 1,484,079,753 | 977,863,116 |

(1) Includes revenue from split charter flights.

(2) Includes the AirBerlin Turkey Project related revenue from November 1, 2011, which was the start date of the AirBerlin Turkey Project.

**Key Strengths**

We believe that we have a number of key strengths upon which we will continue to execute our strategy, including the following:

***Strong platform for growth in a highly attractive market.*** We believe that we are well-positioned to take advantage of the expected growth in demand for aviation services in Turkey. According to IATA, Turkey is one of the fastest growing aviation markets in the world, and the fastest growing in Europe. This growth has been, and is expected to continue to be, driven by, among other things, the low aviation transport penetration in Turkey in terms of flights per person, demographic factors, such as the third largest population in Europe with an average age that is significantly lower than in more mature markets, and expected continued growth in GDP per capita in Turkey. While the Turkish aviation market has grown significantly in recent years, we have expanded our operations at an even higher rate. For example, the compound annual growth rate of the number of passengers who travelled with us between 2006 and 2012 was 31.4% and, in addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, we were the fastest growing airline among the 25 largest European airlines in terms of capacity between 2011 and 2012, according to OAG. The growth of the Turkish market in terms of passenger numbers is expected to continue with a compound annual growth rate of 8.7% between 2011 and 2015, according to DHMİ. We believe that our experience and track record in achieving and managing our rapid growth, and our young fleet of aircraft that we are continuing to expand, will provide us with a strong platform to respond to this expected growth in demand for aviation services.

***Low fixed costs and a flexible cost structure.*** Our non-fuel CASK in 2012 was Kr5.42, which we believe, based on publicly available information, is the lowest non-fuel CASK among Turkish airlines and lower than the average non-fuel CASK of most other major low-cost airlines. We believe that this result follows the successful implementation of our strategy of continuous cost control and careful management of our fixed expenditures, including avoiding significant overhead and administrative costs, and our continued emphasis on minimizing our distribution costs. We also have an internal "continuous improvement team" that closely monitors our costs and is responsible for creating new efficiency initiatives that will help us to further develop our cost control abilities. To maintain the lowest and most flexible cost structure, we seek to use outsourcing whenever appropriate. Functions such as heavy aircraft and engine maintenance, ground handling and call center operations are all outsourced to qualified third-party service providers. Our use of low-cost airports in selected international destinations also allows us to reduce our costs. In addition, we believe that our Boeing 737-800NG aircraft have one of the lowest operating costs among their class currently in operation, and we expect that the Airbus A320neo and A321neo aircraft we have ordered will help us to further decrease our operating costs per block hour as these aircraft are more fuel-efficient than the Boeing 737-800NG aircraft and have lower operating costs. We believe that minimizing our level of fixed costs also improves our flexibility to adjust our network to meet market opportunities. For example, with lower fixed costs we are better placed to enter and exit markets, as well as to match the utilization of our fleet to prevailing demand levels.

***Dynamic low fare structure and advanced revenue management system.*** We are a low-cost, low-fare airline and we believe that our average fares are lower than the average fares of our main competitors. We use a revenue management system that seeks to optimize revenue from passenger seat sales. This revenue management system, which we implemented in 2012 to replace our former system, is driven by the number of seats remaining available for sale and by the days remaining before each individual flight, and allows us to optimize our passenger seat sale revenues while still offering fares that are on average lower than our competitors on the same routes. Our revenue management system also has various additional algorithms that take into account, among other things, holiday seasons and school semesters in a number of countries and destinations. We also have the ability to apply multiple fare levels to a given flight to optimize revenue. Our revenue management activities are supported by our financial reporting systems, which can generate, among other things, a daily income statement with granularity down to operating metrics on a route-by-route basis to assist our revenue management team that monitors our revenues on a daily basis and whose target is to maximize the revenue from each individual flight. In addition, we actively run promotional campaigns encouraging customers to book their flights well in advance of the flight date by providing attractive pricing as part of the campaign while at the same time supporting customers' perception of us as a dynamic low-cost carrier. Since 2005, when we re-launched our operations as a low-cost carrier, approximately 27% of the tickets we have sold have been priced below TL50 and 74% have been priced below TL100. We believe these promotional campaigns support our dynamic fare structure model by increasing our load factor and advance sales ratio.

***Modern, young and growing fleet.*** As of the date of this Offering Circular, our operating fleet comprises 42 Boeing 737 aircraft, of which 41 were Boeing 737-800NG aircraft (including three Boeing 737-800NG aircraft of our subsidiary İzAir that we operate under wet leases). The average age of our aircraft is 3.4 years as of the date of this Offering Circular, making our fleet the youngest among airlines in Turkey. The Boeing 737-800NG aircraft type has provided us with the technology and aerodynamics that has helped us to increase flying speed, improve fuel efficiency and simplify maintenance procedures. Our fleet has enabled us to enjoy a high degree of performance reliability. We also believe that our fleet has enabled us to develop a reputation among customers for being an airline that delivers a safe, on-time, modern and comfortable flight experience. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that 63 of the 75 firm order Airbus aircraft will be delivered after 2017. We believe that the Airbus Order will help us to maintain the competitive advantage provided by a young, modern fleet going forward.

***Modern hub close to underserved customers.*** We operate from Sabiha Gökçen Airport on the Asian side of İstanbul. This is in contrast to most other Turkish and international airlines that currently use Atatürk airport on the European side of İstanbul or the Esenboğa airport in Ankara, the capital of Turkey, as their primary hubs. We believe that this modern, high-capacity hub has provided, and will continue to provide, us with a strong platform for continued future growth as a result of its favorable location close to a significant potential customer base that we believe prefers the closer proximity of Sabiha Gökçen compared to Atatürk airport. The Asian side of İstanbul has a population of seven to eight million people in its surrounding area, including a large number of businesses, and benefits from so-called "visiting friends and relatives" traffic from surrounding communities of İzmit, Yalova, Sakarya and Bursa, all of which are industrial cities with a significant number of blue-collar workers with above average household income, that we believe offers significant potential for business travel. Sabiha Gökçen Airport is located approximately 40 kilometers from Kadıköy and 50 kilometers from Taksim, two existing business centers on the Asian and European sides of İstanbul, respectively. The establishment of the new İstanbul International Financial Center, planned by the Government, in the Ataşehir area on the Asian side of İstanbul approximately 25 kilometers from Sabiha Gökçen Airport is expected to increase the demand for business air travel in the area. Overall, ISG reports that Sabiha Gökçen Airport has a catchment area covering a population of almost 20 million. The airport is modern, with a new domestic and international terminal building built in 2009, and it has a capacity of 25 million passengers per year. Sabiha Gökçen Airport won the "World's Best Airport" award at the 2010 World's Low-Cost Airlines Congress. According to ISG, if a new runway and additional facilities that are currently in the planning phase are completed in 2016 as currently expected, the airport could reach a capacity of 50 million passengers. We believe that flying out of the less congested Sabiha Gökçen Airport, which has fewer delays and shorter turnaround times than Atatürk airport in İstanbul, has contributed to our on-time performance. We continuously monitor our on-time performance, which was 92.1% in 2012, and display it on a weekly basis on our website. In 2012, we had a market share of 66.3% in domestic flights at Sabiha Gökçen Airport and 67.5% in international flights.

***Strong brand.*** We were the first airline in Turkey to implement the low-cost carrier model and we believe that the Pegasus brand has become synonymous with innovation and value in the Turkish airline market. We believe that our customers identify us as providing excellent value and distinguish us from our main competitors on the basis of a simplified, low-cost approach to providing air travel services. By combining low fares with reliable service in a modern single class environment, we believe we have successfully strengthened our brand and have been able to attract a new group of air travelers that did not previously consider air travel, due to the higher prices and more complicated booking procedures that preceded Pegasus' entry into the market. In addition, we believe that the regular promotional fare campaigns that we run on a weekly basis to stimulate demand and to encourage visits to our website have strengthened customers' perception of us as a dynamic low-cost carrier. The strength of our brand was acknowledged, for example, in 2010 when we were chosen as one of the 10 "Superbrands" in Turkey by Superbrands Ltd. and in 2012 when we received the "Brand coming forward with its investments—Digital Medium" award at the GIA Awards in International Marketing Summit in 2012.

***Experienced, entrepreneurial senior management and board of directors and committed and reputable principal shareholder.*** The members of our management team have extensive experience in various sectors, and particularly the airline business, and have been instrumental in making us the leading low-cost carrier

in Turkey. Our management team has a track record of strong operational performance and successful development of our operations through various economic cycles, and has an understanding of the opportunities that the dynamic airline industry can offer. Our principal shareholder Esas Holding is a holding company controlled by members of the Sabancı family, which has significant investments in the aviation, food, health, retail and real estate sectors. Ali Sabancı also serves as the chairman of our board of directors and, together with the other independent board members with significant industry experience, in particular in the low-cost airline business, provides support for our key managers. We believe that the combined experience of our management team and members of our board of directors and the commitment of our principal shareholder will support the implementation of our growth strategy.

**Strategy**

Our goal is to continue to strengthen our position by implementing the following business strategies:

***Continue to grow operations.*** As of the date of this Offering Circular, we offer scheduled passenger services on 41 international routes (including two new international routes we have recently announced and started selling tickets for) primarily from our Sabiha Gökçen hub. We intend to continue to expand our international scheduled operations by opening new routes to destinations within the flight radius of our aircraft from Turkey, subject to obtaining traffic rights to such destinations. We will concentrate on international routes that we believe offer potential for high-volume operations, with a special focus on increasing the number of destinations and flights to the east, south and north of Turkey, in particular the Middle East, North Africa, Central and Eastern European and CIS countries, including Russia. In addition, we plan to increase the number of transit passengers on our existing international routes and to introduce new route connections that, supported by our low-cost business model, we believe will further stimulate and increase traffic in our network. During 2012, the number of our weekly transfer connections reached 5,200 per week. We also see potential for further growth domestically, in part due to the relatively low aviation transport penetration in Turkey in terms of flights per person. As of the date of this Offering Circular, we offer scheduled passenger services on 29 domestic routes in Turkey (including two new domestic routes we have recently announced and started selling tickets for). We aim to further continue our growth and to capture additional market share in domestic scheduled flights where expansion is not restricted by our ability to obtain traffic rights. We plan to do this by increasing frequency on our existing routes, adding new routes that meet our criteria for potential passenger volumes, and further leveraging our domestic hubs in Adana, Antalya and İzmir. Overall, our goal is to increase our total passenger numbers by approximately 15% in 2013.

To support our growth strategy, we are also significantly expanding our fleet. As of the date of this Offering Circular, we have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that 63 of the 75 firm order Airbus aircraft will be delivered after 2017. We believe that the Airbus Order, together with our strategy of maintaining a balanced mix of owned and leased aircraft, provides us with additional flexibility to adjust our fleet size to our operational needs. To satisfy our expected capacity needs in the near term, we also plan to wet lease two additional Boeing 737-800NG aircraft from our subsidiary İzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013.

***Maximize aircraft utilization, increase operating efficiencies and maintain low costs.*** While we intend to continue to grow the size of our fleet, we also will seek to maximize our aircraft utilization by leveraging our young fleet. We operated our aircraft for an average of 11.7 block hours a day in 2012, compared to 11.8 and 12.0 block hours in 2011 and 2010, respectively. The block hours per day in 2011 and 2012 were affected by a decrease in our ASL during these two years in line with our focus on increasing turns per day to increase our RASK and a decrease in our wet lease operations. However, the daily cycles per aircraft increased to 6.9 in 2012 from 6.6 in 2010. Going forward, our goal is to increase the total block hours flown by, among other things, increasing the number of destinations that we can operate during nighttime, including destinations east, south and north of Turkey, subject to obtaining traffic rights to such destinations. We expect that flying out of the less congested Sabiha Gökçen Airport with fewer delays and shorter turnaround times will also contribute to attaining higher utilization. With efficient schedule planning, we believe we will be able to further increase our capacity utilization. We also plan to continue

our promotional fare campaigns that we run on a weekly basis to stimulate demand, to increase our load factors and to raise awareness of our new routes. In addition, we will seek to increase our operating efficiencies and improve the cost advantage we believe we have over our competitors. We believe that the new Boeing 737-800NG aircraft that we will receive during the next two years will help us to maintain, and the new Airbus A320neo and A321neo aircraft, once delivered, will help us further lower, our direct operating costs per block hour and ASK due to their fuel efficiency and simplified maintenance procedures. We will also continue our initiatives to improve the fuel efficiency of our fleet by, among other things, reducing aircraft weight, operating engines with less than maximum power and using one-engine taxiing. We expect to achieve savings on a per ASK basis in other costs, such as personnel expenses and landing expenses, through active management of our contracts with service providers and economies of scale as we grow our operations. We also seek to achieve direct cost savings through outsourcing to maintain the lowest and most flexible cost structure, while at the same time carrying out operations in-house when it is more efficient to do so. For example, as part of our efficiency initiatives, we will insource passenger handling services at Sabiha Gökçen Airport starting from June 1, 2013 and expect to do the same at selected other airports in Turkey in the future.

***Increase ancillary revenues.*** To support our passenger seat sale revenues and sustain our low-cost carrier model, we intend to expand our ancillary revenue base, increase our ancillary revenue per passenger ratio and ancillary revenue as a percentage of our total revenue, and capitalize on our strong brand by increasing the revenue we receive from other sources. Ancillary revenue represented 12.8% of Pegasus Operation Revenue in 2012, compared to 9.9% and 9.6% in 2011 and 2010, respectively. Even though we have increased our ancillary revenues significantly after 2005 when we re-launched our operations as a low-cost carrier, our ancillary revenues per passenger are still lower than those of many of our European low-cost competitors, and we believe that there is still room for us to increase our ancillary revenues considerably. We will continue to increase the penetration of our existing ancillary services and to further develop our ancillary services selection and fee structure.

We believe that we have pioneered the use of several ancillary services, such as seat selection, that other low-cost carriers in Europe have started to implement only after we did. During the last few years, we have expanded our ancillary service selection by introducing services such as pre-purchased excess baggage allowance, "price fix" (ability to reserve a given ticket price for a set number of days prior to booking for a fee), SMS services, in-flight catering and duty free shopping that provide revenues that support our low-cost model. We have also developed our fee structure and introduced new fee types, such as check-in fees, that have supported our ancillary revenue growth, and will continue to strictly execute our cancellation fee policy. We believe that integrating travel-related services, such as car rental services, travel insurance and hotel reservations, to our online offerings will contribute to the growth we seek in our ancillary revenues. We will place special focus on sales through flypgs.com (including the mobile site) as these direct sales channels provide an efficient way of increasing customer awareness of the ancillary services available to them and, at the same time, provide potential for additional service fee revenue as we keep 100% of the service fees on sales made through the website. Impulse purchases are critical in marketing ancillary services and, thus, we have developed new methods, such as click-through mechanisms and pop-up advertisements on our website, to notify passengers of ancillary options. We expect to develop our international distribution through GDSs that enable electronic ticket sales through travel agents and provide business-to-business interface with travel organizations. We also expect that the expansion of the Pegasus Plus loyalty program that we launched in October 2011 and the continued development of the Pegasus branded credit card will continue to support our ancillary revenue base. We believe that an increase in aircraft utilization, in particular in load factors, will also lead to an increase in ancillary revenue through increased passenger volumes and additional baggage services, seat selection fees and the in-flight sale of beverages and food. We may also enter into alliances or codeshare arrangements to further expand our revenue base. See "—Customer Programs and Partnerships—Cooperation and Partnerships."

***Increase focus on business customers.*** In order to increase our load factor and yields, we aim to strengthen our focus on the corporate segment. We seek to increase the number of business customers by offering incentives for customers based on the volume of their ticket purchases and fixed ticket prices with flexible reservation and cancellation policies on all our international routes and on our domestic routes to İzmir and Ankara, our primary domestic business routes. We currently have direct sales agreements with approximately 25 large companies in Turkey. By offering lower fares for direct sales, we also encourage corporate customers to issue their own tickets without an agency between us and the customer. In order to increase corporate revenue, we also offer bundled products, including online fares that bundle additional products such as seat selection, in-flight beverages and food and excess baggage allowance, targeted at

business customers through our website. We continue to look for new corporate relationships with a special focus on larger companies with significant travel potential. We are particularly interested in companies that have premises close to Sabiha Gökçen Airport as we expect that the customers from the Asian side of İstanbul will be more attracted to Sabiha Gökçen, thereby providing us what we believe is a competitive advantage over our competitors that operate primarily from Atatürk airport. We also expect to benefit from the proximity of Sabiha Gökçen Airport to the new İstanbul International Financial Center, once opened.

**History**

Pegasus was established in 1990 as a joint venture between Aer Lingus Group plc, Silkar Yatırım ve İnşaat Organizasyonu A.Ş. ("Silkar Yatırım") and Net Holding A.Ş. The joint venture, which operated a charter business and also offered wet leases of aircraft, started its operations with two aircraft. The first commercial flight was in April 1990 to Berlin's Tegel airport in Germany. In February 1994, 85.0% of the joint venture was sold to Enternasyonal Turizm Yatırım A.Ş. with the remaining 15.0% held by Silkar Yatırım. After the acquisition, the company continued as a charter airline with additional revenues from wet leases of aircraft.

In January 2005, Esas Holding purchased 99.40% of Pegasus, with the remaining 0.60% being acquired by the members of the Sabancı family, the owners of Esas Holding, and re-launched our operations as a low-cost carrier. That same year, we moved to Sabiha Gökçen Airport, which was opened in 2001, on the Asian side of İstanbul. We began scheduled domestic passenger services within Turkey in November 2005, becoming the fourth airline in Turkey to offer scheduled services, with service on six city-pair routes, and an international scheduled service to Lefkoşa in North Cyprus in January 2006. At the start of our scheduled operations, we used aircraft from the charter fleet for scheduled service without disrupting charter operations.

In 2006, we entered into an operational cooperative agreement with İzAir, including the wet lease of three Airbus A319-100 from İzAir to us. Under the cooperation agreement, İzAir started using the Pegasus call sign on İzAir flights and the Pegasus reservation system for its operations. In return, İzAir provided us with the ability to sell seats on İzAir flights, expanding the reach of our domestic network to and from İzmir. Esas Holding and members of the Sabancı family acquired a controlling interest in İzAir in 2007, following which the contractual relationship between us and İzAir was extended to cover management consultancy services and the wet lease of İzAir aircraft.

In April 2009, Esas Holding acquired 15.30% of Air Berlin, which at the time of the acquisition was Germany's second and Europe's fifth largest airline in terms of passenger numbers. Following the acquisition, we started cooperation with Air Berlin in September 2009 by cross-linking our respective websites, meaning that passengers visiting either website are automatically directed to the website of the carrier that operates the route the passenger is seeking. As of the date of this Offering Circular, Esas Holding is the second largest shareholder of Air Berlin with a holding of 12.02% and Ali Sabancı, the chairman of our board of directors, serves as a member of the board of directors of Air Berlin. We deepened our relationship with Air Berlin by launching codeshare flights in September 2011.

In 2009, we moved our operations to a new terminal, which was opened at the end of October 2009, at Sabiha Gökçen Airport.

In July 2010, Esas Holding and Sabancı family members increased their ownership share in İzAir to 72.57% through a series of capital increases. In September 2010, we acquired 72.57% of the shares of İzAir from Esas Holding, our parent company, and members of the Sabancı family. The value of the shares, TL18,668,069, was determined taking into account the valuation made by court-appointed independent appraisers. We increased our ownership in İzAir to 96.79% in June 2011 and, in March 2012, further increased our ownership to 97.82%, both by way of share capital increases. In September 2012, we sold 46.82% of the shares of İzAir to Air Berlin. Following the completion of the registration of the amendment to the articles of association and the capital increase approved by İzAir's shareholders on March 27, 2013 in which Air Berlin decided not to exercise its pre-emption rights, our ownership of İzAir is expected to increase to 68.31% while Air Berlin's ownership will decrease to 29.51%, assuming that the remaining shareholders in İzAir who are based in İzmir (where İzAir was originally established) fully exercise their pre-emption rights and maintain their cumulative 2.18% share in İzAir. In the event these approximately 110 shareholders also decide not to exercise their pre-emption rights, our shareholding in İzAir may increase up to 69.12%. See "—Customer Programs and Partnerships—Cooperation and Partnerships," "—Corporate Structure" and "—Material Agreements—Agreements Relating to İzAir."

**Our Scheduled Passenger Services**

We provide scheduled point-to-point air travel as well as transit flight services at low fares aimed generally at price-sensitive leisure air travel passengers, with an increasing focus on business customers. As of December 31, 2012, we had carried approximately 45.4 million passengers on our scheduled flights since re-launching our operations as a low-cost carrier in November 2005. We offer scheduled flights primarily from Sabiha Gökçen Airport, which is the main hub for both our international and domestic operations. We also offer scheduled flights from our three other domestic hubs in Adana, Antalya and İzmir. Of the total of 70 scheduled routes we offer as of the date of this Offering Circular (including two new international routes and two new domestic routes we have recently announced and started selling tickets for), 41 are to international destinations in Europe (including North Cyprus), CIS countries and the Middle East and 29 are domestic routes. Of our total capacity in terms of ASK in 2012, 94.1% was offered on international and domestic scheduled flights. Revenue from international and domestic scheduled flights represented 79.8% of Pegasus Operation Revenue in 2012, compared to 76.6% and 76.1%, respectively, in 2011 and 2010.

The following table sets forth operating data for our scheduled operations for the periods indicated. The figures below do not include operating data of the AirBerlin Turkey Project from and including November 1, 2011.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Passengers carried | | | |
| International scheduled(1) | 4,789,992 | 3,949,363 | 3,051,177 |
| Domestic scheduled | 8,298,064 | 6,764,552 | 4,960,693 |
| Total passengers | 13,088,056 | 10,713,915 | 8,011,870 |
| ASK, million(2) | | | |
| International scheduled(1) | 9,471 | 8,285 | 6,951 |
| Domestic scheduled | 5,983 | 5,181 | 3,682 |
| Total ASK | 15,455 | 13,465 | 10,633 |
| Cycles(2) | | | |
| International scheduled(1) | 34,513 | 29,979 | 24,604 |
| Domestic scheduled | 55,726 | 50,229 | 38,152 |
| Total cycles | 90,239 | 80,208 | 62,756 |
| Load factor(2), % | | | |
| International scheduled(1) | 75.1 | 73.2 | 72.0 |
| Domestic scheduled | 79.8 | 75.9 | 78.2 |
| Scheduled operations total | 78.1 | 74.9 | 75.7 |
| Revenue, TL in millions | | | |
| International scheduled(1) | 807.3 | 649.9 | 430.3 |
| Domestic scheduled | 622.6 | 474.4 | 313.5 |
| Scheduled operations total | 1,429.9 | 1,124.4 | 743.8 |
| RASK(2), kuruş | | | |
| International scheduled(1) | 8.52 | 7.85 | 6.19 |
| Domestic scheduled | 10.41 | 9.16 | 8.51 |
| Scheduled operations total | 9.25 | 8.35 | 6.99 |

(1) Includes passengers, ASK, cycles, load factor, revenue and RASK, as the case may be, of international split charter flights. See "—Charter Operations—Split Charter."

(2) For definitions, see "Certain Definitions."

For additional operating data for our scheduled operations, see "Operating and Financial Review—Factors Affecting Our Results of Operations—Factors Affecting Our Revenue—Capacity and Capacity Utilization."

*International Routes*

We began our international scheduled flights in 2006, first to the Ercan airport in Lefkoşa in North Cyprus in January 2006, followed by Stuttgart, Germany in February 2006. As of the date of this Offering Circular, we offer a total of 41 international scheduled routes (including two new international routes we have recently announced and started selling tickets for) from Sabiha Gökçen Airport, our hub for international flights, and a number of other airports in Turkey, including Adana, Ankara, Antalya, Hatay, İzmir and Kayseri. In addition, we have a limited number of international scheduled routes that we operate only during the high season. A route map showing our current international scheduled route portfolio is set forth on the inside front cover of this Offering Circular.

Following the introduction of our first international scheduled routes, we have increased the number of international destinations each year. Initially, our main focus was on countries with a significant population with Turkish origins, such as Germany. While retaining this focus, we have expanded our international route portfolio to routes that we believe have offered potential for high-volume operations. In 2006, the year we introduced our first international scheduled routes, we carried 0.3 million passengers, operated 2,751 flights and achieved a 60.9% load factor in our international scheduled operations, as compared to 4.8 million passengers, 34,513 flights and a 75.1% load factor in 2012. Revenue from international scheduled flights represented 45.1% of Pegasus Operation Revenue in 2012, compared to 44.3% and 44.0%, respectively, in 2011 and 2010. Our market share in terms of passenger numbers in international scheduled flights to and from Turkey in 2012 was 8.1%, compared to 7.7% and 6.9%, respectively, in 2011 and 2010.

The following table sets forth information on our five most popular international routes, each from Sabiha Gökçen Airport, in terms of passenger numbers for the periods indicated.

| | 2012 | | 2011 | | 2010 |
|---|---|---|---|---|---|
| | Passengers (thousands) | Change (%) | Passengers (thousands) | Change (%) | Passengers (thousands) |
| Lefkoşa | 499 | 24.9 | 400 | 15.3 | 347 |
| London | 213 | 34.0 | 159 | 21.6 | 131 |
| Paris | 195 | 74.5 | 112 | 40.3 | 80 |
| Cologne | 121 | 4.4 | 116 | 27.1 | 91 |
| Amsterdam | 118 | 6.0 | 111 | 8.9 | 102 |

While we focus primarily on point-to-point routes, the percentage of international transfer flights, which we define as a combination of two or more successive Pegasus operated flights that a passenger takes under one ticket and includes at least one international scheduled flight, of our total international flights has increased since 2007 and accounted for 21.7% of our total scheduled international flights in 2012. We offer transfer connections primarily from CIS countries and the Middle East to Europe and from Europe to CIS countries and the Middle East. Some of our international routes, including Beirut, Dubai, Tel Aviv and Tbilisi, are primarily driven by transfer traffic. The average number of weekly transfer connections, which means a passenger connecting from a Pegasus operated flight to another Pegasus operated flight, has increased from 3,300 transfer connections per week in 2010 to 4,500 transfer connections per week in 2011 and 5,200 transfer connections per week in 2012.

The regulatory system for international air transport is based upon the general principle that each state has sovereignty over its air space and has the right to control the operation of air services over its territory. Thus, to operate international scheduled passenger services, an airline must obtain traffic rights, that is, rights to overfly or to land at a specific destination, granted by individual states to other states in bilateral air traffic agreements. As of the date of this Offering Circular, Turkey is a party to 138 bilateral air traffic agreements, and we have traffic rights to all the existing routes that we currently operate as well as the new routes we have announced as of the date of this Offering Circular. See "Regulatory Framework."

We intend to continue to expand our international scheduled operations by opening new routes to destinations within the flight radius of our aircraft from Turkey, subject to obtaining traffic rights to such destinations. We will concentrate on international routes that we believe offer potential for high-volume operations, with a special focus on increasing the number of destinations and flights to the east, south and north of Turkey, in particular the Middle East, North Africa, Central and Eastern European and CIS countries, including Russia. In addition, we plan to increase the number of transit passengers on our existing international routes and to introduce new route connections that, supported by our low-cost

business model, would further stimulate and increase traffic in our network and increase the utilization of our fleet and our Sabiha Gökçen hub.

Our revenue from international scheduled flights also includes revenue from our remaining split charter flights as discussed under "—Charter Operations—Split Charter."

***Domestic Routes***

Following our acquisition by Esas Holding, we initiated scheduled domestic flights to Adana, Ankara, Antalya, Bodrum, Dalaman, Trabzon and Van from Sabiha Gökçen Airport and to Trabzon and Van from Ankara in November 2005. As of the date of this Offering Circular, we offer a total of 29 domestic routes (including two new domestic routes we have recently announced and started selling tickets for) from Sabiha Gökçen Airport and our three other domestic hubs in Adana, Antalya and İzmir. A route map showing our current domestic scheduled route portfolio is set forth on the inside back cover of this Offering Circular.

Since 2005, we have significantly increased the number of passengers and our market share in domestic Turkish routes. In 2006, our first full year of operation after our acquisition by Esas Holding, we carried 1.2 million passengers, operated 10,471 flights and achieved a 65.6% load factor in our domestic scheduled operations, as compared to 8.3 million passengers, 55,726 flights and a 79.8% load factor in 2012. Revenue from domestic scheduled flights represented 34.7% of Pegasus Operation Revenue in 2012, compared to 32.3% and 32.1%, respectively, in 2011 and 2010. Our market share in terms of passenger numbers in domestic scheduled flights in 2012 was 25.7%, compared to 23.2% and 19.6%, respectively, in 2011 and 2010.

The following table sets forth information on our five most popular domestic routes, each from Sabiha Gökçen Airport, in terms of passenger numbers for the periods indicated.

| | 2012 | | 2011 | | 2010 |
|---|---|---|---|---|---|
| | **Passengers (thousands)** | **Change (%)** | **Passengers (thousands)** | **Change (%)** | **Passengers (thousands)** |
| İzmir | 881 | 26.6 | 696 | 49.4 | 466 |
| Antalya | 793 | 27.7 | 621 | 38.9 | 447 |
| Trabzon | 589 | 6.1 | 555 | 40.9 | 394 |
| Ankara | 578 | 31.1 | 441 | 21.8 | 362 |
| Adana | 543 | 22.0 | 445 | 14.4 | 389 |

We plan to continue to expand our domestic operations with a focus on destinations that we believe are attractive due to, for example, the size of their population, the number of people who are originally from that destination city and currently live in the proximity of Sabiha Gökçen Airport and business travel potential. We believe we will continue to benefit from the location of Sabiha Gökçen Airport as we expect that customers from the Asian side of İstanbul will be more attracted to Sabiha Gökçen than to Atatürk airport which is further away. One of our strategic goals is to add to our route network new point-to-point city pairs, which, supported by our low-cost business model, would further stimulate and increase traffic.

As of the date of this Offering Circular, we believe we have a sufficient number of departure and arrival times and slots, as the case may be, assigned at destination airports to meet the requirements of our domestic growth plans.

**Ancillary Revenue**

We provide various ancillary services and generate additional revenue through the provision of additional products and services that are connected with our core air passenger services. We also generate ancillary revenue through our service and other flight-related fees. Our services and fees that generate ancillary revenue include the following:

- service fees;
- cancellation fees;
- excess baggage fees;
- airport check-in fees;
- pre-purchased excess baggage allowance;

- pre-order and in-flight sale of beverages and food;
- sales of duty-free items on board our international flights;
- seat selection fees (i.e., ability to select preferred seats by paying an extra fee);
- reservation change fees;
- on-board advertising and advertising in our in-flight magazine; and
- option sales (i.e., fees paid by passengers to reserve a given price for a set number of days prior to booking) in scheduled flights.

Most of these fees and revenues, including service fees, cancellation fees, reservation change fees, seat selection fees and option sales revenue vary between domestic and international flights. Service fees also vary among individual routes based primarily on competitive considerations and depending on the sales channel used.

In addition to flight-related services, we offer our passengers a range of "add-on" products provided by third parties through our website and other sales channels for which we receive a commission. These services include car rental services, travel insurance, hotel reservations, parking and airport transfer services and lounge services that provide revenues that support our low-cost model. We believe that integrating travel-related services to our online offerings will contribute to the growth we seek in our ancillary revenues. We also receive ancillary revenue from on-board advertising and advertising in our in-flight magazine. In order to increase our revenue from business customers, we also expect to bundle ancillary services such as seat selection, in-flight beverages and food and excess baggage allowance with the flight ticket. See also "Operating and Financial Review—Results of Operations—Main Income Statement Line Items—Revenue—Ancillary Revenue."

Our goal is to increase our ancillary revenue so that it reaches, at minimum, a range of EUR 10 to EUR 12 per passenger within the next three years and, at the same time, to increase our ancillary revenue as a percentage of our total revenue. We will continue to increase the penetration of our existing ancillary services and to further develop our ancillary services selection and fee structure in order to generate additional revenues. We will place special focus on sales through flypgs.com (including the mobile site) as these direct sales channels provide an efficient way of increasing customer awareness of the ancillary services available to them and, at the same time, provide potential for additional ancillary revenue.

Our ancillary revenue per passenger was TL17.0 in 2012, compared to TL12.9 in 2011 and TL11.0 in 2010. Ancillary revenue represented 12.8% of Pegasus Operation Revenue in 2012, compared to 9.9% in 2011 and 9.6% in 2010.

**Charter Operations**

***Standard Charter***

From our inception in 1990 to 2005, when Pegasus was acquired by Esas Holding, Pegasus operated entirely as a charter operator, contracting primarily with tour operators and carrying passengers from European countries to certain tourist destinations in Turkey. Even though we have focused since 2005 on our scheduled international and domestic flight networks, we have continued our charter business because charter revenues, while seasonal, are more predictable than revenues from scheduled flights and thus complement our revenue mix. However, the portion of charter revenue (excluding split charter operations) of Pegasus Operation Revenue has decreased to 13.1%, 12.2% and 6.0% in 2010, 2011 and 2012, respectively, and we expect this portion to continue to decrease as we expand our scheduled operations. We plan to continue our charter operations with a focus on established, higher margin, lower credit risk tour operators, but expect to move aircraft from the charter fleet to serve our international and domestic scheduled routes as we receive new traffic rights. This way, our charter operations provide us with additional flexibility to manage our fleet size. Of our total capacity in terms of ASK in 2012, 5.9% was offered on charter flights.

In standard charter flights operations, tour operators contract for the entire aircraft. Charter rates are calculated using a base load factor and a relatively low additional marginal rate per additional passenger. Tour operators bear the risk of the aircraft not being fully booked and thus seek to fill the aircraft as full as possible. Tour operators also usually have the ability to cancel a limited number of low-demand standard charter flights without cancellation fees by giving us at least one month's notice. A number of our contracts with tour operators also contain a clause which allows charter rates to be adjusted for fluctuations in exchange rates and fuel prices.

Charter flights are not flown on set routes or schedules but are typically based on the point of origin of tourist passengers and the tour destination. Our aircraft involved in charter flights may have to fly positioning flights to connect from one charter flight to another. Charter flight frequencies are higher during the summer (June through September) season. Outside this high season, we seek to leverage our charter aircraft capacity and maintain aircraft utilization by using the charter aircraft on scheduled, non-charter flights. For example, if we introduce new scheduled routes for the winter season, we often employ some of the aircraft used on charter flights during the summer high season on these scheduled routes during the winter season.

***Split Charter***

Beginning in summer 2006, we started offering so-called split charter flights to tour operators in Europe. The split charter arrangement enables a tour operator to purchase a certain number of seats on a charter flight, rather than commit to the entire aircraft capacity, as seat capacity on each flight is sold in parts to multiple tour operators. This benefits both parties: the tour operators' risks are lowered as they need to sell fewer seats to break even, while we can offer seat capacity directly to a higher number of tour operators at higher margins. As opposed to standard charter flights, we, not the tour operators, are ultimately responsible for filling the aircraft and, thus, in line with IATA's definition of scheduled services, we record split charter revenue under international scheduled flights.

Split charter arrangements do not typically permit the tour operator to freely cancel the purchased seats in advance in case of low demand. Cancellations of split charter commitments are generally possible only with the approval of the other tour operators sharing the same flight and/or the payment of a breakage fee to us ranging from 20% to 100% of the full price for the purchased seats. In addition, we also market and sell a small number of seats on our split charter flights to individual passengers, both online and through travel agencies. Although such sales to individual passengers on our split charter flights have been small to date, they provide higher yielding direct sales to customers, support the development of our scheduled international route network and have a positive effect on our load factors.

The ASK of split charter flights relative to our total international scheduled flights ASK has decreased during the past three years and was 12.6% in 2012. In the future, we expect to transfer our remaining split charter operations to İzAir.

***Wet leases and Sub-charters***

A wet lease arrangement is a lease of aircraft for a period of not more than six months, whereby the lessor assumes certain operational responsibilities. We occasionally provide wet lease aircraft on an ACMI basis, meaning that Pegasus, as lessor, covers the cost of aircraft, crew, maintenance and insurance during the period of the wet lease and the lessee is responsible for lease payments that are based on the number of hours the aircraft is operated. In the event we provide wet lease aircraft to lessee customers, we do this primarily during the low winter season (November through March) when the utilization levels of our aircraft are lower. Our wet leases are usually short-term in duration, ranging from days to a few months in length. Aircraft are contracted to other airlines needing additional aircraft capacity to replace aircraft taken out of service for maintenance or incident-related events, to satisfy seasonal differences in demand and other special needs. Due to its ACMI basis, wet lease revenue is lower on an hourly basis than charter revenue, but utilizes otherwise unused aircraft and supplements our primary revenues. As of the date of this Offering Circular, we are party to a wet lease agreement with Air Manas under which we lease Air Manas the capacity it requires for its operations, see "—Customer Programs and Partnerships—Cooperation and Partnerships—Air Manas." We did not have any revenue from wet leases in 2012, while in 2011 and 2010 revenue from wet leases represented 0.6% and 0.2% of Pegasus Operation Revenue, respectively.

In addition to wet leases, we occasionally provide sub-charters on an hourly basis to airlines needing additional aircraft capacity on very short notice. Like wet leases, sub-charters are provided on an ACMI basis, but are typically very short-term and provided on an unscheduled basis to cover a lessee's unanticipated needs. While sub-charters can be profitable for Pegasus due to the need of the lessee for immediate fill-in service, the revenue related to sub-charter services has been marginal. As revenue from sub-charter operations is immaterial, it is recorded as part of wet lease revenue, which, in turn, is recorded under our charter revenue.

## Other Revenue

### *Cargo Services*

We have been providing cargo services since December 2005 to various locations across Europe and the Middle East. As of the date of this Offering Circular, we offer cargo services on all the scheduled routes that we fly. We carry cargo on our passenger aircraft only when space is available in the aircraft cargo holds, which is mainly dependent on our passenger load factors per flight. As on-time departures and arrivals of our aircraft are very important to our operations, we only carry cargo that we do not expect to adversely affect our on-time departures. We believe we are in full compliance with all IATA cargo requirements and with cargo rules and regulations of local and relevant foreign civil aviation authorities, and we accept cargo only from IATA approved freight forwarders / cargo agents.

To increase our cargo services revenue, we have entered into general sales agency agreements with international cargo sales agents for the promotion and sale of our air cargo services in most of the countries we fly to. We also carry cargo on our domestic flights and serve major courier service companies such as DHL, TNT and UPS in the domestic cargo market.

In December 2012, we introduced a transfer service to our cargo customers who can transfer their shipments between Sabiha Gökçen Airport and Atatürk airport using bonded truck services provided by Pegasus three times a week. We plan to increase this frequency to five times a week. With this service, customers located on the European side of İstanbul will be able to clear their shipments that have arrived at Sabiha Gökçen Airport at Atatürk airport's customs.

Cargo services represented 0.6% of Pegasus Operation Revenue in 2012, compared to 0.7% in 2011 and 0.4% in 2010. The revenue we generated from cargo services increased by 10% in 2012 compared to 2011, and by 182% in 2011 compared to 2010. The increase in the amount of cargo carried in tons was 10% in 2012 compared to 2011 and 174% in 2011 compared to 2010.

### *Training*

We provide crew training, type rating training (i.e., training to fly a certain aircraft type), dangerous goods training and crew resource management (CRM) training to pilots and cabin crew members. Training services represented 0.1% of Pegasus Operation Revenue in 2012, compared to 0.2% in 2011 and 2010.

We expanded our training offering in 2011 when we started offering 737-800NG flight simulator training in cooperation with SIM-Industries B.V., a Dutch simulator manufacturing and marketing company owned by Lockheed Martin Corporation ("SIM-Industries"). A joint venture, in which we (49.40% of the share capital) and the members of the Sabancı family (0.60%), on the one hand, and SIM-Industries, on the other hand, both hold a 50% share but in which we have operational management control, established a Boeing 737-800NG flight simulator training facility located in İstanbul. The flight simulator, which commenced operations in January 2011, predominantly services our cockpit crews' training needs. The remaining simulator capacity is marketed to third parties. See "—Material Agreements—PUEM Joint Venture Agreement."

As part of the Airbus Order arrangement, Airbus will install flight simulators at our flight training center and provide support for flight training, crew training and maintenance training for the Airbus A320neo and Airbus A321neo aircraft types.

## Pricing

Our emphasis on keeping our operating costs low has allowed us to set low fares for our flights, and we believe that our average fares are lower than the average fares of our domestic competitors on the same routes. To boost the revenue from, and the profitability of, our flights, we apply a dynamic pricing system that considers the number of seats remaining available for sale and the days remaining before each individual flight, applying various additional algorithms to take into account, among other things, the timing of holiday seasons and school semesters in a number of countries and destinations, while also benchmarking against the prices our competitors offer for the relevant route. Generally, as the number of bookings on a flight increases, and as the departure date approaches, we increase the prices of tickets for that flight. We believe that this dynamic pricing system has helped us to increase our load factors and revenues and to establish a reputation among our customers for consistently delivering seats at low prices, thereby strengthening our competitive position.

We have the ability to apply multiple fare levels on any particular flight in order to optimize revenue, and we establish the number of seats in each fare level through daily monitoring of our income statement and operating metrics by our revenue management team. On our scheduled flights, we set 19 fare levels for

each destination. We also adjust our pricing in accordance with changes in passenger volume stemming from imbalances in the direction of traffic, such as during the holiday season. These periods often create demand peaks that result in traffic flows that are weighted heavily in one direction, causing demand for seats in the other direction to be low. During these periods, we discount fares on the lower demand flights to stimulate traffic on those routes to help offset our fixed costs. Our fares also depend, to certain extent, on the sales channels used, with the lowest prices offered for online sales. We also offer corporate accounts a fixed rate or discounts over published fares on the routes where we believe there is business traffic potential. These business fares also have flexible rules which are only applied to the corporate accounts.

We apply different change and cancellation policies for our international and domestic flights based on the destination. We divide our fare classes into three groups, each with different change and cancellation policies. Tickets in the class with the strictest change and cancellation policies, which we call the "promotion" class, cannot be changed and are non-refundable. The tickets in the second fare class, "super," are generally non-refundable and we apply penalty amounts for changes that vary depending on the time of change and scheduled departure time. We also apply a similar staggered penalty amounts for both changes and cancellations for the "flex" ticket class but the penalties are less severe than in the "super" class. We enforce our change and cancellation policies strictly.

In our charter business, we contract directly with tour operators six months to a year in advance of when flights will occur. In many cases, the charter fees we charge tour operators may be adjusted to reflect changes in fuel prices and the exchange rate between the euro and U.S. dollar between the date of contract and the date of the flight. Charter revenues from tour operators cover passenger taxes, security fees and other passenger costs for passengers flown while we undertake necessary costs for ground handling services. We sell flights to tour operators and contract for a guaranteed rate per seat for a negotiated number of seats. Should the tour operator sell fewer than the negotiated number of seats, the tour operator carries the loss. On split charter flights, tour operators are responsible for any empty seats in their total seat allocation, while we carry the risk for not being able to allocate the entire seat capacity of the aircraft to tour operators. Tour operators on standard chartered flights have, however, the option to return unsold seats to us in some cases, in which case we can reallocate these seats to another tour operator.

**Revenue Management**

Our revenue management system, which we implemented in March 2012 to replace our former revenue management system, allows us to optimize our passenger seat sale revenues while still offering fares that are, on average, lower than our competitors on the same routes. Our revenue management system has various additional algorithms that take into account, among other things, holiday seasons and school semesters in a number of countries and destinations as well as our competitors' pricing, and allows us to, for example, define rules for different fare classes according to a flight's load factor and days to departure which can then be applied to the flight based on the route's past performance. We use historical data and statistical forecasting models to analyze our performance on a route-by-route basis in order to maximize our revenue. This revenue management process also covers our route and schedule planning and our sales and distribution methods.

We believe our revenue management practices enable us not only to react quickly in response to market changes but also to anticipate market changes in demand and pricing. For example, our revenue management system is instrumental in helping us to identify the times and routes for which we offer promotions. By offering lower fares for seats that our revenue management system indicates would otherwise remain unsold, we can capture additional revenue and also stimulate customer demand. Our revenue management is also supported by our financial reporting systems, which can generate, among other things, a daily income statement with granularity down to operating metrics on a route-by-route basis to assist our revenue management team that monitors our revenues on a daily basis and whose target is to maximize the revenue from each individual flight.

The number of seats we offer at each fare level in each route results from a continual process of analysis and forecasting. Past sales history, seasonality, the effects of competition and current sales trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are included in our forecasting model to arrive at optimal seat allocations for our fares on specific routes. Also, our practice of not accepting seat reservations without payment but instead requiring customers to pay for tickets at the time their seat is secured helps to increase the accuracy of our revenue management. Our option sales offering, under which a passenger pays a fee to reserve a given price for a set number of days prior to booking, has also helped us to improve the accuracy of our revenue management. We use a combination of approaches, taking into account yields and flight load factors,

depending on the characteristics of the markets served, to arrive at a strategy for achieving the best possible RASK, balancing the average fare charged against the corresponding effect on our load factors.

## Sales and Distribution

### *Overview*

We use electronic tickets for all travel with Pegasus, thereby eliminating costs associated with printing, mailing and modifying tickets as well as re-issuing lost or stolen tickets. Our customers can purchase tickets for Pegasus flights through the flypgs.com website (including our mobile site), travel agents, our call center and airport sales offices. We have also actively developed our international distribution through GDSs, such as Amadeus. GDSs are currently our third largest distribution channel in terms of ticket sales volumes.

The following table shows the distribution of ticket sales volumes among these channels for the periods indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2010 | |
| | International | Domestic | International | Domestic | International | Domestic |
| | Percentage of tickets sold[1] | | | | | |
| Website[2] | 32.5 | 47.3 | 31.5 | 45.5 | 30.8 | 45.5 |
| Travel agents | 52.9 | 45.8 | 55.0 | 45.8 | 63.2 | 46.6 |
| GDSs[3] | 12.7 | 1.3 | 10.2 | 1.5 | 1.7 | 0.3 |
| Call center | 0.9 | 3.1 | 2.0 | 5.2 | 2.7 | 6.3 |
| Other | 1.0 | 2.5 | 1.3 | 1.9 | 1.5 | 1.3 |

(1) Of total tickets sold on scheduled flight ticket sales (includes split charter).

(2) Includes sales through the mobile site.

(3) Includes sales by travel agents, including online travel agents, that are booked through GDSs.

We seek to increase the number of business customers by offering incentives for customers based on the volume of their ticket purchases and fixed ticket prices with flexible reservation and cancellation policies on all our international routes and on our domestic routes to İzmir and Ankara, our primary domestic business routes. In order to increase corporate revenue, we also offer bundled products, including online fares that bundle additional products such as seat selection, in-flight beverages and food and excess baggage allowance, targeted at business customers through our website since 2011. As of the date of this Offering Circular, we employ three sales representatives who are responsible for serving our corporate customers in addition to their responsibilities with respect to serving travel agent sales. These representatives also aim to expand our corporate customer portfolio by, among other things, visiting corporate customers as well as travel agents that serve corporate customers. As of the date of this Offering Circular, we have direct sales agreements with approximately 25 large companies in Turkey.

Customers are also able to purchase our tickets and tickets of our codeshare partners pursuant to our codeshare arrangements as discussed in "—Customer Programs and Partnerships—Cooperation and Partnerships."

### *flypgs.com Website*

Our website, flypgs.com, was launched in 2005 when we re-launched our operations as a low-cost carrier. While our customers have the convenience of choosing from any of our distribution options, our strategy is to be an internet-based company with respect to both distribution and sales. In addition to flights, we also promote additional services through our website, including seat selection, pre-purchased excess baggage allowance, "price fix" (ability to reserve a given ticket price for a set number of days prior to booking for a fee), SMS services, in-flight catering and duty free shopping that provide ancillary revenues that support our low-cost model. See "—Ancillary Revenue." We also offer travel-related services, such as car rental services, travel insurance and hotel reservations, online. As of the date of this Offering Circular, we are updating our travel insurance sales platform at the request of the Treasury that supervises the insurance sector in Turkey, and have temporarily suspended travel insurance sales on our website but expect to continue to offer travel insurance on our website again by the summer of 2013. Our goal is to continue to increase the proportion of online ticket sales of our total ticket sales. To support the growth of online bookings, we introduced a new version of the flypgs.com website tailored for mobile devices in 2010. The mobile site contains ticket purchase, meal pre-order, seat selection, online check-in and travel insurance, Pegasus Plus membership and flight information features.

We strongly promote the use of our website because it is our most efficient distribution channel in terms of cost-savings and customer convenience. To encourage the use of our website and the mobile site by our customers, we offer lower prices for online ticket purchases than for equivalent tickets offered through our other sales channels. By focusing on internet-based distribution, we are able to streamline our ticket sales and services and reduce costs associated with more traditional distribution channels. In addition to being cost-effective, focusing on internet distribution also provides our customers with high levels of convenience, as they are better able to interact with us when they want and how they want, currently in eight languages in addition to Turkish. We have a dedicated team of information technology specialists who are responsible for both the operation of the customer-facing website product and the infrastructure necessary to support regional coverage. To the extent necessary, we also retain third-party services in connection with the development and improvement of our website.

For our sales cooperation with Air Berlin, see "—Customer Programs and Partnerships—Cooperation and Partnerships."

***Travel Agents***

Our customers can purchase tickets indirectly through travel agents, who are still the main sales channel for domestic flights in eastern and northern parts of Turkey as well as in selected international markets, in particular markets with a high volume of travel by passengers of Turkish origin living outside of Turkey. Currently, approximately 1,700 active agents in Turkey and 1,300 active agents internationally sell Pegasus tickets. We also have close cooperation with tour operators both in Turkey and in markets with significant levels of tourism to Turkey, and we provide incentives based on sales volume to travel agents that serve, in particular, the Turkish community residing outside of Turkey and customers visiting friends and family in Turkey.

Travel agents also use our online agency booking system, which is based on the flypgs.com interface and has been tailored specifically for use by travel agents. When booking flights, passengers booking via travel agents pay us our standard fares, and international and domestic travel agents collect service fees directly from customers, which are added on to the ticket costs. Our booking system is integrated with Amadeus.

***GDSs and Online Travel Agents***

Although we will continue to develop our website flypgs.com as our main sales channel, we believe that one of the key elements for sustainable growth, in particular for international flights, is a mix of distribution channels. Therefore, we actively use the GDS sales channel for our international flights and domestic flights sold to customers outside of Turkey. Tickets for domestic flights are currently not sold via GDSs in Turkey but many domestic travel agents use our online agency booking system. We currently use Amadeus as our GDS and expect to connect to two additional GDSs. We believe that these two new GDSs will complement our distribution capabilities, especially in the Middle East region, which is one of our target growth areas. In the future, we plan to further develop our tour operator cooperation through the use of these additional GDSs that will make the booking process for tour operators more efficient as the need for manual processing is reduced.

We also cooperate with selected online travel agencies and consolidators (i.e., ticket brokers who negotiate airline ticket prices directly with airlines and sell them to travelers at discounted prices). We believe this cooperation has helped us to increase our brand awareness internationally as we have benefited from the broad distribution capabilities and customer acceptance of these travel agencies and consolidators. The largest online travel agencies we cooperate with are Go Voyages (which also operates as a consolidator), Supersaver, Opodo, Edreams, Ebookers and Expedia. Most of our online travel agency partners generate their bookings via Amadeus but we are currently negotiating with some of these agencies about potentially moving to direct bookings as direct bookings are more cost-efficient for us as compared to bookings via a GDS such as Amadeus. We are also cooperating with price comparison sites, including Liligo, Kayak, Swoodoo, Skyscanner and FareCompare, that redirect customers to flypgs.com to complete their ticket purchase should the customer decide to travel with us.

***Call Center***

We use a call center that operates 24 hours a day, seven days a week, and is owned by CallPex Çağrı Merkezi ve Müşteri Hizmetleri Anonim Şirketi ("CallPex"), a company in which the chairman of our board of directors, Ali Sabancı, holds a 28% interest. Calls from customers in France, Germany, Italy, Switzerland and the United Kingdom are automatically rerouted to this call center that has operations in İstanbul and Yozgat. The call center has interactive voice response (IVR) capabilities. Under the agreement related to the call center, CallPex guarantees us that it will manage a pre-determined monthly level of uninterrupted service. See "Related Party Transactions—Service Agreements."

*Airport Sales Offices*

As of the date of this Offering Circular, we serve 28 airports in Turkey. A ticket sales office offering our tickets operates in each of these airports. Of these sales offices, eight, including the ticket sales office at Sabiha Gökçen Airport, are operated by us. As of December 31, 2012, we employed a total of 48 people who worked at these ticket sales offices. Our sales offices in the remaining Turkish airports are operated by general sales agents or supervision and representation service providers. We also have an airport sales office at Ercan Airport in Lefkoşa, North Cyprus, which is operated by a third-party general sales agent.

**Customer Programs and Partnerships**

*Pegasus Plus Loyalty Program*

We launched our new loyalty program, Pegasus Plus in October 2011. We believe that Pegasus Plus, which is integrated with our Pegasus branded credit card, (see "—Pegasus Card") system, is an important tool in creating customer loyalty and driving repeat purchases. In line with our low-cost model, customers can apply for Pegasus Plus membership online, by SMS with their phones or at our sales offices and can manage their accounts online. There are no physical Pegasus Plus membership cards and the customer's mobile phone number is her or his membership number.

Unlike most other airline loyalty programs that offer airline miles, we offer so-called "flight points" to passengers who join the program. For each purchase of a ticket on a Pegasus flight and additional services such as excess luggage, pre-ordered meal or seat selection, customers receive 2% of the purchase price of the ticket and any additional services as flight points. Currently, each flight point equals TL1.00. Customers can redeem flight points as if they are cash when purchasing Pegasus flight tickets (including taxes and charges) and additional services and, when redeeming the flight points, will have access to all available seats on our flights, even during peak times and high seasons. This is different from typical airline loyalty programs where customers often have only a limited selection of flights and seats when redeeming their miles. Flight points can also be used to pay charges and taxes related to flight tickets. Flight points are valid until the last day of the second calendar year following the calendar year the flight points were earned. In the beginning of April 2013, the Pegasus Plus loyalty program had approximately 670,000 members.

*Pegasus Plus Card*

We started offering a Pegasus branded credit card in cooperation with HSBC Bank A.Ş. in 2008. Our cooperation with HSBC Turkey Bank A.Ş. ended in March 2013 and on April 4, 2013, we signed a new cooperation agreement with ING Bank A.Ş. ("ING Turkey"), pursuant to which ING Turkey will act as the financial institution operating and funding the Pegasus branded credit card system. The credit card offered pursuant to the ING Turkey cooperation is integrated with the Pegasus Plus loyalty program and named "Pegasus Plus Card." Our agreement with ING Turkey will become effective when the first Pegasus Plus Card is delivered to an ING Turkey customer and will remain in force for an initial period of three years. Unless they already are a member, Pegasus Plus Card holders become a member of the Pegasus Plus loyalty program and, when using their Pegasus Plus Card for purchases, will receive 1% of the purchase price as flight points. The cost of these flight points is funded by ING Turkey. In addition, for each purchase of a ticket on a Pegasus flight and related additional services made with a Pegasus Plus Card, the cardholder receives an additional 2% of the purchase price of the ticket and any such additional services as flight points funded by us in line with the terms of the Pegasus Plus loyalty program.

*Cooperation and Partnerships*

*Air Berlin Cooperation*

Following Esas Holding becoming the then largest shareholder of Air Berlin (as of the date of this Offering Circular, Esas Holding is the second largest shareholder), we started web link cooperation with Air Berlin in September 2009, which enables Pegasus and Air Berlin to market selected flights of the other airline to the customers visiting our respective websites, linking them at the search level. We and Air Berlin also signed a codeshare agreement in June 2010. The codeshare agreement lays down the framework under which either we or Air Berlin, acting as the operating carrier, make capacity available to the other carrier to market these flights under its designator on pre-determined routes. We launched codeshare flights under this agreement in September 2011, covering international routes between Germany and İstanbul and connecting flights between Sabiha Gökçen Airport and Ankara and İzmir flown by us as the operating carrier. The routes covered by the codeshare arrangements may be extended based on the agreement of the parties.

In June 2011, we started negotiations with İzAir and Air Berlin regarding the AirBerlin Turkey Project (i.e., a shared operation that would cover split charter operations between Antalya in Turkey and selected German cities under the brand name "AirBerlin Turkey"). The operation of the AirBerlin Turkey Project developed through various phases between November 2011 and March 2013. In March 2012, we agreed to sell part of the shares we own in İzAir, corresponding to 46.82% of İzAir's share capital, to Air Berlin and, together with Air Berlin, to jointly control İzAir thereafter. However, in March 2013, we and Air Berlin agreed to suspend the operations of the AirBerlin Turkey Project for the time being. As of the date of this Offering Circular, all of the aircraft in İzAir's fleet are wet leased to us. See "Related Party Transactions—Wet Lease Agreements."

As part of the agreement to suspend the operations of the AirBerlin Turkey Project and following the capital increase by İzAir in March 2013, which is expected to result in a decrease in Air Berlin's ownership in İzAir to 29.51%, we have agreed in principle to grant Air Berlin a call option, which, if exercised, will allow Air Berlin to increase its shareholding in İzAir back to 46.82%. As currently contemplated, the call option can be exercised by Air Berlin within one year from the receipt by İzAir of a scheduled flights license. In the event the call option is exercised by Air Berlin as currently contemplated, and subject to İzAir obtaining a scheduled flights license from the Civil Aviation Authority, we expect that the AirBerlin Turkey Project will resume based on a blocked codeshare arrangement (i.e., a codeshare arrangement where only the marketing carrier sells seats) between İzAir and Air Berlin. However, the Air Berlin call option has not been finally agreed. As of the date of this Offering Circular, İzAir has not applied for a scheduled flights license as it does currently not have the minimum of five aircraft that are required for such a license to be registered to its name. For a more detailed discussion of the material terms of the agreements between us and Air Berlin, see "—Material Agreements—Agreements Relating to İzAir."

*Azal*

In May 2012, we launched joint flights between Sabiha Gökçen Airport and Baku in Azerbaijan with Azal on a codeshare basis. The joint flights are operated by Azal and we serve as the marketing carrier, and these flights are available through both airlines, including our flypgs.com website. In addition to the codeshare agreement, we also have a bilateral prorate agreement with Azal, pursuant to which Azal provides connections to our network for passengers that are carried to/from Sabiha Gökçen Airport or Atatürk airport in İstanbul with Azal operated flights.

*Air Manas*

We acquired 49% of Air Manas, a limited liability company established in Kyrgyzstan, in August 2012. Air Manas had no operations at the time of the acquisition but, as of the date of this Offering Circular, has an Air Operator's Certificate issued by the Civil Aviation Agency of Kyrgyzstan. The remaining shares in Air Manas are held by Kyrgyz nationals. We influence important decisions of Air Manas through our arrangements with the other shareholders.

In November 2012, we entered into a wet lease agreement with Air Manas. The wet lease arrangement became effective in March 2013 following the receipt of the necessary permissions from the Kyrgyz authorities and the Civil Aviation Authority in Turkey. The agreement will expire on June 30, 2013. Under the wet lease agreement, we provide the capacity required by Air Manas for its operations by wet leasing Boeing 737-800NG aircraft from our fleet to Air Manas on an ACMI basis, and Air Manas has assumed the commercial control in relation to flights between Sabiha Gökçen Airport and Bishkek in Kyrgyzstan. Air Manas commenced a daily round-trip flight between Sabiha Gökçen Airport and Bishkek in March 2013.

*Other Cooperation*

As of the date of this Offering Circular, we are not a member of any major airline alliances and do not expect to join any such alliances in the near term. In addition to our Air Berlin cooperation, we are, however, looking to cooperate with airlines operating at our hub, Sabiha Gökçen Airport in İstanbul, by feeding and de-feeding passengers in our international and/or domestic network and vice versa. In line with this strategy, as of the date of this Offering Circular, we are in the final stages of entering into a codeshare arrangement with a large international airline. Under this planned arrangement, we will act as the operating carrier and the other airline as the marketing carrier, in addition to which we expect the other airline to offer tickets on our domestic flights through a separate prorate agreement. This planned new codeshare arrangement will not affect our low-cost carrier business model, including our pricing strategy and fare structure.

## Marketing

Our marketing strategy aims to position Pegasus as the low-cost airline that has made air travel easier and more accessible for passengers in Turkey. Our goal is to reinforce this public perception and grow our network while also strengthening the public's awareness of our brand attributes, which include low fares, on-time performance and new fleet of aircraft. In the international routes, we also aim to increase awareness of Pegasus and the destinations that we fly to. By executing our marketing strategy, we aim to enhance our brand awareness, support the increase in load factors on our flights, increase the share of online sales of our total sales and encourage customers to try the ancillary services we offer.

Our marketing strategy applies a segmented approach, targeting mainly leisure travelers, business customers, the Turkish community residing outside of Turkey and customers visiting friends and family in Turkey. We utilize third-party research in developing our marketing strategy and have carried out a number of consumer and market research studies in order to understand the changing market in which we operate, competitor dynamics and customer needs. We develop our marketing strategy and communication programs, in part, based on these studies. Based on these studies, we have developed a marketing strategy to position Pegasus as the low fare, young fleet and on-time Turkish airline of choice through both mass and direct communications.

To reach our customers, we market our brand and services through both online and offline communication channels. As an important part of our marketing efforts, we run regular promotional fare campaigns on a weekly basis to stimulate demand and to encourage visits to our website. We believe that these promotions, which include both route-specific and date-specific discounts, are an important tool in increasing our load factor and advance sales ratio and raising awareness of our new routes as well as our customers' perception of us as a dynamic low-cost carrier. We intend to continue these promotional campaigns going forward.

In line with our strategy to increase the share of online sales of our total sales, we aim to increase the awareness of and traffic on our flypgs.com website. In addition to advertising flypgs.com to increase the public's awareness of it, email marketing and digital marketing plays an important role in driving traffic to the website. We also advertise our new routes through both online and offline media channels. We utilize the Pegasus Plus loyalty program to increase passengers' loyalty and repeat purchases. We market the program through mass channels and targeted communications directly to Pegasus passengers. We run member recruitment and repeat purchase promotions regularly to increase Pegasus Plus membership numbers and repeat purchases.

Our innovative marketing and advertising efforts and brand positioning have resulted in a number of awards and accolades, including being chosen as one of the 10 "Superbrands" in Turkey by Superbrands Ltd. in 2010 and the "Brand coming forward with its investments—Digital Medium" at the GIA Awards in International Marketing Summit in 2012.

In the years ended December 31, 2012, 2011 and 2010, we spent approximately 2.1%, 2.3% and 2.1%, respectively, of Pegasus Operating Revenue on advertising activities.

## Aircraft

### *Overview*

As of the date of this Offering Circular, our operating fleet comprises 38 Boeing 737-800NG aircraft (with the maximum configuration of 189 seats in each plane) and one Boeing 737-400 aircraft (with the maximum configuration of 168 seats), in addition to which we operate three Boeing 737-800NG aircraft of our subsidiary İzAir under wet leases. The average age of our aircraft is 3.4 years as of the date of this Offering Circular, making our fleet the youngest among airlines in Turkey. We have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. The Airbus Order, which was announced in December 2012, was, at that time, the largest single aircraft order in Turkey's civil aviation history. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that 63 of the 75 firm order Airbus aircraft will be delivered after 2017. To satisfy our expected capacity needs in the near term, we also plan to wet lease two additional Boeing 737-800NG aircraft from IzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013.

The Boeing 737-800NG aircraft can carry 189 passengers in a single class and has a flight range of up to nearly 5,800 kilometers, are fuel-efficient and suit our cost-efficient operations as they have comparatively simplified maintenance routines, require just one type of standardized training for our crews, and have lower operating costs than the Boeing 737 Classic models (−300, −400, −500) in a single class setting. In addition to being cost-efficient, the Boeing 737-800NG aircraft are equipped with advanced technology that promotes flight stability, providing a more comfortable flying experience for our customers, and also comply with Chapter 3 noise reduction requirements established by ICAO, which took effect in the EU in 2002.

The Airbus A320neo can carry 180 passengers in a single class setting and has a flight range of 5,200 kilometers, while the Airbus A321neo aircraft has a capacity of 220 seats in a single class setting and a flight range of 5,000 kilometers. The Airbus A320neo and A321neo aircraft that will be delivered to us pursuant to the Airbus Order will feature efficient new generation engines and sharklets (i.e., vertical wing tips) that together, according to Airbus, can generate fuel savings of 15% per aircraft per annum when compared to the classic Airbus A320 model, which savings, in turn, will also result in similarly decreased carbon dioxide emissions. Because of their new engines, the Airbus A320neo aircraft are able to carry an extra load of 1.2 tons and the new A321neo aircraft are able to carry an extra load of 2.7 tons compared a classic Airbus A320 aircraft.

As of the date of this Offering Circular, of the 42 aircraft in our fleet (including the three aircraft we wet lease from İzAir), 27 aircraft (including 26 aircraft operated under finance leases) are owned by us and 12 are operated under operating leases. Up to 2007, we primarily relied upon operating leases for our aircraft capacity needs. However, to benefit from the advantages of aircraft ownership, which include tax benefits, operating flexibility (including the ability to sell the aircraft) and maintenance efficiencies as we can manage the maintenance of owned aircraft (including finance lease aircraft) ourselves, we have increased, and carefully managed, the portion of owned aircraft by way of finance leases in our fleet, while maintaining operating leases for financing flexibility and risk management purposes.

To provide flexibility for our fleet expansion program, we use operating lease arrangements for a portion of the aircraft in our fleet. As of the date of this Offering Circular, we have operating lease agreements for a total of 12 Boeing 737-800NG aircraft with six different leasing companies. Of these 12 aircraft, nine have been financed through a sale and leaseback arrangement where we first transferred our aircraft order to a leasing company, after which we entered into an operating lease agreement with the leasing company and leased the aircraft that the leasing company had purchased based on the transferred order. While the costs related to sale and leaseback arrangements are slightly higher than the costs of Ex-Im supported financing, and are expected to be higher than the costs of European ECA supported financing, we believe that sale and leaseback arrangements provide us with certain benefits, including the additional flexibility to manage our balance sheet structure and the ability to mitigate the residual value risk relating to aircraft ownership. We expect to finance each of the remaining five Boeing 737-800NG aircraft to be delivered to us between 2013 and 2015 through sale and leaseback arrangements. With regard to our future fleet of Airbus A320neo and A321neo aircraft, while we have not made a decision regarding whether we will own or lease the new aircraft under operating leases, we expect to continue to actively manage this fleet and to maintain a balanced portfolio of owned aircraft and aircraft under operating leases.

The following table sets forth additional information on the composition of our fleet as of the dates indicated. The figures below do not include aircraft used by the AirBerlin Turkey Project from and including November 1, 2011.

| | | As of December 31, | | |
|---|---|---|---|---|
| **Fleet** | **Seats** | **2012** | **2011** | **2010** |
| Boeing 737-800NG | 189 | 38[(1)] | 31 | 22 |
| Boeing 737-500 | 131 | — | 1 | 3 |
| Boeing 737-400 | 168 | 2 | 2 | 2 |
| Airbus A319 | 144 | — | 3 | 3 |
| Airbus A320 | 180 | — | 2 | 2 |
| Total | | 40 | 39 | 32 |
| Average number of aircraft during period | | 39.6 | 37.7 | 28.3 |

(1) Since December 31, 2012, we have received the delivery of one new Boeing 737-800NG aircraft and redelivered to the relevant lessor one Boeing 737-800NG aircraft and one Boeing 737-400 aircraft that we operated under operating leases.

***Fleet Expansion***

Since 2005, we have placed firm purchase orders with Boeing for 40 new 737-800NG aircraft, of which 35 have been delivered to us. As of the date of this Offering Circular, we have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. To satisfy our expected capacity needs in the near term, we also plan to wet lease two additional Boeing 737-800NG aircraft from İzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013. In July 2012, we placed the Airbus Order, which comprises a firm order for 57 A320neo aircraft and 18 A321neo aircraft. We expect the firm order Airbus aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022. The Airbus Order also includes an option for 25 additional aircraft. For additional details on the capital expenditures related to our fleet expansion, the expected annual deliveries and the financing of our aircraft, see "—Operating and Financial Review—Capital Expenditures" and "—Liquidity and Capital Resources."

The following table shows the expected expansion of our fleet between 2013 and 2022, which is the expected final year of deliveries of the firm order aircraft under the Airbus Order, assuming first deliveries under the Airbus Order take place in 2015 and excluding expected outflow of aircraft and any additional aircraft of İzAir we may start operating under wet leases.

| | For the year ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022[2]** |
| Boeing 737-800NG inflow (during year) | 2[1] | 2 | 2 | — | — | — | — | — | — | — |
| Airbus A320neo inflow (during year) | — | — | 2 | 5 | 5 | 10 | 14 | 13 | 8 | — |
| Airbus A321neo inflow (during year) | — | — | — | — | — | — | — | — | 5 | 13 |

(1) We have received the delivery of one of the two new Boeing 737-800NG aircraft to be delivered in 2013.

(2) If we exercise, either in part or in full, the option we have under the Airbus Order for 25 additional aircraft, the deliveries of these aircraft will commence after 2022 unless earlier deliveries are agreed between Airbus and us.

We continuously evaluate our aircraft needs and market conditions. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that we will have 44, 47 and 52 aircraft in our fleet as of December 31, 2013, 2014 and 2015, respectively, and that these fleet numbers will include five Boeing 737-800NG aircraft of İzAir that we expect to operate as of the same dates. We expect that the average number of aircraft in our fleet in 2013, 2014 and 2015 will be 43, 46 and 52, respectively.

Our focus on having low operating costs means that we will periodically review our fleet composition. As a result, our fleet composition may change over time if we conclude that adding other aircraft types would contribute to this goal. However, as we aim to preserve the low cost structure of our operations, our approach to our fleet composition is based upon having aircraft types with the lowest possible operating costs combined with a low acquisition price. As a result, the introduction of any new aircraft type to our fleet will only be done if, after careful consideration, we determine that such a step will reduce our operating costs.

***Maintenance***

The maintenance performed on our aircraft can be divided into two general categories: line and heavy maintenance. Line maintenance consists of routine, scheduled maintenance checks on our aircraft, including pre-flight and daily checks ("A" checks) and any diagnostics and non-routine defect rectification. Heavy maintenance consists of more complex inspections, maintenance and repairs of the aircraft that cannot be accomplished overnight ("C" and "D" checks). Line maintenance checks are mostly performed by our own experienced technicians. Pegasus has line maintenance stations in the following airports: Sabiha Gökçen, Antalya, İzmir Adnan Menderes, Kayseri, Trabzon and the Ercan Airport in North Cyprus. During the summer season, seasonal line maintenance stations are opened at the Dalaman, Bodrum and Brussels airports. We perform "A" checks at the Sabiha Gökçen, Antalya, İzmir Adnan Menderes, Ercan, Dalaman and Bodrum airports. We believe that all our maintenance work is carried out in compliance with international maintenance standards.

As of December 31, 2012, we employed 303 maintenance professionals, including 37 graduate engineers, 176 licensed technicians, 42 non-certified employees, 25 employees performing logistics and maintenance services and 23 other staff. We perform maintenance on our Boeing 737 aircraft in

accordance with maintenance plans that are established by Boeing and approved and certified by Turkish and international aviation authorities.

We are approved as a SHY 145 / JAR 145 maintenance organization and are licensed by the Civil Aviation Authority to provide line maintenance up to "A" checks for Boeing 737-300/400/500/800 models as well as Airbus A319 and A320 aircraft. At airports where we do not have a line maintenance station, pre-flight servicing, troubleshooting and defect rectification services may be performed either by us or by other maintenance organizations certified through EASA 145 or the Civil Aviation Authority. At many line stations, there are on-call base maintenance agreements for non-routine defect rectifications.

Heavy maintenance checks are performed following a pre-scheduled agenda of major overhauls defined by the aircraft's manual, based on the number of flights and hours flown by the aircraft as well as calendar days. We currently contract with certified outside maintenance providers for heavy "C" base maintenance checks, aircraft engine, auxiliary power unit and landing gear (off-wing) maintenance services based on annual contracts that are tendered. During the last five years, the majority of these checks were carried out primarily by Turkish Technic under a framework agreement that will expire on December 31, 2014. Turkish Technic is a wholly owned subsidiary of Turkish Airlines and the leading aircraft maintenance, repair and overhaul services company in Turkey that is certified through EASA 145, FAA and SHY 145 / JAR 145 for the performance of maintenance services. In the longer term, we are considering establishing our own maintenance center with the capability of carrying out heavier checks.

The heavy structural inspections, maintenance and repairs ("D" checks) are typically carried out on the Boeing 737-800NG type aircraft type when they reach the age of eight, 10 or 12 years. As of the date of this Offering Circular, given the young age of our Boeing 737-800NG aircraft, we have not established a "D" check program for our aircraft. We expect to contract with a third-party service provider to carry out these "D" checks in due course.

We signed a component support agreement, also known as a "power-by-hour" agreement, with Turkish Technic in February 2011 for selected major Boeing 737-800NG aircraft components. By signing this contract, we obtained a fixed component maintenance cost for the major components until the end of 2020. We believe that over the course of the agreement this arrangement will provide savings compared to in-house sourcing of these components. In addition to the monetary advantage that we expect this arrangement to bring, we believe there will be logistical advantages to using Turkish Technic's logistical abilities, which will reduce maintenance time, in addition to which we expect the new agreement to shorten the lead time for the supply of components. Under the component support agreement, Turkish Technic will establish a component stock for us and we expect to sell the existing component stock that we own and is covered by the agreement. As of the date of this Offering Circular, other than with regard to engine maintenance, we have not finalized our plans regarding the component maintenance of the new Airbus A320neo and A321neo aircraft we have ordered from Airbus.

We have the capability of removing engines from our aircraft and having them replaced. We contract with KLM N.V., Lufthansa Technik AG, Snecma SA, Turkish Technic and Pratt & Whitney Corporation's engine center in Turkey for any necessary engine repair and overhaul work. We do not currently own any spare engines. Thus, in case of unscheduled removals, the expected waiting time before a new engine is available is four to five days. In case of scheduled engine maintenance, we perform replacements, to the extent necessary, without service interruptions by obtaining a leased engine in advance of such maintenance. We pay a daily fee, an hourly fee and a recurring fee for all leased engines. The lease term for such engines is typically 60 to 90 days, depending on the time required for transportation between our hub at Sabiha Gökçen Airport and the engine shop. We expect to outsource the engine maintenance of the new Airbus A320neo and A321neo aircraft we have ordered from Airbus.

İzAir is not certified to provide line or heavy maintenance services. Based on the approval of the Civil Aviation Authority, we provide maintenance support and surveillance services to İzAir in connection with its maintenance requirements. İzAir separately procures technical maintenance services from us, including pre-flight, daily, weekly and "A" line maintenance checks. See "Related Party Transactions—Service Agreements."

**Safety and Security**

***Safety***

Safety and security have been our highest priority since 1990 when Pegasus commenced its operations. We have implemented a comprehensive safety management system and maintain our aircraft in strict compliance with manufacturer specifications and all applicable safety regulations, and perform routine line

maintenance every day. Our pilots have extensive experience and we conduct ongoing courses, extensive flight simulation training and seminars addressing the latest developments in safety and security issues. Our commitment to safe operations is also apparent through our investment in safety-related equipment, adoption of an internal confidential reporting system for safety issues, collation of data for analysis and oversight of procedures and issues relating to safety standards. As part of our safety strategy, we have also established a Boeing 737-800NG flight simulator in İstanbul through our joint venture with SIM-Industries, see "—Other Revenue—Training." The flight simulator, which commenced operations in January 2011, services our cockpit crews' training needs. As part of the Airbus Order arrangement, Airbus will install flight simulators at our flight training center and provide support for flight training, crew training and maintenance training for the Airbus A320neo and Airbus A321neo aircraft types.

All training programs for our pilots and cabin crew are approved by the Civil Aviation Authority, which regularly audits both operation control standards and flight crew training standards for compliance with Turkish legislation. We have a comprehensive and documented safety management system and provide training with respect to prevention of possible incidents. This ensures that our employees understand their responsibility in ensuring safety standards and identifying and reporting hazards or incidents. We have a robust reporting culture and we encourage flight crews to report any safety-related issues either directly to our management or indirectly through our confidential reporting system that affords flight crew the opportunity to report directly to senior management any event, error or discrepancy in flight operations that they do not wish to report through standard reporting channels. The confidential reporting system is designed to increase management's awareness of problems that may be encountered by flight crew in their day-to-day operations.

We use the information reported through all reporting systems to carry out operational risk assessments, manage any identified hazards, modify operating procedures and improve flight operation standards. We also carry out online safety promotions and surveys to our employees. Safety surveys of operations and facilities provide our management with information on safety levels and efficiencies within the company. In addition, we use AQD (Aviation Quality Database) software which encompasses all quality and aviation safety elements such as safety, quality and risk analyses, hazard identification, occurrence/incident reporting, analysis and investigations. Our flight safety manager leads our internal safety team, which comprises the flight safety department and advisors from operational departments. These advisors are responsible, among other things, for participating in safety studies and safety trend analyses, overseeing hazard identifications in their respective departments and participating in incident and accident investigations.

As part of our safety management, we have established an internal safety review board, which supervises our strategic safety operations and is comprised of the heads of each functional area, including technical, ground operations and quality and flight operations functions. The safety review board's goal is to ensure that appropriate resources are allocated to the relevant functions so that we can achieve our targeted safety levels. More specifically, the safety review board monitors our safety performance against our safety policy and objectives, the effectiveness of the safety management system implementation plan, the effectiveness of the safety supervision of contracted operations, the timely performance of corrective actions and the effectiveness of our safety management processes. The safety review board convenes bi-monthly. For information on the safety committee of our board of directors, see "Management—Corporate Governance—Safety Committee."

We have not had a single incident involving major injury to our passengers or employees. We have had minor incidents with our aircraft in the ordinary course of business. We believe the number and type of these incidents is typical to airlines with a level of activity similar to that of Pegasus.

Our operations have been certified by the Civil Aviation Authority as being in compliance with JAR 145, JAR OPS 1 and JAR FCL.

***Security***

While the relevant airport operators are responsible for security screening of passengers and baggage at Pegasus' domestic and international airports, we train our staff to remain vigilant in identifying potential security breaches as well as to handle unruly passengers. We also institute secondary checks, such as passport screening, at certain airports. All potential employees undergo thorough screening of their background prior to being hired and are subsequently also screened by the local regulators and airport police before they are permitted access to the relevant airports. Appropriate training is provided to crew in respect of dangerous goods awareness and other such security issues. We are governed by the security regulations of the Turkish Civil Aviation Authority and ICAO. See "Regulatory Framework."

**Airport Operations**

We have obtained a "Group B" permit to carry out ground handling operations at the İzmir Adnan Menderes airport and are certified by the Civil Aviation Authority to provide ground handling services internally. However, we mostly outsource ground handling and passenger handling services at the airports we serve. Currently, we provide our own passenger handling, load control and flight operations only at the İzmir Adnan Menderes airport. Ground handling services include ramp (baggage handling) and passenger handling services (including check-in and boarding services), flight operation coordination, aircraft security and in-flight catering. Other airport operations, including security screening of passengers and luggage, are primarily the responsibility of the authorities at the airports. We contract with Çelebi Hava Servisi A.Ş. ("Çelebi") for ground handling equipment and services and passenger handling services at Sabiha Gökçen Airport. Our contract with Çelebi became effective in November 2011 and ends on May 31, 2013. However, as part of our efficiency initiatives, we will insource passenger handling services at Sabiha Gökçen Airport starting from June 1, 2013 and expect to do the same at selected other airports in Turkey in the future. We have executed a new agreement with Çelebi that covers ground handling services and equipment under the new self-handling arrangement, and this agreement will become effective on June 1, 2013. We contract with ISG for the use of terminal facilities at Sabiha Gökçen Airport.

We are also authorized by the Civil Aviation Authority to provide transportation services to our passengers from/to Sabiha Gökçen Airport and from/to the airports in Adana, Bodrum, Dalaman, Elazığ Hatay, İzmir, Malatya, Samsun, Sivas, and Van.

As with other airlines, we must pay airport charges each time we land and access facilities at the airports we serve. Depending on the policy of the individual airport, such charges can include landing and parking fees, passenger service charges, and security fees. As part of our low-cost strategy, where possible, we seek to negotiate advantageous terms for certain airport charges and other rebates.

**Competition**

Airlines compete primarily on the basis of prices, route network, flight schedule, reputation, safety record, range and quality of services provided and type and age of aircraft. We believe that our route portfolio, low-cost operating model and modern fleet enable us to compete favorably in many of these areas. See "—Key Strengths." However, as the growth in the Turkish low-cost airline sector evolves, we may face increased competition from existing and potential new low-cost, low-fare operators. Full-service competitors may also reduce their fares to attract passengers, thereby increasing competition on the low-cost airline sector. See "Risk Factors—Risks Relating to the Airline Industry—Competition in the airline industry is intense and, if we are not able to respond to competition, this could have a material adverse effect on our business, financial condition and results of operations."

Currently, in addition to Pegasus which has had scheduled services since 2005, there are four major Turkish airlines providing scheduled services: Turkish Airlines (including its low-cost brand AnadoluJet), Lufthansa AG's and Turkish Airlines' joint venture Güneş Ekspres Havacılık A.Ş. ("SunExpress"), Onur Air Taşımacılık A.Ş. ("Onur Air") and Atlasjet Havacılık A.Ş. ("Atlasjet").

Competition for the domestic market of Turkey is limited to domestic airlines, while in the international market we compete with a number of operators. We believe that our main domestic competitors on our existing routes are Turkish Airlines, AnadoluJet, SunExpress, Onur Air and Atlasjet:

- Turkish Airlines, the Turkish state-controlled legacy carrier, is the largest provider of both international and domestic scheduled flights in Turkey. Turkish Airlines caters to routes which tend to have higher yields because of a higher portion of business class passengers, and due to its decision to allocate lower yield routes from their hubs (except for Atatürk airport in İstanbul) to AnadoluJet and SunExpress. As of December 31, 2012, we had 36 international scheduled routes and 30 domestic scheduled routes that overlapped with the routes offered by Turkish Airlines.
- AnadoluJet is the low-cost brand of Turkish Airlines. AnadoluJet does not operate as a separate entity and its results of operations are included in the results of operations of Turkish Airlines. When Turkish Airlines launched AnadoluJet in 2008, AnadoluJet took over all Turkish Airlines' flights out of Ankara, except those to İstanbul and selected leisure destinations where the proportion of business class passengers is comparatively high. AnadoluJet seeks to implement the low-cost carrier model by limiting on-board catering and by increasing the seating capacity of aircraft from the arrangements used by Turkish Airlines. AnadoluJet has a special focus on point-to-point low-fare domestic routes. As of December 31, 2012, we had two international

scheduled routes and seven domestic scheduled routes that overlapped with the routes offered by AnadoluJet.

- SunExpress is a joint venture of Turkish Airlines and Lufthansa. Due to its ownership structure, SunExpress is particularly strong in international flights to and from Germany. The main hubs of SunExpress are İzmir and Antalya. As of December 31, 2012, we had nine international scheduled routes and 14 domestic scheduled routes that overlapped with the routes offered by SunExpress.
- Onur Air operates scheduled domestic flights and international charter flights. As of December 31, 2012, we had one international scheduled route and 12 domestic scheduled routes that overlapped with the routes offered by Onur Air.
- Atlasjet operates a small domestic network mainly flying to vacation destinations in western and southern Turkey. As of December 31, 2012, we had five international scheduled routes and seven domestic scheduled routes that overlapped with the routes offered by Atlasjet.

After the opening of the new terminal for commercial operations in November 2009, Turkish Airlines, AnadoluJet and SunExpress moved part of their operations to Sabiha Gökçen Airport, thereby intensifying the competition at our home hub. Turkish Airlines subsequently transferred all its flights to and from Sabiha Gökçen Airport to AnadoluJet in the first half of 2010. Atlasjet commenced limited operations from Sabiha Gökçen Airport in January 2013.

Our market share in terms of passenger numbers in domestic scheduled flights in 2012 was 25.7%. International traffic from and to Turkey is very fragmented by country and by airline due to the numerous countries in the region. Our market share in terms of passenger numbers in international scheduled flights in 2012 was 8.1%. In 2011, the latest year for which the data are available, none of the international airlines that served Turkey had a market share of over 3% of the international passengers (including scheduled and charter flights) market.

To some extent, our domestic routes also face competition from ground transportation alternatives, primarily bus companies and Turkish State railways. We believe, however, that our low-cost business model and strong capitalization has given us flexibility in setting our fares to stimulate demand for air travel among passengers who in the past have traveled long distances primarily by bus or train.

Our main competitors in charter flights are Sun Express, Sky Airlines, Hürkuş Havayolu Taşımacılık ve Ticaret A.Ş. (Freebird Airlines) and Turistik Hava Taşımacılık A.Ş. (Corendon Airlines), which operate both standard charter and split charter flights to various European destinations. The competition in charter flights is intense, in particular during the winter season when charter traffic levels are typically significantly lower than during the summer high season. During the winter season, charter carriers compete primarily by lowering their prices. Larger tour operators are usually more loyal to their charter flight carrier as opposed to smaller tour operators that typically choose the charter carrier with the lowest prices, regardless of such carrier's operational history.

**Properties**

We do not own any real property. We currently lease our premises at Sabiha Gökçen Airport through various tenancy agreements with Havaalanı İşletme ve Havacılık Endüstrileri A.Ş. ("HEAŞ"), the operator of the airport, relating to the use of premises located at the airport apron (i.e., the area where aircraft are parked, unloaded or loaded, refueled and boarded) and with ISG, the operator of the passenger terminals and certain other facilities at the airport, covering ticket sales facilities and operational and administrative offices. We have agreements with DHMİ and private airport terminal operator entities to use and operate our facilities at the major airports that we serve. The agreements for our terminals' passenger service facilities, which include check-in and boarding counters, operations support area and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the term of the relevant lease. Additionally, we have entered into a number of lease agreements in relation to Ekopark, a parking lot located near Sabiha Gökçen Airport where we provide low rate parking for our customers.

Our headquarters are located near Sabiha Gökçen Airport and are leased from EAG Turizm İnşaat Sanayi ve Ticaret A.Ş., a subsidiary of Esas Holding. We relocated to these premises in September 2012. See "Related Party Transactions—Headquarters Lease." Our commercial, operations, technology, finance and administrative staff is based primarily at our headquarters. We have agreements to use maintenance facilities throughout Turkey. See "—Aircraft—Maintenance."

### Information Technology

Information technology is an essential element of our business infrastructure. We invest in information technology as its use directly lowers costs, enables scalable operations, improves efficiency and is essential to our operations. Our key applications include Crane PAX and DCS System for reservations and ticketing, Crane Loyalty for our Pegasus Plus loyalty program, AirRM (developed by Revenue Management Systems Inc.) for revenue management, Wings for technical maintenance, Logo Unity II, Crane RCA and IBM Cognos TM1 (BI) for financial management and reporting, and Crane SP, Crane Slot and Crane FCC for commercial schedule planning, slot messages and operations control and Crane Crew for crew rostering and tracking. Our booking system is integrated with Amadeus.

We operate our application systems in-house on our own hardware in the data center located in İstanbul. We aim to continuously improve our IT functionality in line with our business plans and are, among other things, in the process of updating our technical maintenance system. We expect the new system, which will run the Amos application, to be implemented by early 2014.

We have not had any material IT outages during the past three years. In view of our dependence on our software and systems, we have established disaster recovery procedures with a backup data center with adequate data communication redundancies. We operate our own off-site disaster recovery center in İzmir. All our mission critical systems are relayed on a real time basis to the İzmir data center over our wide area network to enable recovery in case of a disaster. See "Risk Factors—Risks Relating to our Business—We depend on the uninterrupted operation of our own and third-party automated systems and technology and disruption to these systems or technology could significantly impair our ability to conduct our business efficiently."

### Intellectual Property

We believe that the Pegasus brand has become synonymous with innovation and value in the Turkish airline industry. To protect our brand, we have registered our main trademarks, including "Pegasus Airlines," the Pegasus device, "pgs" and "flypgs.com" with the Turkish Patents Institute, in addition to other trademarks relating to our operations and services. İzAir has registered its main trademarks, including "İzAir," "İzmir Airlines," "IHY" and "İzmir Hava Yolları," with the Turkish Patents Institute. Both we and İzAir have also registered certain of our trademarks in various jurisdictions outside of Turkey. We registered our trademark "flypgs" with the Office for Harmonization in the Internal Market of the European Union and under the Madrid Convention in June 2010. We have also registered our trademarks "Pegasus flypgs.com Pegasus Airlines," "Pegasus Kirgiz Asian Airlines" and "Pegasus Asian Airlines" pursuant to the Madrid Convention in various jurisdictions. İzAir has registered the brands "İzAir and İzmir Havayolları" pursuant to the Madrid Convention on the International Registration of Trademarks in various jurisdictions.

### Insurance

We believe our insurance coverage is in line with industry practice and relevant regulatory requirements. We carry insurance for legal liability to third parties (covering liability to passengers, baggage and cargo), war hull risk, hull all risk and spares all risk coverage for damage to our and İzAir's aircraft provided by Aksigorta A.Ş. and fully reinsured by a group of reinsurers led by Ace Lloyd's Syndicate 2488 (managed by Ace Underwriting Agencies Limited), and other business insurance from Anadolu Sigorta A.Ş. In line with industry practice, we leave some business risks uninsured including business interruptions, loss of profit or revenue and consequential business losses arising from mechanical breakdown. See also "Risk Factors—Risks Relating to Our Business—We may not be able to insure against all risks we face and we may incur losses not covered by insurance."

### Employees

As of December 31, 2012, we had 2,045 employees, consisting of operational and non-operational staff. The following table sets forth a breakdown of our employees by category of activity as of the dates

indicated. The employee figures below do not include the employees of the AirBerlin Turkey Project from and including November 1, 2011.

| Function | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Non-operational | 309 | 383 | 362 |
| Operational | 1,736 | 1,667 | 1,329 |
| Total | 2,045 | 2,050 | 1,691 |

We execute separate standard employment agreements with our pilots, cabin crew members and other personnel. Our employees are not unionized and we have never experienced any labor strikes or material work stoppages.

The majority of pilots recruited by Pegasus are experienced Boeing 737 qualified pilots and we provide the necessary type rating training to pilots that do not have Boeing 737 qualifications at the time we recruit them. To maintain and develop the skills of our pilots, pilots are required to undergo refresher training sessions in accordance with company requirements and relevant regulations. In the past, our pilots used Boeing 737 flight simulators operated by Turkish Airlines and the International Flight Training Center (IFTC Uçus Hizmetleri ve Ticaret A.Ş.) in İstanbul for training purposes. Since January 2011, our pilots have been training at the Boeing 737-800NG flight simulator that we established in cooperation with SIM-Industries. See also "—Other Revenue—Training." As of December 31, 2012, we had a total of 360 pilots.

All our cabin crew members undergo an initial program of training based on their previous experience. The majority of training is performed by our in-house trainers. Courses include safety and emergency procedures (SEP) training, first aid, cabin familiarization, public announcements, grooming, passenger care and in-flight selling skills. Cabin crew members undergo training such as handling of dangerous goods, handling disruptive passengers and security awareness courses. Cabin crew members are also required to attend refresher courses on SEP and first aid every year. Our cabin crews are primarily Turkish, but to support our growth, we have also hired foreign crews.

We believe that our continued success depends, among other factors, on the support and dedication of our management personnel and employees. We have made efforts to motivate and retain our staff through performance-based incentives. Our staff remuneration policy focuses on maximizing efficiency and productivity while keeping staff motivated and committed to our company. In line with this strategy, we have offered our employees an incentive plan since April 2005. Under the plan, we share 10% of our net profit before tax with employees who have been employed by us for at least one year and who have achieved a certain minimum level of performance. The aggregate profit allocated to eligible employees is distributed among these employees based on their gross salaries and the performance review scores they receive. The main goal of the plan is to reward employees' good performance, foster motivation and strengthen the employees' identification with the company. Also, we believe this is an effective way of giving employees a sense of ownership in the company. For information about our executive bonus plan, see "Management—Compensation."

See also "Risk Factors—Risks Relating to Our Business—We are dependent on attracting and retaining qualified personnel at reasonable cost."

**Corporate Structure**

We, Pegasus Hava Taşımacılığı A.Ş., are a joint stock company organized under the laws of the Republic of Turkey. The following table sets forth our subsidiary, our joint venture investment and our associate companies as of the date of this Offering Circular.

| Company | Percentage held of all shares and votes |
|---|---|
| IHY İzmir Havayolları A.Ş. | 51.00%[(1)] |
| İzmirliler Otelcilik Yatırım ve Ticaret A.Ş. | 59.45% |
| Pegasus Uçus Eğitim Merkezi A.Ş. | 49.40% |
| Air Manas Air Company LLC | 49.00% |

(1) Following the completion of the registration of the amendment to the articles of association and the capital increase approved by İzAir's shareholders on March 27, 2013, the percentage of the shares and votes we hold in İzAir is expected to increase to 68.31% (and up to 69.12% depending on how many of the remaining shareholders of İzAir decide not to exercise their pre-emption rights).

In September 2010, we acquired 72.57% of the shares of İzAir from Esas Holding, our parent company, and members of the Sabancı family. We increased our ownership in İzAir to 96.79% in June 2011 and, in March 2012, further increased our ownership to 97.82%, both by way of capital increases. In September 2012, we sold 46.82% of the shares of İzAir to Air Berlin. Following the completion of the registration of the amendment to the articles of association and the capital increase approved by İzAir's shareholders on March 27, 2013 in which Air Berlin decided not to exercise its pre-emption rights, our ownership of İzAir is expected to increase to 68.31% while Air Berlin's ownership will decrease to 29.51%, assuming that the remaining shareholders in İzAir who are based in İzmir (where İzAir was originally established) fully exercise their pre-emption rights and maintain their cumulative 2.18% share in İzAir. In the event these approximately 110 shareholders also decide not to exercise their pre-emption rights, our shareholding in İzAir may increase up to 69.12%. Subsequent to the completion of the capital increase proceedings, we plan to consolidate İzAir as our subsidiary for the purposes of our financial reporting as from April 1, 2013. Between November 2011 and March 2013, İzAir offered split charter flights to a number of destinations in Germany from Antalya under the "AirBerlin Turkey" brand pursuant to our agreement with Air Berlin. As of the date of this Offering Circular, all of the aircraft in İzAir fleet are wet leased to us. See "—Customer Programs and Partnerships—Cooperation and Partnerships" and "—Material Agreements—Agreements Relating to İzAir" and, for information regarding the presentation of İzAir's results of operations in the IFRS Financial Statements, see "Presentation of Financial Information."

İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş. ("İzmirliler Otelcilik") was founded in September 1990 in İzmir and is our associate company. We acquired a 49.99% share in İzmirliler Otelcilik from İzAir in May 2012 and our ownership share in İzmirliler Otelcilik increased to 59.45% in October 2012 following a capital increase when one of the shareholders of İzmirliler Otelcilik did not pay the requisite amount for the shares to be subscribed for by it in the statutory capital increase of İzmirliler Otelcilik. We do not have any representation in İzmirliler Otelcilik's board of directors but expect to appoint our own directors to assume control after the General Assembly of İzmirliler Otelcilik expected to take place in the second quarter of 2013. The remaining 40.55% of the shares of İzmirliler Otelcilik are held by local investors in İzmir. İzmirliler Otelcilik currently operates a gas station located within the premises leased from DHMİ adjacent to the Adnan Menderes Airport property in İzmir. The premises also include office space currently used as İzAir headquarters based on a lease agreement that will end in 2017 and an airport hotel that was sublet to another lessee in 2011.

In October 2010, we established Pegasus Uçus Eğitim Merkezi A.Ş. ("PUEM"), a joint venture flight training company, with SIM-Industries. The joint venture was established to help us meet our pilot training needs and to enable us to generate additional revenue by selling idle training hours to third parties. Together with the members of the Sabancı family (Pegasus 49.40% of the share capital, members of the Sabancı family 0.60%), we hold class A shares in PUEM corresponding to 50% of its total capital, while the remaining 50% is held by SIM-Industries and its affiliates through class B shares. We have management control over the day-to-day operations of PUEM and have the right to nominate two out of three members of the board of directors and the general manager. However, certain matters including the amendment of the articles of association, purchase of material assets and related party transactions including purchases from SIM-Industries and services provided to us require the approval of our joint venture partner, SIM-Industries. Pursuant to the articles of association of PUEM, each share class enjoys a

pre-emptive right to acquire the shares of the other class in the event of a sale. PUEM has established a 737-800NG flight simulator in İstanbul that commenced operations in January 2011. See "—Other Revenue—Training" and "—Material Agreements—PUEM Joint Venture Agreement."

We acquired 49.0% of Air Manas, a limited liability company established in Kyrgyzstan, in August 2012. Air Manas had no operations at the time of the acquisition but, as of the date of this Offering Circular, has an Air Operator's Certificate issued by the Civil Aviation Agency of Kyrgyzstan. The remaining shares in Air Manas are held by Kyrgyz nationals. We influence important decisions of Air Manas through our arrangements with the other shareholders. Air Manas commenced a daily round-trip flight between İstanbul and Bishkek in Kyrgyzstan in March 2013. See "—Customer Programs and Partnerships—Cooperation and Partnerships—Air Manas."

**Material Agreements**

***Agreements Relating to İzAir***

On March 14, 2012, we executed a number of agreements with İzAir and Air Berlin regarding the AirBerlin Turkey Project that commenced operations on November 1, 2011, contemplating the joint control of İzAir and the operation of split charter flights between Antalya in Turkey and selected German cities under the brand name "AirBerlin Turkey" by İzAir under a blocked codeshare agreement with Air Berlin. As part of these agreements, we sold 46.82% of the shares of İzAir to Air Berlin on September 4, 2012 for TL10,446,903. Following our and Air Berlin's decision to suspend the operation of the split charter flight cooperation for the time being, Air Berlin's shareholding in İzAir is expected to be reduced to 29.51% in April 2013 as Air Berlin decided not to participate in the capital increase approved by the shareholders of İzAir. Following the capital increase and the expected increase of our ownership in İzAir to at least 68.31%, we plan to consolidate İzAir as our subsidiary for the purposes of our financial reporting as from April 1, 2013.

As of the date of this Offering Circular, İzAir remains under joint control between us and Air Berlin, although based on a number of amendments to İzAir's articles of association approved by İzAir shareholders simultaneously with the capital increase, we expect to gain control of the day-to-day operations of İzAir, with the right to appoint three out of the five board members of İzAir. However, certain important decisions such as the amendment of the articles of association (except to the extent required by the Turkish civil aviation legislation), any changes in İzAir's organizational structure, management and operating activities, acquisition or disposal of assets that individually or together with other transactions exceed the value of EUR 1 million, granting security for the benefit of third parties, entering into obligations outside of the ordinary course of business or against market standards, establishment of joint ventures as well as the purchase or rental of aircraft or the termination or amendment of existing lease agreements (except to the extent required for obtaining or maintaining a scheduled flights license) will still require the approval of Air Berlin.

As of this Offering Circular, we wet lease the entire aircraft fleet of İzAir through our wet lease agreement with İzAir, while Air Berlin operates split charter flights between the destinations covered originally by the AirBerlin Turkey Project using its own aircraft and on its own account. However, we have agreed in principle to grant Air Berlin a call option which, if exercised, will allow them to increase their shareholding in İzAir back to 46.82%. As currently contemplated, the call option can be exercised by Air Berlin within one year from the receipt by İzAir of a scheduled flights license. In the event this call option is exercised by Air Berlin as currently contemplated, and subject to İzAir obtaining a scheduled flights license from the Civil Aviation Authority, we expect that the AirBerlin Turkey Project will resume based on a blocked codeshare arrangement between İzAir and Air Berlin. We expect that if the call option under our agreement with Air Berlin is exercised, we will be entitled to receive the nominal value of the shares not subscribed for by Air Berlin in connection with the capital increase approved by İzAir's shareholders on March 27, 2013, plus, the change in the total assets excluding deferred tax assets less the total liabilities (pro rata to the same number of shares) between March 31, 2013 and the last day of the month in which such call option is exercised. The call option has not yet been finally agreed.

Under our agreements dated March 14, 2012 related to the AirBerlin Turkey Project, we had granted Air Berlin the right at any time to resell its shares in İzAir to us in the event (i) İzAir is unable to obtain a valid scheduled license by March 1, 2013, (ii) İzAir is granted a valid scheduled license but such license or any other authority required for its operations is revoked or is no longer valid, or (iii) Air Berlin's shareholding in İzAir is reduced as a direct or indirect result of lawsuits initiated by the shareholders in İzAir against corporate resolutions dated April 30, 2010 and June 29, 2011, relating to capital increases and

dated May 23, 2011, relating to a capital decrease, or any subsequent shareholder lawsuits. See "—Legal Proceedings." As of the date of this Offering Circular, İzAir has not applied to the Civil Aviation Authority to obtain a scheduled flights license.

In the event Air Berlin exercises its put option, our agreement requires us to purchase back the shares in İzAir owned by Air Berlin at a purchase price equaling the price paid by Air Berlin for those shares, subject to any changes in the difference between total assets and liabilities of İzAir as of September 4, 2012 (when the shares were sold to Air Berlin) and the date on which the put option is exercised.

The agreements we have entered into with İzAir and Air Berlin may be terminated by either party (i) in the event of a material breach of the agreements that is not remedied within 30 days following the notification of such breach, or (ii) upon the acquisition of more than 50% of the voting rights in us, İzAir or Air Berlin by a non-affiliate.

As of the date of this date of this Offering Circular, our existing agreements with Air Berlin, including Air Berlin's put option, are all in effect and are yet to be amended to reflect the recent changes in the shareholding structure and operational management of İzAir. We and Air Berlin have not set a definite timeframe regarding amendments to these existing agreements and the exact terms of the expected amendments, including the put and call options, are yet to be determined (see the discussion of the Air Berlin call option above).

***Agreements Relating to Air Manas***

Air Manas is a limited liability company established in Kyrgyzstan on October 26, 2006. Through a series of agreements executed in April and August 2012, we acquired a 49.0% stake in Air Manas from a Kyrgyz national in September 2012 for a consideration of 245,000 Kyrgyz Soms (approximately US$5,000). A total of four Kyrgyz nationals hold stakes of 36.0%, 10.0%, 2.5% and 2.5%, respectively, in Air Manas.

Under the agreements with Air Manas shareholders, we are authorized to manage Air Manas' business. Subject to Air Manas obtaining and securing valid flight rights for scheduled flights between Bishkek and İstanbul, we agreed to provide Air Manas with the required aircraft, crew, maintenance and aviation insurance under wet lease arrangements at the prevailing market rights. See "—Customer Programs and Partnerships—Cooperation and Partnerships—Air Manas Cooperation." The shareholder with the 36.0% stake is responsible for maintaining all licenses, certificates, approvals, permits and other documents required for the company's business and we have the right to resell our shares in Air Manas to the shareholder as well as the original selling party in the event such responsibility is not fulfilled.

Air Manas commenced a daily round-trip flight between İstanbul and Bishkek in Kyrgyzstan in March 2013. See "—Customer Programs and Partnerships—Cooperation and Partnerships—Air Manas."

***PUEM Joint Venture Agreement***

On October 15, 2010 we entered into a joint venture agreement with SIM-Industries, pursuant to which PUEM was established. The joint venture agreement contemplates a 50-50% shareholding in PUEM. We nominate two members for the board of directors of PUEM while SIM-Industries nominates a single member. However certain material decisions, including amendments to the articles of association, appointment and dismissal of the general manager, approval of and material amendment to the annual business plan and budget, dividend distribution, transactions with shareholders and certain other material transactions, require the approval of both shareholders. In the event we and SIM-Industries cannot come to an agreement, these matters are referred to a panel of specialists who will give the final and binding decision under the joint venture agreement.

The joint venture agreement grants us and SIM-Industries the right of first refusal with respect to the intended sale of the respective parties' shares in PUEM. On the other hand both we and SIM-Industries are prohibited from transferring shares in PUEM to each other's competitors and parties outside of Turkey.

The joint venture agreement grants SIM-Industries another right of first refusal with respect to the purchase of all flight simulators and components offered for sale by PUEM so long as SIM-Industries provides terms equal to or more favorable than alternative and comparable proposals. On the other hand, pursuant to the terms of the joint venture agreement, we have entered into a flight training services agreement with PUEM on a preferred customer basis.

The joint venture agreement restricts us and SIM-Industries from entering into competing business in Turkey and becoming a shareholder in the operation of another Boeing "new generation" simulator. We have a right of first refusal for any Airbus or other non-Boeing simulator facility or venture desired to be formed by SIM-Industries in Turkey in the future. This does not prevent, however, SIM-Industries from selling Boeing or Airbus simulators to third parties in Turkey.

***Ex-Im Bank Supported Loan Agreements***

Our Ex-Im Bank supported loan agreements and related documentation include certain covenants and restrictions relating to our operations. A breach of such covenants or restrictions could constitute an event of default under the relevant agreements and would, among other things, result in Ex-Im Bank having the right to accelerate the loans under our Ex-Im Bank supported loan agreements.

Our finance lease agreements include certain covenants and restrictions with respect to the nature of our business, including our undertaking not to make any substantial change in the fundamental nature or scope of our business or operations, and not to engage in mergers, consolidations or the sale of substantially all of our assets. Under the Ex-Im Bank arrangements, we are also restricted from acquiring any interest in the SPVs that lease the relevant aircraft to us or taking part in the management of such SPVs. In addition, we have also undertaken, among other things, to operate the aircraft in compliance with applicable laws, licenses, registrations and safety standards and to use the aircraft for the commercial transportation of passengers and cargo.

Furthermore, as required by Ex-Im Bank, Esas Holding has guaranteed all of our obligations under each of our Ex-Im Bank supported credit facilities. Under the guarantee arrangements, Esas Holding must continue to own (either directly or through a wholly owned subsidiary) at least 51% of each class of our issued and outstanding stock (or other ownership interest) and exercise actual control over us.

**Legal Proceedings**

Other than as discussed below, we are currently not involved in any litigation, arbitration or other administrative proceedings which, if decided against us, would individually or in the aggregate have a material adverse effect on our business, results of operations or financial condition.

As of the date of this Offering Circular, there were 85 civil lawsuits initiated against us and five lawsuits against İzAir, all of which remain pending. These lawsuits consist primarily of customer complaints and claims by our former employees, in addition to which these lawsuits include a limited number of commercial and contractual claims, including claims for contractual payments or indemnity related to termination of contracts. Without accruing interest and any excess amounts reserved by the plaintiffs, these claims had an aggregate value of approximately TL2,998,100 based on Central Bank exchange rates effective as of April 19, 2013.

As of the date of this Offering Circular, there were 42 lawsuits and execution proceedings initiated by us (including criminal proceedings based on our complaint) and one lawsuit initiated by İzAir, all of which remain pending. A significant majority of these lawsuits consist of administrative lawsuits filed against various regulatory texts, monetary fines and decisions by administrative entities in Turkey, and indemnity claims against former employees, primarily pilots, based on termination of their respective employment agreements, challenges against various rulings obtained by passengers and commercial claims.

The following discussion provides a summary of administrative lawsuits filed by us relating to a monetary fine imposed by the Atatürk Airport Customs Directorate, lawsuits that challenge certain shareholders' general assembly resolutions of İzAir and a description of an ongoing process relating to a tax investigation involving us.

*Administrative Lawsuits regarding Monetary Fine*

In June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against us in the amount of TL545,366 on the grounds that an aircraft which was imported in May 2008 by us under the temporary import regime had not been exported within the allowed timeframe. The payment was challenged before the 4th Tax Court of İstanbul which ruled against us in December 2009, in response to which we filed an appeal. Our appeal is under review by the 7th Chamber of the Council of State as of the date of this Offering Circular. We have not made any payments under the fine imposed by the İstanbul Atatürk Airport Customs Directorate but delivered a letter of guarantee in the amount of TL931,212, covering the monetary fine and accrued interest and exportation of the relevant aircraft was completed. In

January 2011, we received a payment order from the İstanbul Atatürk Airport Customs Directorate requiring the liquidation of the letter of guarantee. We challenged this order before the 2nd Tax Court of İstanbul which first granted an injunction in February 2012, and later in September 2012, cancelled the decision of the İstanbul Atatürk Airport Customs Directorate. The İstanbul Atatürk Airport Customs Directorate subsequently appealed this decision and the appellate review is currently underway before the 7th Chamber of the Council of State.

*Lawsuits Challenging İzAir General Assembly Resolutions*

Certain shareholders of İzAir have filed lawsuits before commercial courts against general assembly resolutions dated April 30, 2010, May 23, 2011 and June 29, 2011 in relation to, among other things, the amendment of İzAir's share capital, requesting the cancellation of the relevant general assembly decisions.

The first lawsuit involves a request by 15 shareholders in İzAir for the cancellation of a number of decisions adopted at the İzAir shareholders' general assembly dated April 30, 2010. Among other things, the plaintiffs request the cancellation of the decision increasing the company capital from TL15.5 million to TL52.5 million. A lawsuit with the same claims filed before the 4th Commercial Court of İzmir has been merged with the lawsuit pending before the 5th Commercial Court of İzmir. The parties exchanged written petitions and the court subsequently obtained an expert panel report regarding the lawsuit as well as an additional report following objection by the parties, and decided to wait for the outcome of the third lawsuit discussed below. The next hearing will be held on July 16, 2013.

A second lawsuit was filed by three shareholders in İzAir for the cancellation of a number of decisions adopted at the İzAir shareholders' general assembly held on May 23, 2011. Among other things, the plaintiffs requested the cancellation of the decision decreasing the company capital from TL52.5 million to TL2.0 million. After reviewing the arguments of the parties, the 6th Commercial Court of İzmir rejected the claims of the plaintiffs on May 28, 2012. This decision was appealed by the plaintiffs on October 30, 2012. As of the date of the Offering Circular, the appellate review is still ongoing. We provided our responses to the appeal on November 22, 2012.

A third lawsuit was filed by a single shareholder in İzAir for the cancellation of the shareholders' general assembly decision dated June 29, 2011 to increase the company capital from TL2.0 million to TL24.5 million. After reviewing the arguments of the parties, the 9th Commercial Court of İzmir rejected the plaintiff's claims on October 9, 2012. This decision was appealed by the plaintiff and the appellate review is still ongoing.

Under our existing agreements with Air Berlin, we may be required to repurchase Air Berlin's shares in İzAir in the event Air Berlin's shareholding in İzAir is reduced as a direct or indirect result of any of the aforementioned three lawsuits or any subsequent lawsuits by shareholders in İzAir. See "—Material Agreements—Agreements Relating to İzAir."

*Tax Investigation Regarding Value-Added Tax on Finance Lease Agreements*

During 2012, the Ministry of Finance of Turkey audited our accounts and transactions for 2009, 2010, 2011 and January 2012 in respect of VAT on finance lease transactions. The tax inspectors have challenged the applied VAT rates remitted on behalf of the non-resident aircraft lessor companies that are party to our finance leases and, subsequently, the relevant tax office determined in December 2012 that we had an accrued VAT liability of TL30,872,430 (excluding any interest applicable thereon) and, in addition, imposed a tax penalty of TL46,308,645 on us. We estimate that the default interest on the accrued VAT liability as of December 31, 2012, based on the default interest rates announced by the Presidency of Revenue Administration as of the same date, was TL8,340,919. In order to mitigate any risk associated with future periods, and due to the fact that the change in rate does not create any cash outflow, we have begun to apply the 18% VAT rate "with objection" from December 1, 2012 instead of the previous 1% VAT rate.

As of the date of this Offering Circular, we have not filed any lawsuits relating to the accrued VAT liability or the tax penalty. On December 21, 2012, we applied to the Presidency of Tax Settlement Commission of the Revenue Administration to challenge the tax inspectors' determination with respect to the entire accrued VAT liability and tax penalty and, as of the date of this Offering Circular, we are waiting for the Presidency to set a date to hear our arguments. If a settlement is not reached between us and the Tax Settlement Commission following such hearing, we have the right to challenge the decision of the tax

office regarding the accrued VAT liability and tax penalty before the Turkish tax courts within 15 days of our receipt of the notice by the Tax Settlement Commission.

We have obtained opinions from legal and tax advisers and have also evaluated the private rulings issued by the Revenue Administration of Republic of Turkey. On this basis, we believe that we correctly applied the 1% VAT rates promulgated by Government Decrees. Likewise, based on the opinions of such tax advisers and the evaluation of the rulings, we have concluded that payment related to penalties is not probable, including for the period which has not been audited, and we have not provided for this contingent liability. See also "Risk Factors—Risk Relating to Our Business—We may incur losses as a result of the accrued value-added tax liability and tax penalty imposed on us in connection with the value-added tax rates on our finance lease transactions" and "Operating and Financial Review—Critical Accounting Policies—Tax Investigation."

## SELECTED CONSOLIDATED HISTORICAL FINANCIAL AND OPERATIONAL DATA

The following tables set forth, for the periods indicated, selected consolidated financial data. The selected income statement, balance sheet and cash flow data have been derived from our IFRS Financial Statements, which were prepared in accordance with IFRS. You should read the following information in conjunction with "Presentation of Financial Information," "Operating and Financial Review" and our IFRS Financial Statements and the notes thereto included elsewhere in this Offering Circular.

**Income Statement**

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Revenue | 1,919,892,223 | 1,484,079,753 | 977,863,116 |
| Cost of sales | (1,600,787,909) | (1,376,748,406) | (867,782,511) |
| **Gross profit** | **319,104,314** | **107,331,347** | **110,080,605** |
| Selling and marketing expenses | (80,353,989) | (67,845,635) | (38,823,562) |
| General administrative expenses | (50,250,429) | (44,887,428) | (35,077,321) |
| Share in gain / (loss) of associates | (1,513,990) | 409,670 | (109,663) |
| Finance costs | (49,113,836) | (31,522,079) | (17,175,753) |
| Finance income | 13,278,513 | 13,984,584 | 4,856,873 |
| Other income (net) | 4,189,016 | 9,850,948 | 7,199,355 |
| **Net profit / (loss) before tax** | **155,319,599** | **(12,678,593)** | **30,950,534** |
| Current income tax | — | — | — |
| Deferred tax (expense) | (29,016,083) | (1,407,307) | (10,713,224) |
| **Net profit / (loss)** | **126,303,516** | **(14,085,900)** | **20,237,310** |
| Cumulative translation adjustment | 3,555,138 | 30,247,314 | 1,177,467 |
| Cash flow hedge | 8,727,235 | 3,317,598 | (126,249) |
| Total comprehensive income for the year | 138,585,889 | 19,479,012 | 21,288,528 |

**Balance Sheet**

| | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 210,150,238 | 19,549,364 | 49,284,469 |
| Trade receivables | 41,871,360 | 78,693,508 | 18,511,639 |
| Inventories | 1,882,592 | 580,183 | 208,889 |
| Other receivables and assets | 85,424,957 | 99,314,260 | 41,011,332 |
| **Total current assets** | **339,329,147** | **198,137,315** | **109,016,329** |
| **Non-current assets** | | | |
| Investments in associates | 1,512,211 | 662,186 | 286,360 |
| Tangible assets | 1,730,317,522 | 1,412,703,602 | 854,170,057 |
| Intangible assets | 5,013,650 | 5,632,441 | 3,231,665 |
| Other receivables and non-current assets | 132,838,505 | 202,706,762 | 263,790,567 |
| Deferred tax assets | — | 12,346,542 | 5,550,596 |
| **Total non-current assets** | **1,869,681,888** | **1,634,051,533** | **1,127,029,245** |
| **Total assets** | **2,209,011,035** | **1,832,188,848** | **1,236,045,574** |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 50,722,463 | 189,002,830 | 152,183,020 |
| Obligations under finance leases | 135,232,251 | 103,033,355 | 57,999,800 |
| Trade payables | 88,538,575 | 100,683,084 | 54,390,220 |
| Other payables and current liabilities | 239,537,994 | 159,974,957 | 115,778,624 |
| Provision for employee benefits | 24,044,479 | 4,831,192 | 10,381,839 |
| **Total current liabilities** | **538,075,762** | **557,525,418** | **390,733,503** |
| **Non-current liabilities** | | | |
| Financial liabilities | — | — | 11,307,245 |
| Obligations under finance leases | 1,240,919,331 | 1,030,040,742 | 621,239,241 |
| Other non-current liabilities | 26,333,376 | 18,302,176 | 14,255,429 |
| Provision for employee benefits | 4,149,445 | 625,339 | 546,745 |
| Deferred tax liabilities | 72,180,973 | 36,998,098 | 28,982,991 |
| **Total non-current liabilities** | **1,343,583,125** | **1,085,966,355** | **676,331,651** |
| **Total liabilities** | **1,881,658,887** | **1,643,491,773** | **1,067,065,154** |
| **Equity** | | | |
| Share capital | 75,000,000 | 75,000,000 | 75,000,000 |
| Effect of the acquisition of İzAir | 29,504,957 | 29,504,957 | 29,504,957 |
| Translation reserve | 72,735,810 | 69,180,672 | 37,563,243 |
| Other reserves—cash flow hedging | 11,918,586 | 3,191,351 | (126,249) |
| Retained earnings before net profit / (loss) for the year | 11,889,279 | 27,212,283 | 6,916,412 |
| Net profit / (loss) for the year | 126,303,516 | (15,323,004) | 25,536,874 |
| **Equity attributable to equity holders of the parent** | **327,352,148** | **188,766,259** | **174,395,237** |
| Non-controlling interest | — | (69,184) | (5,414,817) |
| **Total equity** | **327,352,148** | **188,697,075** | **168,980,420** |
| **Total liabilities and equity** | **2,209,011,035** | **1,832,188,848** | **1,236,045,574** |

## Cash Flow Statement

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| **Cash flows from operating activities** | | | |
| Net profit / (loss) | 126,303,516 | (14,085,900) | 20,237,310 |
| Adjustments to reconcile net profit / (loss) before tax to net cash provided by operating activities | | | |
| Depreciation and amortization expenses | 104,401,778 | 75,870,148 | 39,548,159 |
| Provision for employee termination benefits | 1,394,961 | 406,727 | 180,301 |
| Increase in income sharing plan, vacation accrual and executive bonus plan | 23,496,108 | 1,030,849 | 7,167,339 |
| Provision for doubtful receivables | 131,937 | 47,826 | 1,148,521 |
| Income tax expense | 29,016,083 | 1,407,307 | 10,713,224 |
| Share of (profit) / loss of associates | 1,513,990 | (409,670) | 109,663 |
| (Gain) / loss for the sale of tangible assets | (126,988) | (255,652) | 1,592,949 |
| Change in maintenance reserves and redelivery provision | 12,739,780 | 24,708,159 | 5,545,800 |
| Interest and commission expense | 35,096,398 | 28,462,893 | 16,835,102 |
| Investment revenue | (3,574,571) | (1,351,413) | (256,762) |
| Reversal of impairment of tangible and intangible assets | — | — | (6,661,798) |
| Unrealized gain on derivative contracts | (2,457,436) | (7,666,673) | (2,035,162) |
| Impairment of financial assets | — | — | 69,141 |
| Legal provision | 527,771 | 207,758 | 440,997 |
| Translation loss | 10,937,545 | (4,353,508) | 3,932,985 |
| **Cash flow from operations before changes in working capital** | **339,400,871** | **104,018,851** | **98,567,769** |
| Decrease / (increase) in trade receivables | 28,952,710 | (56,950,451) | 8,125,563 |
| Increase in inventories | (1,303,613) | (371,294) | (95,361) |
| Increase in other receivables and other current assets | (4,436,483) | (60,961,681) | (8,388,197) |
| Increase in trade payables | 42,232,097 | 46,958,917 | 3,639,302 |
| Increase in other liabilities | 58,871,748 | 21,682,335 | 28,387,617 |
| **Changes in working capital** | **124,316,459** | **(49,642,174)** | **31,668,924** |
| **Cash generated from operations** | **463,717,330** | **54,376,677** | **130,236,693** |
| Retirement benefits and income sharing provision paid | (1,269,663) | (6,909,628) | (3,614,600) |
| **Net cash from operating activities** | **462,447,667** | **47,467,049** | **126,622,093** |
| **Cash flows from investing activities** | | | |
| Purchase of tangible and intangible assets | (20,058,058) | (14,198,929) | (7,699,987) |
| Changes in advances on aircraft | 13,918,856 | 47,576,258 | (94,259,452) |
| Cash proceeds from sales of tangible and intangible assets | 2,557,434 | 952,892 | 160,623 |
| Cash proceeds from sale of subsidiary shares | 10,784,892 | — | — |
| Payment for acquisition of subsidiary | (232,661) | — | — |
| Interest received | 3,574,571 | — | — |
| **Net cash (used in) / generated from investing activities** | **10,545,034** | **33,610,221** | **(101,798,816)** |
| **Cash flows from financing activities** | | | |
| Increase in share capital | — | — | 2,539,380 |
| Effect of İzAir acquisition | | | |
| Capital contribution to İzAir | — | 237,643 | 15,500,000 |
| Cash paid to Esas Holding to acquire İzAir | — | — | (18,668,069) |
| Repayment of finance lease payables | (117,378,591) | (78,665,344) | (44,595,041) |
| Interest paid | (36,526,904) | (26,402,099) | (16,664,901) |
| Increase in borrowings | 318,010,468 | 195,318,313 | 163,490,265 |
| Repayment of borrowings | (446,496,800) | (201,300,888) | (83,458,628) |
| **Net cash generated by / (used in) financing activities** | **(282,391,827)** | **(110,812,375)** | **18,143,006** |
| **Net increase / (decrease) in cash and cash equivalents** | 190,600,874 | (29,735,105) | 42,966,283 |
| **Cash and cash equivalents at the beginning of year** | 19,549,364 | 49,284,469 | 6,318,186 |
| **Cash and cash equivalents at the end of year** | **210,150,238** | **19,549,364** | **49,284,469** |

**Non-IFRS Financial Data**

The following table sets forth certain non-IFRS financial measures as of and for the periods indicated. For a description of these non-IFRS financial measures, see “Presentation of Financial Information—Non-IFRS Financial Measures” and, for reconciliation of these non-IFRS financial measures to the closest IFRS financial measures, see “Operating and Financial Review—Non-IFRS Financial Measures.”

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Pegasus Operation Revenue[1] (TL) | 1,791,758,825 | 1,468,590,563 | 977,863,116 |
| Pegasus Operation EBITDA[2] (TL) | 306,866,993 | 86,690,271 | 82,927,236 |
| Pegasus Operation EBITDA margin[3] (%) | 17.1 | 5.9 | 8.5 |
| Pegasus Operation EBITDAR[4] (TL) | 391,628,753 | 198,332,656 | 161,316,442 |
| Pegasus Operation EBITDAR margin[5] (%) | 21.9 | 13.5 | 16.5 |
| Pegasus Operation Adjusted Net Debt[6] (TL) | 1,765,424,406 | 1,993,971,969 | 1,213,809,652 |
| Pegasus Operation Adjusted Net Debt / Pegasus Operation EBITDAR[7] | 4.5 | 10.1 | 7.5 |

(1) Pegasus Operation Revenue = Revenue − AirBerlin Turkey Project operation revenue

For a reconciliation of Pegasus Operation Revenue to our revenue, see “Operating and Financial Review—Non-IFRS Financial Measures.”

(2) Pegasus Operation EBITDA = Net profit / (loss) before tax + AirBerlin Turkey operation cost of sales − AirBerlin Turkey operation revenue + finance expenses − finance income + share in gain / (loss) of associates + depreciation and amortization expenses

For a reconciliation of Pegasus Operation EBITDA to our net profit / (loss), see “Operating and Financial Review—Non-IFRS Financial Measures.”

(3) Pegasus Operation EBITDA margin = $\frac{\text{Pegasus Operation EBITDA}}{\text{Pegasus Operation Revenue}}$

(4) Pegasus Operation EBITDAR = Pegasus Operation EBITDA + operating lease expenses

For a reconciliation of Pegasus Operation EBITDAR to our net profit / (loss), see “Operating and Financial Review—Non-IFRS Financial Measures.”

(5) Pegasus Operation EBITDAR margin = $\frac{\text{Pegasus Operation EBITDAR}}{\text{Pegasus Operation Revenue}}$

(6) Pegasus Operation Adjusted Net Debt = Current and non-current financial liabilities + current and non-current obligations under finance leases + operating lease expenses × 7 − cash and cash equivalents − 50% of advances on aircraft purchases (pre-delivery payments)

For a reconciliation of Pegasus Operation Adjusted Net Debt, see “Operating and Financial Review—Non-IFRS Financial Measures.” Pegasus Operation Adjusted Net Debt, as adjusted for an increase in cash and cash equivalents of TL481,435,013 reflecting the receipt of the estimated net proceeds to us of the Offering as discussed under “Capitalization,” as of December 31, 2012 would have been TL1,283,989,393.

(7) Pegasus Operation Adjusted Net Debt / Pegasus Operation EBITDAR, as adjusted for an increase in cash and cash equivalents of TL481,435,013 reflecting the receipt of the estimated net proceeds to us of the Offering as discussed under “Capitalization,” as of December 31, 2012 would have been 3.3.

**Operational Data**

The following table sets forth certain operational data as of and for the periods indicated. The figures below do not include the operations of the AirBerlin Turkey Project from and including November 1, 2011.

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Number of aircraft at period end | 40 | 39 | 32 |
| Average number of aircraft during period | 39.6 | 37.7 | 28.3 |
| Seats | 17,357,311 | 15,017,546 | 11,239,295 |
| Passengers | 13,578,184 | 11,335,280 | 8,573,795 |
| Passenger load factor[1] (%) | 78.2 | 75.5 | 76.3 |
| Cycle[1] | 93,800 | 84,548 | 66,872 |
| Passengers per cycle | 145 | 134 | 128 |
| Block hours[1] | 159,340 | 149,354 | 121,650 |
| ASL[1] (km) | 947 | 996 | 1,078 |
| ASK[1] (million) | 16,429 | 14,956 | 12,113 |
| RASK[1] (kuruş) | 10.91 | 9.82 | 8.07 |
| CASK[1] (kuruş) | 9.70 | 9.81 | 7.77 |
| Non-fuel CASK[1] (kuruş) | 5.42 | 5.73 | 4.98 |

(1) For definition, see “Certain Definitions.”

## OPERATING AND FINANCIAL REVIEW

*The following discussion and analysis should be read in conjunction with the IFRS Financial Statements and the notes thereto included in this Offering Circular beginning on page F-1. For a description of the IFRS Financial Statements, see "Presentation of Financial Information." You should also read the following information in conjunction with "Summary Consolidated Historical Financial and Operational Data" and "Selected Consolidated Financial and Operational Data." The following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results of operations may differ materially from those discussed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Circular, including under "Risk Factors" and "Forward-Looking Statements."*

### Overview

We are a low-cost airline focusing on providing high-frequency services on short- and medium-haul, domestic and international point-to-point and transit routes primarily from our hub, the modern Sabiha Gökçen Airport in İstanbul. While we historically have concentrated primarily on point-to-point routes, the percentage of transfer flights of our total international flights has increased during the past years and accounted for 21.7% of our total scheduled international flights in 2012. We also offer scheduled flights from our three other domestic hubs in Adana, Antalya and İzmir. As of the date of this Offering Circular, we offer scheduled passenger services on 29 domestic routes in Turkey and 41 international routes to European destinations (including North Cyprus), CIS countries and the Middle East (including two new international routes and two new domestic routes we have recently announced and started selling tickets for). We offer a number of services ancillary to the core air passenger services, including pre-order and in-flight sales of beverages and food, sales of duty-free items on board our international flights, and we also generate ancillary revenue also from service fees, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees. We operate a relatively low volume of charter and split charter flights for tour operators. We also provide wet lease and sub-charter of aircraft, cargo services and other selected services, including pilot, crew and technical training.

Our revenues are primarily derived from the sale of seats to passengers on our scheduled flights, representing 79.8% of Pegasus Operation Revenue in 2012. Ancillary revenue, which primarily comprises revenue generated through the provision of additional products and services in connection with our scheduled flights and, to a lesser extent, standard charter flights, together with fee-related revenue represented 12.8% of Pegasus Operation Revenue in 2012. Revenue from charter flights, which also includes revenue from wet leases and sub-charter of aircraft, contributed 6.0% to Pegasus Operation Revenue in 2012. Our other revenue, which includes revenue from cargo services and pilot, crew and technical training for third parties, represented the remaining 1.4% of Pegasus Operation Revenue in 2012.

In line with our growth strategy, we have expanded our operations significantly since implementing the low-cost carrier model. We have achieved strong growth in passenger volumes with a compound annual growth rate of 31.4% from 2006, reaching 13.6 million passengers in 2012, compared to 2.6 million passengers in 2006. During the same time period, the compound annual growth rate of the number of passengers who travelled on our scheduled flights was 43.7%. Our fleet has grown from 14 aircraft, the number of aircraft we operated in the beginning of 2006, to 40 aircraft as of December 31, 2012, while the number of our scheduled routes has increased from seven to 63 during the same period. Pegasus Operation Revenue has increased from 2006, the first full year of operations as a low-cost carrier, to 2012 at a compound annual growth rate of 29.1% from TL386.6 million to TL1,791.8 million, and the portion of revenue from scheduled flights of Pegasus Operation Revenue has increased from 26.5% in 2006 to 79.8% in 2012, compared to a decrease in the ratio of charter flights revenue to Pegasus Operation Revenue from 70.6% to 6.0%.

When implementing our growth strategy, we aim to maintain and increase profitability by developing a portfolio of routes with high passenger load factors, by keeping our yields as high as possible and by carefully managing our costs. We believe that our disciplined approach allows us to offer our passengers competitive low fares on a sustainable basis, helping us to stimulate demand and increase our load factors. We seek to manage our CASK by keeping the utilization rates of our aircraft at high levels. Since many of the airline industry's most significant cost drivers, such as crew, aircraft financing, depreciation and amortization and rent costs, are largely fixed, higher utilization rates generally result in lower CASK. We have, however, sought to link a certain portion of cockpit and cabin crew compensation on number of cycles flown in order to diminish an element of our fixed costs and make them more variable in line with

the number of passenger flights and, therefore, passenger volumes and revenues. We also seek to achieve direct cost savings through outsourcing to maintain the lowest and most flexible cost structure. Functions such as heavy aircraft and engine maintenance, ramp handling and call center functions are currently all outsourced to qualified third-party service providers. As part of our efficiency initiatives, we will insource passenger handling services at Sabiha Gökçen Airport starting from June 1, 2013 and expect to do the same at selected other airports in Turkey in the future. Our use of low-cost airports in international destinations also allows us to significantly reduce our costs. Our CASK in 2012 was Kr9.70 and non-fuel CASK in 2012 was Kr5.42, which we believe, based on publicly available information, is the lowest non-fuel CASK among Turkish airlines and lower than the average non-fuel CASK of most other major low-cost airlines. We expect our CASK to remain stable in the short term. We have an internal "continuous improvement team" that closely monitors our costs and is responsible for creating new efficiency initiatives that will help us to further develop our cost control abilities. Our goal is to increase the estimated cumulative annual savings generated by our cost efficiency initiatives from US$37.3 million, which was the cumulative impact of the cost efficiency initiatives in 2012.

As of the date of this Offering Circular, our operating fleet comprises 38 Boeing 737-800NG aircraft (with the maximum configuration of 189 seats in each plane) and one Boeing 737-400 aircraft (with the maximum configuration of 168 seats), in addition to which we operate three Boeing 737-800NG aircraft of our subsidiary İzAir under wet leases. The average age of our aircraft is 3.4 years as of the date of this Offering Circular, making our fleet the youngest among airlines in Turkey. We have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, of which we expect one firm order aircraft to be delivered in 2013 and two aircraft in each of 2014 and 2015. In July 2012, we placed the Airbus Order for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022, with an option for 25 additional aircraft. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that 63 of the 75 firm order Airbus aircraft will be delivered after 2017. To satisfy our expected capacity needs in the near term, we also plan to wet lease two additional Boeing 737-800NG aircraft from İzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013.

Up to 2007, we primarily relied upon operating leases for our aircraft capacity needs. However, to benefit from the advantages of aircraft ownership, which include tax benefits, operating flexibility (including the ability to sell the aircraft) and maintenance efficiencies as we can manage the maintenance of owned aircraft (including finance lease aircraft) ourselves, we have increased, and carefully managed, the portion of owned aircraft by way of finance leases in our fleet, while maintaining operating leases for financing flexibility and risk management purposes. As of the date of this Offering Circular, of the 42 aircraft in our fleet, 27 aircraft (including 26 aircraft operated under finance leases) are owned by us and 12 are operated under operating leases with six different leasing companies. Of the 12 aircraft we operate under operating leases, nine have been financed through sale and leaseback arrangements. We believe that the Airbus Order, together with our strategy of maintaining a balanced mix of owned and leased aircraft, also provides additional operational flexibility as it increases our ability to adjust our fleet size to our operational needs by allowing us to more efficiently manage the inflow and outflow of aircraft. See "—Capital Expenditures" and "Business—Aircraft."

**Factors Affecting Our Results of Operations**

***Factors Affecting Our Revenue***

*Growth*

While the Turkish aviation market has grown significantly in recent years, we have expanded our operations at an even higher rate. For example, the compound annual growth rate of the number of passengers who travelled with us between 2006 and 2012 was 31.4% and, in addition to being the fastest growing airline in Turkey in terms of passenger numbers during this period, we were the fastest growing airline among the 25 largest European airlines in terms of capacity between 2011 and 2012, according to OAG. Between 2006 and 2012, the compound annual growth rate of Pegasus Operation Revenue was 29.1%.

As part of our growth strategy, we plan to continue to both increase the number of flights in our existing routes as well as expand our route network, which we expect to increase the number of passengers who travel with us and, in turn, our revenue. We intend to continue to expand our international scheduled operations by opening new routes to destinations within the flight radius of our aircraft from Turkey,

subject to obtaining traffic rights to such destinations, with a special focus on increasing the number of destinations and flights to the, east, south and north of Turkey, in particular the Middle East, North Africa, Central and Eastern European and CIS countries, including Russia. In addition, we plan to increase the number of transit passengers on our existing international routes and to introduce new route connections that, supported by our low-cost business model, would further stimulate and increase traffic in our network.

Unlike the case for international flights, our domestic expansion is not restricted by our ability to obtain traffic rights. We see potential for further growth domestically, in part due to the relatively low aviation transport penetration in Turkey in terms of passenger kilometers per capita, and aim to further continue our growth in domestic scheduled flights and to capture further market share. We plan to do this by increasing frequency in our existing routes and adding new routes that meet our criteria for potential passenger volumes, and by further leveraging our domestic hubs in Adana, Antalya and İzmir.

The increase of flights on existing international routes and introduction of new international routes may, however, at least initially result in lower per seat revenues due to lower penetration on these routes, which may not be enough to offset the increase in operating expenses associated with the implementation of our growth strategy. For example, following the launch of a new route we commonly offer discounted fares to stimulate demand on that route. However, we expect the benefits of the expansion, such as scalability benefits to load factors, to outweigh the additional costs relating to our planned expansion in the medium to long term.

*Pricing*

While seeking the highest possible daily utilization of our fleet, we also focus on optimizing our target yields and load factors in order to maximize the revenue we generate on any specific route. Our revenue from scheduled passenger traffic includes all ticket sales to passengers through our sales channels as well as sales based on our web linking and code sharing agreements with Air Berlin and Azerbaijan Airlines. We believe that our new revenue management system that we implemented in March 2012 provides us with the ability to understand our markets, anticipate customer behavior and respond quickly to new opportunities. We use these systems in an effort to maximize passenger revenue by flight, by route and across our entire route network. To generate the most profits from our flights, we apply a dynamic pricing system that is driven by our load factors and by the days remaining before each individual flight, while also benchmarking against the prices our competitors offer for the relevant route. Our revenue management system also has various additional algorithms that take into account, among other things, holiday seasons and school semesters in a number of countries and destinations. See "Business—Pricing" and "—Revenue Management."

Our RASK from international scheduled flight operations increased by 26.7% from 2010 to 2011 and by 8.7% from 2011 to 2012, whilst our RASK from domestic scheduled flight operations increased by 7.6% from 2010 to 2011 and by 13.6% from 2011 to 2012. The following table sets forth our RASK for these periods. The RASK figures below do not include the RASK of the AirBerlin Turkey Project from and including November 1, 2011.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| | | **(kuruş)** | |
| RASK[(1)] | | | |
| International scheduled | 8.52 | 7.85 | 6.19 |
| Domestic scheduled | 10.41 | 9.16 | 8.51 |
| Scheduled operations total | 9.25 | 8.35 | 6.99 |

(1) For definition, see "Certain Definitions."

See also "—Results of Operations."

*Capacity and Capacity Utilization*

Our revenues are mainly affected by the number of passengers who travel with us. The number of passengers is, in turn, affected by the number of aircraft in our fleet, the utilization of the aircraft, the availability of departure and arrival times and slots at the airports that we serve and general local and global economic and competitive conditions.

Capacity

The following table sets forth information on the capacity and age of our fleet as of and for the periods indicated. Unless otherwise indicated, the capacity-related figures below do not include the capacity of the AirBerlin Turkey Project from and including November 1, 2011.

| | As of and for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | Change (%) | 2011 | Change (%) | 2010 |
| Number of aircraft at period-end(1) | 40 | 2.6 | 39 | 21.9 | 32 |
| Average number of aircraft during period | 39.6 | 5.0 | 37.7 | 33.2 | 28.3 |
| Average age of fleet | 3.7 | (12.6) | 4.2 | (30.3) | 6.1 |
| Average seat capacity | 185 | 4.2 | 178 | 5.7 | 168 |
| ASK(2), million | | | | | |
| International scheduled(3) | 9,471 | 14.3 | 8,285 | 19.2 | 6,951 |
| Domestic scheduled | 5,983 | 15.5 | 5,181 | 40.7 | 3,682 |
| Scheduled operations, total | 15,455 | 14.8 | 13,465 | 26.6 | 10,633 |
| Charter operations, total | 974 | (34.6) | 1,490 | 0.7 | 1,480 |
| Flight operations, total | 16,429 | 9.9 | 14,956 | 23.5 | 12,113 |
| Seats(2) | | | | | |
| International scheduled(3) | 6,374,127 | 18.3 | 5,388,315 | 27.3 | 4,233,686 |
| Domestic scheduled | 10,393,266 | 16.7 | 8,906,833 | 40.3 | 6,346,232 |
| Scheduled operations, total | 16,767,393 | 17.3 | 14,295,148 | 35.1 | 10,579,918 |
| Charter | 589,918 | (18.3) | 722,398 | 9.6 | 659,377 |
| Flight operations, total | 17,357,311 | 15.6 | 15,017,546 | 33.6 | 11,239,295 |

(1) Since December 31, 2012, we have received the delivery of one new Boeing 737-800NG and redelivered to the relevant lessor one Boeing 737-800NG aircraft and one Boeing 737-400 aircraft that we operated under operating leases.

(2) For definition, see "Certain Definitions."

(3) Includes figures of international split charter flights.

We have, in line with our growth strategy, gradually increased the number of aircraft in our fleet with a special focus on increasing the capacity of our scheduled operations. Our total capacity for scheduled operations expressed in ASK increased by 45.3% between 2010 and 2012. Since the beginning of 2005, we have placed firm purchase orders with Boeing for 40 new 737-800NG aircraft, of which 35 have been delivered to us. In July 2012, we placed an order with Airbus for a total of 100 new aircraft comprising a firm order for 57 A320neo aircraft and 18 A321neo aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) annually and 2022, with an option for 25 additional aircraft. To satisfy our expected capacity needs in the near term, we also plan to wet lease two additional Boeing 737-800NG aircraft from İzAir once it has received the delivery of these aircraft, which we expect it to obtain through operating leases in 2013. Our goal is to increase our ASK by 12% to 16% over the next three years.

We continuously evaluate our aircraft needs and market conditions. Based on our current fleet plan, and assuming that the aircraft deliveries under the Airbus Order commence in 2015, we expect that we will have 44, 47 and 52 aircraft in our fleet as of December 31, 2013, 2014 and 2015, respectively, and that these fleet numbers will include five Boeing 737-800NG aircraft of İzAir that we expect to operate under wet leases as of the same dates. We expect that the average number of aircraft in our fleet in 2013, 2014 and 2015 will be 43, 46 and 52, respectively. For more detailed information on our current and future fleet, including the aircraft to be delivered pursuant to the Airbus Order, see "Business—Aircraft" and for additional details on related expenditures and their financing, see "—Liquidity and Capital Resources."

We have a number of fleet planning objectives, including maintaining a relatively young fleet with both owned aircraft and aircraft operated under operating leases. To benefit from the advantages of aircraft ownership, which include tax benefits, operating flexibility (including the ability to sell the aircraft) and maintenance efficiencies as we can manage the maintenance of owned aircraft (including finance lease aircraft) ourselves, we have increased, and carefully managed, the portion of owned aircraft in our fleet, while maintaining operating leases for financing flexibility and risk management purposes as well as to

provide flexibility for our fleet expansion program. Achievement of these objectives is a function of a number of considerations, including aircraft market dynamics, the cost of new aircraft, the availability of financing, operating expenses and performance requirements.

As of the date of this Offering Circular, of the 42 aircraft in our fleet (including the three aircraft we wet lease from İzAir), 27 aircraft (including 26 aircraft operated under finance leases) are owned by us and 12 are operated under operating leases with six different leasing companies. Of the 12 aircraft we operate under operating leases, nine have been financed through sale and leaseback arrangements. While the costs related to sale and leaseback arrangements are slightly higher than the costs of Ex-Im supported finance leases and expected costs of European ECA supported financing, we believe that sale and leaseback arrangements provide us with certain benefits, including the additional flexibility to manage our balance sheet structure and the ability to mitigate the residual value risk relating to aircraft ownership. We expect to finance each of the remaining five Boeing 737-800NG aircraft to be delivered to us between 2013 and 2015 through sale and leaseback arrangements. With regard to our future fleet of Airbus A320neo and A321neo aircraft, while we have not made a decision regarding whether we will own or lease the new aircraft under operating leases, we expect to continue to actively manage this fleet and to maintain a balanced portfolio of owned aircraft and aircraft operated under operating leases. We believe that a balanced mix of owned and leased aircraft also provides additional operational flexibility as it increases our ability to adjust our fleet size to our operational needs by allowing us to more efficiently manage the inflow and outflow of aircraft. See also "—Contractual Obligations."

We also lease our aircraft to third parties on an as-needed, short-term basis under wet lease arrangements to manage capacity. As of the date of this Offering Circular, none of our aircraft are on wet lease. A wet lease arrangement is a short-term lease of aircraft, whereby the lessor assumes certain operational responsibilities, including the procurement of insurance and maintenance as well as provision of the services of the cockpit crew and the cabin crew (ACMI).

### Capacity Utilization

We measure our capacity utilization primarily in terms of average block hours flown per day. The following table sets forth information on the utilization of our fleet for the periods indicated for all flight operations. Unless otherwise indicated, the capacity utilization figures below do not include the capacity utilization of the AirBerlin Turkey Project from and including November 1, 2011.

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2012** | **Change (%)** | **2011** | **Change (%)** | **2010** |
| Block hours | 159,340 | 6.7 | 149,354 | 22.8 | 121,650 |
| Passengers | | | | | |
| International scheduled[1] | 4,789,992 | 21.3 | 3,949,363 | 29.4 | 3,051,177 |
| Domestic scheduled | 8,298,064 | 22.7 | 6,764,552 | 36.4 | 4,960,693 |
| Scheduled operations, total | 13,088,056 | 22.2 | 10,713,915 | 33.7 | 8,011,870 |
| Charter | 490,128 | (21.1) | 621,365 | 10.6 | 561,925 |
| Flight operations, total[2] | 13,578,184 | 19.8 | 11,335,280 | 32.2 | 8,573,795 |
| Passenger load factor (%) | | | | | |
| International scheduled[1][2] | 75.1 | 1.9 | 73.2 | 1.2 | 72.0 |
| Domestic scheduled | 79.8 | 3.9 | 75.9 | (2.3) | 78.2 |
| Scheduled operations, total | 78.1 | 3.1 | 74.9 | (0.8) | 75.7 |
| Charter | 83.1 | (2.9) | 86.0 | 0.8 | 85.2 |
| Flight operations, total | 78.2 | 2.7 | 75.5 | (0.8) | 76.3 |

(1) Includes passengers of international split charter flights.

(2) Load factor for split charter flights included in international scheduled is calculated by dividing the number of passengers invoiced by seat number.

While we grow our fleet, we will also seek to increase our aircraft utilization by leveraging our young fleet. We operated our aircraft for an average of approximately 11.7 block hours a day in 2012, compared to 11.8 and 12.0 block hours in 2011 and 2010, respectively. The block hours per day in 2011 and 2012 were affected by decreases in our ASL during these two years in line with our focus on increasing turns per day

to increase our RASK. In addition, in 2012 we did not wet lease any of our aircraft during the winter season, which decreased the block hours per day that our aircraft operated during that period. On the other hand, the daily cycles per aircraft increased to 6.9 in 2012 from 6.5 in 2011 and 6.6 in 2010. In the short term, we expect our utilization rates to be approximately at the same level as they were in 2012. However, our goal is to increase our utilization rates in the future by, among other things, increasing the number of destinations that we can operate during nighttime, including destinations east, south and north of Turkey, subject to obtaining traffic rights to such destinations.

Our overall load factor for scheduled flight operations was 75.7% in 2010, 74.9% in 2011 and 78.1% in 2012. The load factors in 2010 and 2011 were affected by the expansion of our fleet during those years. The average number of aircraft in our fleet increased from 21.1 in 2009 to 28.3 in 2010 and 37.7 in 2011, followed by a smaller increase in 2012 to 39.6 aircraft. The increase in our load factors in 2012 was attributable to increases in load factors both on our scheduled international and domestic flights driven by, among other things, our new revenue management system we implemented in March 2012 that had a positive effect on our load factors, our improved on-time performance, the growing popularity of Sabiha Gökçen Airport among customers living on the Asian side of İstanbul and the addition of new routes to our network, in particular from Sabiha Gökçen Airport. We expect our load factors to continue to gradually increase in the near term and our short to mid-term target is to exceed the 80% load factor level. In the first two months of 2013, our load factors have increased to 77.7% as compared to 74.4% in the corresponding period in 2012.

Ancillary Revenue

Ancillary revenue represented 12.8% of Pegasus Operation Revenue in 2012, compared to 9.9% and 9.6% in 2011 and 2010, respectively. Even though we have increased our ancillary revenue during the past three years, our ancillary revenue per passenger is still lower than those of many of our European low-cost competitors, and we believe that there is still room for us to increase our ancillary revenue considerably. We intend to expand our ancillary revenue base and increase our ancillary revenue per passenger ratio and ancillary revenue as a percentage of our total revenue.

During the last few years, we have expanded our ancillary service selection by introducing services such as pre-purchased excess baggage allowance, "price fix" (ability to reserve a given ticket price for a set number of days prior to booking for a fee), SMS services, in-flight catering and duty free shopping that provide revenues that support our low-cost model. We have also developed our fee structure and introduced new fee types, such as check-in fees, that have supported our ancillary revenue growth. We believe that integrating travel-related services, such as car rental services, travel insurance and hotel reservations, to our online offerings will contribute to the growth we seek in our ancillary revenues.

In addition, to support our ancillary revenue base, we will continue to seek to increase direct sales through our website as we keep 100% of the service fees on sales made through the website, but we also expect to develop our international distribution through GDSs that enable electronic ticket sales through travel agents and provide business-to-business interface with travel organizations. We believe that an increase in aircraft utilization, in particular in load factors, will also lead to an increase in ancillary revenue through increased passenger volumes and additional baggage services, seat selection fees and the in-flight sale of beverages and food.

***Factors Affecting Our Costs***

*Changes in Fuel Prices*

Fuel is currently our largest operating expense and accounted for TL337.9 million, or 38.9%, TL610.6 million, or 45.1%, and TL702.4 million, or 48.0%, of Pegasus Operation Cost of Sales for the years ended December 31, 2010, 2011 and 2012, respectively. Fuel costs are subject to wide fluctuations and influenced by the global economic and political environment, including events that we can neither control nor accurately predict, including increases in demand, sudden disruptions in supply and other concerns about global supply, as well as market speculation. Following a significant decline in 2009, fuel prices increased in each of 2010, 2011 and 2012. This was reflected in the average price per ton (net of any gain/loss on our hedging instruments) we paid for our fuel purchases, which was TL1,203 in 2010, TL1,833 in 2011 and TL1,949 in 2012. As our fuel costs for our flights are incurred in U.S. dollars, fluctuations in the value of the U.S. dollar also affect our fuel costs, see "—Exchange Rate Fluctuations and Foreign Currency Translation—Transactional Gains and Losses." Changes in fuel prices have had a significant impact on our costs, and in turn, on our results of operations.

To reduce our exposure to increasing fuel prices, we introduced a fuel price hedging program that covers the expected fuel costs for all our flight operations in August 2011, see "—Qualitative and Quantitative Disclosures about Market Risk—Commodity Price Risk." In addition to hedging arrangements, we also seek to mitigate the impact of fuel price increases, to a certain degree, by implementing fuel surcharges in circumstances where we believe such surcharges would not be a competitive disadvantage. Further, our contracts with tour operators contain a clause that allows charter rates to be adjusted for fluctuations in fuel prices.

We are also focused on the fuel efficiency of our fleet. We believe that the new Boeing 737-800NG aircraft in our fleet will help us to maintain, and the new Airbus A320neo and A321neo aircraft, once delivered, will help us further lower, our fuel costs per block hour and seat. We have also introduced initiatives to improve the fuel efficiency of our fleet by, among other things, reducing aircraft weight, operating engines with less than maximum power and using one-engine taxiing, and will continue to implement these initiatives as part of our overall fuel strategy. The fuel consumption of our fleet (payload adjusted for payload per block hour and payload indexed to 2010) was 2,318 kilograms in 2010, compared to 2,196 kilograms in 2012, representing a decrease of 5.3%. We are also continuously looking at additional ways to manage our fuel cost. These include making our fuel tankering more efficient, and we believe that our flight planning system provides us a solid platform to capture the potential savings offered by fuel tankering. See also "—Qualitative and Quantitative Disclosures about Market Risk—Commodity Price Risk" and "Risk Factors—Risks Relating to Our Business—We are exposed to risks associated with fuel price trends and increases in fuel costs could have a material adverse effect on our business, financial condition and results of operations."

*High Level of Fixed Costs*

The nature of the airline business is such that a high proportion of a carrier's operating expenses, in particular expenses related to aircraft financing and rent costs as well as part of cockpit crew related expenses, are fixed and do not vary proportionally based on load factors, number of passengers carried, number of flights flown or aircraft utilization rates. Thus, a change in our load factors or yields can have a major effect on our results of operations.

The following table sets forth our fixed costs per ASK for the periods indicated. The figures below do not include the per ASK figures of the AirBerlin Turkey Project from and including November 1, 2011. For our CASK for these periods, see "—Results of Operations."

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| | | **(kuruş)** | |
| Personnel expenses | 1.20 | 1.08 | 1.00 |
| Operating lease expenses | 0.52 | 0.75 | 0.65 |
| Depreciation and amortization expenses | 0.64 | 0.51 | 0.33 |
| Advertising expenses | 0.22 | 0.23 | 0.17 |
| Other fixed costs[(1)] | 0.17 | 0.17 | 0.16 |
| Total fixed costs per ASK | 2.74 | 2.74 | 2.31 |

(1) Other fixed costs include, among other things, rent, consultancy, IT and travel expenses.

Similarly, our operating results can be substantially affected by relatively small changes in aircraft utilization rates. The high level of fixed costs further accentuates the cyclicality prevailing in the airline industry. While we are continuously trying to improve our cost structure, the high level of fixed costs may have a negative effect on our financial condition and results of operations. See "Risk Factors—Risks Relating to the Airline Industry—The airline industry is, in general, characterized by low profit margins and high fixed costs, and we may be unable to compete effectively against other airlines with greater financial resources or lower operating costs."

We seek to achieve direct cost savings through outsourcing, when appropriate, to maintain the lowest and most flexible cost structure. For example, to manage our costs, we signed a component support agreement, also known as a "power-by-hour" agreement, with Turkish Technic in January 2011 for selected major Boeing 737-800NG aircraft components, see "Business—Aircraft—Maintenance." By signing this contract, we obtained a fixed component maintenance cost for the major components until the end of

2020. We believe that over the course of the agreement this arrangement will provide savings compared to in-house sourcing of these components. As of the date of this Offering Circular, we have not finalized our plans regarding the component maintenance of the new Airbus A320neo and A321neo aircraft we have ordered from Airbus. We also expect to achieve savings on a per ASK basis in other costs, such as landing, handling and catering expenses, through active management of our contracts with service providers and economies of scale as we grow our operations. Our employee efficiency, in terms of passengers per employee (full-time equivalents), increased from 5,520 passengers per employee in 2010 to 5,867 passengers per employee in 2011 and 6,415 passengers per employee in 2012, representing an increase of 16.2% from 2010 to 2012, and we aim to continue to increase our employee efficiency to manage our fixed costs.

As our functional currency is euro but we incur a significant part of our cost of sales and expenses in non-euro currencies, in particular U.S. dollars and Turkish Lira, we introduced a currency hedging program in August 2011 to reduce our exposure to volatility in exchange rates and its effect on our fixed costs. See "—Qualitative and Quantitative Disclosures about Market Risk—Foreign Currency Risk."

*Aircraft Depreciation and Lease Expenses*

Our depreciation expenses and aircraft lease expenses in absolute figures depend mainly on the number of aircraft in operation and the mix of owned and leased aircraft. Aircraft operated under finance leases are depreciated over their useful lives on the same basis as owned aircraft. When we own an aircraft or operate aircraft under finance leases, fluctuations in the value of the aircraft will have an impact on our financial position when the value of the aircraft is impaired. We also depreciate the value of owned aircraft including finance lease aircraft) and heavy maintenance related to the aircraft as well as bear the financing costs related to the acquisition of the aircraft. If we lease an aircraft under an operating lease, we do not recognize the value of the aircraft on our balance sheet. However, we are responsible for lease payments.

The following table sets forth our owned and leased aircraft as of the dates indicated. The figures below do not include the aircraft of the AirBerlin Turkey Project from and including November 1, 2011.

| | As of December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| Owned aircraft | 1 | 1 | 1 |
| Aircraft under finance leases | 26 | 20 | 14 |
| Aircraft under operating leases[(1)] | 13 | 18 | 17 |
| Total | 40 | 39 | 32 |

(1) We have received the delivery of one new Boeing 737-800NG aircraft after December 31, 2012 that we operate under an operating lease and redelivered to the relevant lessor one Boeing 737-800NG aircraft and one Boeing 737-400 aircraft that we operated under operating leases.

As of the date of this Offering Circular, we have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft, and we expect to finance each of these aircraft through sale and leaseback arrangements. With regard to our future fleet of Airbus A320neo and A321neo aircraft, while we have not made a decision regarding whether we will own or lease the new aircraft under operating leases, we expect to continue to actively manage this fleet and to maintain a balanced portfolio of owned aircraft and aircraft under operating leases.

In Turkey, taxable income is determined based on the valuation principles stemming from the Turkish Tax Procedural Law, which allow companies to depreciate fixed assets over an officially announced useful life determined for each particular asset either on (i) a linear depreciation formula or, alternatively, (ii) an accelerated, non-linear depreciation formula. As of December 31, 2012, of the 40 aircraft in our fleet, 27 aircraft (including 26 aircraft operated under finance leases) were depreciated under the accelerated, non-linear depreciation schedule, which, in turn, generated a significant net operating loss for tax purposes. As a result, we believe that we will not have any meaningful corporate income tax payable in 2013 and 2014. We expect to pay corporate income taxes in 2015. However, based on our growth profile, we expect that the incentive certificates we have received from the Treasury for 11 aircraft we purchased in 2011 and 2012 will reduce our effective tax rate starting from 2015. These incentive certificates allow certain deductions against taxable income that is attributable to the operation of these aircraft.

A joint committee of the International Accounting Standards Board and Financial Accounting Standards Board is developing a new standard for the accounting and financial reporting of lease contracts that is expected to affect both lessors and lessees. According to one of the proposals in the draft standard, operating leases would under certain circumstances be recorded on the lessee's balance sheet. Although we do not believe the finalized standard will have a material impact on our business, we cannot assure you that the adoption of the new standard will not adversely affect our financial condition.

*Capital Expenditures*

Since 2005, we have placed firm purchase orders with Boeing for 40 new Boeing 737-800NG aircraft, of which 35 have been delivered to us. In July 2012, we placed the Airbus Order for 75 new aircraft comprising 57 A320neo aircraft and 18 A321neo aircraft, with an option for 25 additional aircraft. Our purchase orders with Boeing and Airbus are subject to confidential price and payment term concessions from the listed purchase prices as well as adjustments based on escalation adjustment clauses (in the case of the Airbus aircraft, subject to a maximum limit), and thus the actual purchase price we pay for the aircraft we have ordered will be different, typically lower, than their list prices. Based on expected prices at the date of delivery (i.e., list prices that exclude price and payment term concessions but take into consideration our expectation of applicable escalation adjustments and aircraft configurations), our expected capital expenditures related to the remaining five firm order Boeing 737-800NG aircraft and the 75 firm order aircraft and 25 option aircraft (assuming this option is exercised in full) under the Airbus Order total approximately US$12.5 billion. As of the date of this Offering Circular, we expect one firm order Boeing 737-800NG aircraft to be delivered in 2013 and two aircraft in each 2014 and 2015 and finance each of these remaining five Boeing 737-800NG aircraft through sale and leaseback arrangements. We expect the 57 firm order Airbus A320neo aircraft and the 18 firm order A321neo firm order aircraft to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022. For additional information on our future capital expenditures and financing arrangements, see "—Capital Expenditures," "—Contractual Obligations" and "—Liquidity and Capital Resources—Borrowings."

*Interest Rate Fluctuations*

Our financial expenses relate primarily to interest expenses for aircraft financing. Interest expenses generally vary in accordance with our liabilities under our aircraft financing arrangements. We use primarily variable rate loans, with a significant portion of our indebtedness being linked to Libor and Euribor. Thus, our interest expenses are subject to changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of December 31, 2012, 96.4% of our outstanding net indebtedness was linked to variable interest rates. See also "—Qualitative and Quantitative Disclosures about Market Risk—Interest Rate Risk" and "Risk Factors—Risks Relating to Our Business—We are exposed to interest rate risk on our variable rate borrowing."

*Exchange Rate Fluctuations and Foreign Currency Translation*

Transactional Gains and Losses

The functional currency of the Pegasus Group is euro and our reporting currency is Turkish Lira. We incur a significant portion of our cost of sales and expenses in non-euro currencies, in particular U.S. dollars and Turkish Lira, and while we generate a large share of our revenue in euro, a significant portion of our revenue is generated in Turkish Lira. As a result, our results of operations have been and will continue to be affected by fluctuations in non-euro currencies, particular the U.S. dollar and the Turkish Lira, against the euro. Gains and losses on transactions are recognized in the income statement under foreign exchange gains / (losses).

In 2010, 2011 and 2012, approximately 61%, 78% and 72%, respectively, of our operating expenses (cost of sales, selling and marketing and general administrative expenses) were incurred in non-euro currencies and approximately 48%, 53% and 59%, respectively, of our revenues were generated in non-euro currencies. Various operating costs, such as payment obligations for aircraft and related parts and for fuel for flights and a substantial portion of aircraft maintenance expenses and all of our operating lease payments are incurred in U.S. dollars. U.S. dollar denominated revenue accounted for 9% of our total revenue in 2012, which provides a natural hedge against a small portion of our U.S. dollar costs. The weakening of the U.S. dollar against the euro has a positive impact on our results of operations and strengthening has a negative impact as we have more U.S. dollar denominated costs than revenues. The value of the U.S. dollar increased against the euro in 2010 and 2012 and decreased in 2011.

The following table sets forth our foreign exchange gains and losses for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (TL thousands) | | |
| Foreign exchange gains / (losses) | (14,037) | 12,633 | 4,600 |

To reduce our exposure to volatile currencies and their effect on our costs, we introduced a currency hedging program in August 2011. Since then, we have aimed to hedge our euro, Turkish Lira, British pound sterling and Swiss franc denominated surplus totaling up to 100% of our U.S. dollar needs through each year. In 2012, we hedged 94.8% of our U.S. dollar short positions. See "—Qualitative and Quantitative Disclosures about Market Risk—Foreign Currency Risk."

See also "—Qualitative and Quantitative Disclosures about Market Risk—Foreign Exchange Risk," "Presentation of Financial Information" and "Risk Factors—Risks Relating to Our Business—Currency fluctuations may affect our business, financial condition or results of operations."

Translation Gains and Losses

For the purposes of the IFRS Financial Statements, we have selected Turkish Lira as our reporting currency. Translation gains / (losses) arising from the conversion from euro (functional currency) to Turkish Lira (reporting currency) are presented as foreign currency conversion reserve under equity, which has no income statement effect.

***Other Factors Affecting Our Results of Operations***

*Local and Global Economic and Competitive Conditions*

Airline operating results are sensitive to economic and geopolitical conditions that can have a significant impact on the demand for air transportation. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. For leisure travelers, air transportation is often a discretionary purchase that they can eliminate from their spending in difficult economic times. In addition, during periods of poor economic conditions, businesses usually reduce the volume of their business travel, either due to cost-saving initiatives or as a result of decreased business activity requiring travel. A downturn in economic growth in Turkey or Europe or Asia, as well as geopolitical instability in various areas of the world, would have the effect of reducing demand for air travel within Turkey and Europe and our other markets, which, in turn, would affect our results of operations. However, we also believe that travelers look for more affordable alternatives for their travel needs during economically challenging times, which, in turn, can benefit low-cost carriers like us during such periods.

*Competition*

We operate in a highly competitive market and are in intense competition with a number of other air carriers for travelers, see "Business—Competition." Our competitors may seek to protect or gain market share through, for example, fare-matching or price-discounting. We may be vulnerable to price-discounting by competitors because we are generally required to respond to competitors' fares in order to maintain or grow passenger traffic levels through competitive pricing. If our competitors engage in price-cutting or make other changes in their services in an attempt to increase their market shares and we are not able to respond effectively to maintain our market share, our passenger revenues could decline, which could have a material adverse effect on results of operations.

*Seasonal Fluctuations*

Our results of operations vary from quarter to quarter within the year. Our international passenger volumes are subject to more seasonality than domestic passenger volumes, with peaks around holiday seasons. Historically, we have generated most of our revenue during the summer season between April and October each year, as demand is higher during this period, while the majority of our fixed costs are incurred more evenly throughout the year. As a result, we generally generate lower revenue and cash flows during the winter season from November through March and record lower operating results in the first and fourth quarters of our financial year. Due to seasonality of demand, together with the high proportionality

of fixed costs, our operating results have varied and we expect them to continue to vary from quarter to quarter within the year. We have not grounded any aircraft during the winter season in the past eight years.

**Non-IFRS Financial Measures**

We have included certain non-IFRS measures in this Offering Circular to enhance the understanding of our results of operations. These include Pegasus Operation Revenue, Pegasus Operation Cost of Sales, Pegasus Operation EBITDA, Pegasus Operation EBITDAR, Pegasus Operation Adjusted Net Debt and indicators based on these measures. We believe these measures are commonly reported and widely used by investors in comparing performance on a consistent basis. Accordingly, we have disclosed non-IFRS measures in this Offering Circular to permit a more complete and comprehensive analysis of our results of operations relative to other companies. An investor should not, however, consider these non-IFRS measures in isolation or as a substitute for profit or operating profit as determined by IFRS, or as an indicator of our operating performance or of our cash flows from operating activities as determined in accordance with IFRS. An investor should not use these non-IFRS measures as a substitute for the analysis provided in our statement of comprehensive income or cash flow statement. The non-IFRS measures disclosed here are not comparable to those disclosed by other companies because they are not uniformly defined. See "Presentation of Financial Information—Non-IFRS Financial Measures."

The following table sets forth a reconciliation of Pegasus Operation Revenue to revenue and Pegasus Operation Cost of Sales to cost of sales for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Revenue | 1,919,892,223 | 1,484,079,753 | 977,863,116 |
| AirBerlin Turkey operation revenue | 128,133,398 | 15,489,190 | — |
| Pegasus Operation Revenue(1) | 1,791,758,826 | 1,468,590,563 | 977,863,116 |
| Cost of Sales | (1,600,787,909) | (1,376,748,406) | (867,782,511) |
| AirBerlin Turkey cost of sales | (137,909,700) | (21,860,081) | — |
| Pegasus Operation Cost of Sales(1) | (1,462,878,209) | (1,354,888,325) | (867,782,511) |

(1) For definition, see "Presentation of Financial Information—Non-IFRS Financial Measures."

The following table sets forth a reconciliation of Pegasus Operation EBITDA and Pegasus Operation EBITDAR to our net profit for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Net profit / (loss) | 126,303,516 | (14,085,900) | 20,237,310 |
| Deferred income tax / (expense) | 29,016,083 | 1,407,307 | 10,713,224 |
| Finance income | (13,278,513) | (13,984,584) | (4,856,873) |
| Finance costs | 49,133,836 | 31,522,079 | 17,175,753 |
| Share in gain / (loss) of associates | 1,513,990 | (409,670) | 109,663 |
| Depreciation and amortization expenses | 104,401,778 | 75,870,148 | 39,548,159 |
| Operating lease expenses | 84,761,760 | 111,642,385 | 78,389,206 |
| AirBerlin Turkey operation cost of sales | 137,909,700 | 21,860,081 | — |
| AirBerlin Turkey operation revenue | (128,133,398) | (15,489,190) | — |
| Pegasus Operation EBITDAR(1) | 391,628,752 | 198,332,656 | 161,316,442 |
| Operating lease expenses | (84,761,760) | (111,642,385) | (78,389,206) |
| Pegasus Operation EBITDA(1) | 306,866,992 | 86,690,271 | 82,927,236 |

(1) For definition, see "Presentation of Financial Information—Non-IFRS Financial Measures."

The following table sets forth a reconciliation of net financial debt and Pegasus Operation Adjusted Net Debt as indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Cash and cash equivalents | (210,150,238) | (19,549,364) | (49,284,469) |
| Total current financial debt | 185,954,714 | 292,036,185 | 210,182,820 |
| Total non-current financial debt | 1,240,919,331 | 1,030,040,742 | 632,546,486 |
| 50% of advances on aircraft purchases (pre-delivery payments) | (44,631,722) | (90,052,290) | (128,359,627) |
| Net financial debt | 1,172,092,086 | 1,212,475,273 | 665,085,210 |
| Operating leases × 7 | 593,332,320 | 781,496,692 | 548,724,442 |
| Pegasus Operation Adjusted Net Debt[(1)] | 1,765,424,406 | 1,993,971,965 | 1,213,809,652 |

(1) For definition, see "Presentation of Financial Information—Non-IFRS Financial Measures." Pegasus Operation Adjusted Net Debt and Pegasus Operation Adjusted Net Debt / Pegasus Operation EBITDAR, as adjusted for an increase in cash and cash equivalents of TL481,435,013 reflecting the receipt of the net proceeds to us of the Offering as discussed under "Capitalization," as of December 31, 2012 would have been TL1,283,989,393 and 3.3, respectively.

## Results of Operations

### *Main Income Statement Line Items*

*Revenue*

Our revenue comprises revenues from scheduled flights, ancillary revenue, charter flights and other revenue.

*Scheduled Flights Revenue*

The majority of our revenue is derived from the sale of seats to passengers on our scheduled flights. The main factors affecting our scheduled flight revenue are our capacity, capacity utilization, including passenger load factors, and fare levels. In line with IATA rules, we record split charter revenue as scheduled flights revenue due to the fact that split charter flights resemble scheduled flights in that we are ultimately responsible for filling the aircraft.

*Ancillary Revenue*

We generate ancillary revenue primarily through the provision of additional products and services in connection with our scheduled flights and, to a lesser extent, standard charter flights. Ancillary services include, but are not limited to, general service fees, pre-order and in-flight sales of beverages and food, sales of duty-free items on board our international flights, excess baggage fees, reservation change and cancellation fees, seat selection fees (i.e., ability to select preferred seats by paying an extra fee), option sales (i.e., fees paid by passengers to reserve a given ticket price for a set number of days prior to booking), airport check-in fees (i.e., a fee paid by a passenger if the passenger does not check in online), on-board advertising revenues. Ancillary revenue is recognized when the service is provided.

*Charter Flights Revenue*

Charter flights revenue comprises revenue from the pre-sale of the entire capacity of an aircraft to tour operators. The revenue we receive from an aircraft chartered to a third-party tour operator does not depend on how many seats the tour operator sells on each flight. The risk of a low passenger load factor for a given charter flight or for an entire season is borne by the tour operator. We record revenue from wet leases and sub-charter operations under our charter revenue.

*Other Revenue*

Other revenue mainly comprises revenue from cargo services and pilot, crew and technical training for third parties.

*Cost of Sales*

Similar to other airlines, fuel costs represent the largest portion of our cost of sales, see "—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Changes in Fuel Prices." Our other significant cost of sales items include personnel expenses (including expenses related to our employee incentive plan), operating lease expenses, maintenance expenses, handling fees, navigation expenses that primarily consist of fees that we pay for flyover rights to various countries, and depreciation and amortization expenses.

*Other Expenses and Income*

*Selling and marketing expenses.* Selling and marketing expenses primarily comprise our print, radio, television and online advertising expenses and related personnel expenses.

*General administrative expenses.* General administrative expenses comprise headquarters and administrative personnel expenses, depreciation and amortization expenses, rent expenses, consultancy expenses, travel expenses, information technology expenses, office repair and utility expenses, insurance expenses, training expenses, legal and notary expenses, subscription expenses, communication expense and other administrative expense.

*Finance expense.* Finance expense comprise interest expense on bank loans, commissions, interest on obligations under aircraft finance leases and realized and unrealized foreign exchange losses on derivative contracts.

*Finance income.* Finance income includes interest on bank deposits, foreign exchange gains and realized and unrealized foreign exchange gains on transactions and derivative contracts.

*Other income (net).* Other income (net) mainly includes income from sale and leaseback transactions.

*Deferred Tax Expense*

Taxation on profit consists of taxes payable on our profit before taxes. The corporate income tax rate in Turkey in 2012, 2011 and 2010 was 20%. Taxation on income consists of current income tax expense and deferred tax (expense) / income. Deferred income tax assets and liabilities are based upon temporary differences arising between our financial statements as reported for IFRS purposes and our statutory financial statements. See Note 17 to the IFRS Financial Statements and "Taxation."

*Currency Translation Adjustment*

Currency translation adjustment comprises translation gains / (losses) arising from translations of euro, our functional currency, to Turkish lira, our reporting currency, for the purposes of our financial statements.

*Cash Flow Hedge*

We have a number of forward contracts, including jet fuel hedges, that qualify for hedge accounting under the specific provisions of IAS 39 and they are accounted for as cash flow hedges. The effective portion of changes in the fair value of forward contracts that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

***Results of Operations for the Years Ended December 31, 2012 and 2011***

*Revenue*

In 2012, our total revenue was TL1,919.9 million, an increase of 29.4% as compared to total revenue of TL1,484.1 million in 2011. Pegasus Operation Revenue was TL1,791.8 million, an increase of 22.0% as compared to TL1,468.6 million in 2011. The trends affecting Pegasus Operation Revenue are discussed below.

The following table sets forth our total revenue, which includes Pegasus Operation Revenue from scheduled flights, ancillary revenue, revenue from charter flights and other revenue and the percentage of

each revenue type of Pegasus Operation Revenue, as well as AirBerlin Turkey operation revenue for the years ended December 31, 2012 and 2011.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (TL in millions) | | (%) | |
| Scheduled flights revenue | 1,429.9 | 1,124.4 | 79.8 | 76.6 |
| Ancillary revenue | 230.2 | 146.0 | 12.8 | 9.9 |
| Charter flights revenue | 106.7 | 179.2 | 6.0 | 12.2 |
| Other revenue | 25.0 | 19.0 | 1.4 | 1.3 |
| Pegasus Operation Revenue | 1,791.8 | 1,468.6 | 100.0 | 100.0 |
| AirBerlin Turkey operation revenue | 128.1 | 15.5 | | |
| Total revenue | 1,919.9 | 1,484.1 | | |

*Scheduled Flights Revenue*

In 2012, our scheduled flights revenue was TL1,429.9 million, an increase of 27.2% as compared to scheduled flights revenue of TL1,124.4 million in 2011. The increase reflected the significant increases in revenue both from international and domestic scheduled flights.

*International scheduled flights.* The following table sets forth information relating to our revenue from international scheduled flights. The figures below do not include the figures of the AirBerlin Turkey Project from and including November 1, 2011.

| | For the year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| International scheduled(1) | | |
| Revenue (TL in millions) | 807.3 | 649.9 |
| ASK (million) | 9,471 | 8,285 |
| RASK (kuruş) | 8.52 | 7.85 |
| Passengers | 4,789,992 | 3,949,363 |
| Seats | 6,374,127 | 5,388,315 |
| Cycles | 34,513 | 29,979 |
| Passengers per cycle | 139 | 132 |
| Load factor (%)(2) | 75.1 | 73.2 |
| Market share (%)(3) | 8.1 | 7.7 |

(1) Includes passengers of international split charter flights.

(2) Load factor for split charter flights included in international scheduled is calculated by dividing the number of passengers invoiced by seat number.

(3) In terms of passenger volumes.

In 2012, our revenue from international scheduled flights was TL807.3 million, an increase of 24.2% as compared to revenue from international scheduled flights of TL649.9 million in 2011. This increase was primarily attributable to the combined effect of increases in ASK, which increased 14.3% in 2012 as compared to 2011 and reflected the addition of new aircraft to our international scheduled flight fleet, and RASK that increased 8.7% during the same period. The increased RASK primarily reflected an increase in load factor that was driven by increased passenger numbers, shorter ASL that had a positive effect on RASK and the new revenue management system that increased our yields after its implementation in March 2012. The number of passengers on our international scheduled flights increased by 21.3% from 3.9 million in 2011 to 4.8 million in 2012, reflecting increased international scheduled passenger volumes on existing passenger routes and the successful launch of a total of 10 new international routes in 2012, in particular from Sabiha Gökçen Airport. Despite the 2.8% increase in average seat capacity per flight on our international scheduled flights, which was due to almost all Boeing 737-800NG aircraft operated on international flights having the maximum 189-seat configuration in 2012, the load factor on our international scheduled flights increased from 73.2% in 2011 to 75.1% in 2012. This increase in load factors was driven by an increase of 5.4% in average passengers per cycle on our international scheduled

flights in 2012, reflecting the further improvement of our on-time performance, the increase in transit passengers driven by the expansion of our route network, the growing popularity of Sabiha Gökçen Airport among customers living on the Asian side of İstanbul and increased marketing activities and new campaigns. The average euro / Turkish lira exchange rate decreased by 1.2% from TL2.3349 in 2011 to TL2.3061 in 2012, which had a small offsetting effect on the increased RASK as revenue from international scheduled flights is predominantly generated in euro.

Our market share in international scheduled flights to and from Turkey in terms of passenger volumes increased from 7.7% in 2011 to 8.1% in 2012.

*Domestic scheduled flights.* The following table sets forth information relating to our revenue from domestic scheduled flights.

| | For the year ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| Domestic scheduled | | |
| Revenue (TL in millions) | 622.6 | 474.4 |
| ASK (million) | 5,983 | 5,181 |
| RASK (kuruş) | 10.41 | 9.16 |
| Passengers | 8,298,064 | 6,764,552 |
| Seats | 10,393,266 | 8,906,833 |
| Cycles | 55,726 | 50,229 |
| Passengers per cycle | 149 | 135 |
| Load factor (%) | 79.8 | 75.9 |
| Market share (%)[1] | 25.7 | 23.2 |

(1) In terms of passenger volumes.

In 2012, our revenue from domestic scheduled flights was TL622.6 million, an increase of 31.2% as compared to revenue from domestic scheduled flights of TL474.4 million in 2011. This increase was primarily attributable to the combined effect of increases in ASK, which increased 15.5% in 2012 as compared to 2011 and reflected the addition of new aircraft to our domestic scheduled flight fleet, and RASK that increased 13.6% during the same period. The increased RASK primarily reflected an increase in load factor that was driven by increased passenger numbers and the new revenue management system we implemented in March 2012, which had a positive effect on yields in 2012. The number of passengers on our domestic scheduled flights increased 22.7% from 6.8 million in 2011 to 8.3 million in 2012, which was mainly due to increased domestic scheduled passenger volumes on existing passenger routes and the successful launch of a total of eight new domestic routes in 2012, in particular from Sabiha Gökçen Airport. Despite the 5.2% increase in average seat capacity per flight on our domestic scheduled flights during 2012, the load factor on our domestic scheduled flights increased from 75.9% in 2011 to 79.8% in 2012. This increase in load factors was driven by an increase of 10.6% in average passengers per cycle on our domestic scheduled flights in 2012, reflecting the further improvement of our on-time performance, the increase in transit passengers driven by the expansion of our route network, the growing popularity of Sabiha Gökçen Airport among customers living on the Asian side of İstanbul and increased marketing activities and new campaigns.

Our market share in domestic scheduled flights in terms of passenger volumes increased from 23.2% in 2011 to 25.7% in 2012.

*Ancillary Revenue*

In 2012, our ancillary revenue was TL230.2 million, an increase of 57.6% as compared to ancillary revenue of TL146.0 million in 2011. The increase was driven by the significant increases both in our scheduled flight operations and passenger volumes as well as in ancillary revenue per passenger that increased from TL12.9 in 2011 to TL17.0 in 2012. Check-in fees, which were introduced in September 2011, increased in 2012, which reflected the collection of airport check-in fees for a full 12 months in 2012 compared to only four months in 2011, as well as higher check-in fee levels that increased the check-in fees per passenger. Cancellation fees per passenger increased in 2012, reflecting both higher cancellation fee levels as we changed our cancellation rules in 2012 as well as our continued strict enforcement of our cancellation policy. Service fees per passenger increased in 2012 as compared to 2011 primarily driven by fewer online sales campaigns that allowed passengers to book certain flights online without service fees.

The increase in our scheduled flight operations also contributed to the overall increase in service fee revenue. The decrease in the average euro / Turkish lira exchange rate in 2012 had a small offsetting effect on ancillary revenue, of which a significant portion is generated in euro.

*Charter Flights Revenue*

In 2012, our revenue from charter flights was TL106.7 million, a decrease of 40.5% as compared to revenue from charter flights of TL179.2 million in 2011. The number of passengers on our charter flights decreased 21.1% from 0.62 million in 2011 to 0.49 million in 2012. The decrease in charter revenue and passenger numbers primarily reflected the decrease in capacity allocation to our charter operations and wet lease operations in 2012, which capacity was taken up by our scheduled flights. We did not generate any revenue from wet leases in 2012, compared to revenue from wet leases of TL8.7 million in 2011. In 2012, we did not wet lease any aircraft during the winter season, compared to the wet lease of two aircraft to another airline in 2011. The decrease in the average euro / Turkish lira exchange rate exchange rate in 2012 contributed to the overall decrease in charter revenue as revenue from charter flights is predominantly generated in euro.

*Other Revenue*

In 2012, our other revenue was TL25.0 million, an increase of 31.6% as compared to other revenue of TL19.0 million in 2011.

*Cost of Sales*

In 2012, our total cost of sales was TL1,600.8 million, an increase of 16.3% as compared to total cost of sales of TL1,376.7 million in 2011. In 2012, Pegasus Operation Cost of Sales was TL1,462.9 million, an increase of 8.0% as compared to TL1,354.9 million in 2011. As a percentage of Pegasus Operation Revenue, Pegasus Operation Cost of Sales decreased from 92.3% in 2011 to 81.6% in 2012. The trends affecting Pegasus Operation Cost of Sales are discussed below.

The following table sets forth a breakdown of our cost of sales by cost type and AirBerlin Turkey operation cost of sales, the percentage of each such cost type of Pegasus Operation Cost of Sales and our CASK by cost type for the years ended December 31, 2012 and 2011.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | (TL in millions) | | (%) | | (CASK, kuruş) | |
| Jet fuel expenses | 702.4 | 610.6 | 48.0 | 45.1 | 4.28 | 4.08 |
| Personnel expenses | 168.8 | 139.0 | 11.5 | 10.3 | 1.03 | 0.93 |
| Depreciation and amortization expenses | 99.4 | 71.3 | 6.8 | 5.3 | 0.60 | 0.48 |
| Operating lease expenses | 84.8 | 111.6 | 5.8 | 8.2 | 0.52 | 0.75 |
| Maintenance expenses | 70.0 | 109.1 | 4.8 | 8.1 | 0.43 | 0.73 |
| Handling fees | 111.2 | 99.8 | 7.6 | 7.4 | 0.68 | 0.67 |
| Navigation expenses[(1)] | 103.2 | 101.8 | 7.1 | 7.5 | 0.63 | 0.68 |
| Landing expenses | 39.7 | 35.6 | 2.7 | 2.6 | 0.24 | 0.24 |
| Passenger service and catering expenses | 20.1 | 18.9 | 1.4 | 1.4 | 0.12 | 0.13 |
| Other expenses | 63.4 | 57.0 | 4.3 | 4.2 | 0.39 | 0.38 |
| Pegasus Operation Cost of Sales | 1,462.9 | 1,354.9 | 100.0 | 100.0 | 8.90 | 9.06 |
| AirBerlin Turkey operation cost of sales | 137.9 | 21.9 | | | | |
| Total cost of sales | 1,600.8 | 1,376.7 | | | | |

(1) Includes traffic control and overflight expenses.

The increase in Pegasus Operation Cost of Sales in 2012 was primarily attributable to a 15.0% increase in jet fuel expenses from TL610.6 million in 2011 to TL702.4 million in 2012. This increase reflected the increase in crude oil prices in 2012. The average price per ton we paid for our fuel purchases increased 6.3% from TL1,833 in 2011 to TL1,949 in 2012, in each case net of any gain/loss on our hedging instruments. The increase in jet fuel expenses was also attributable to an 8.4% increase in total block hours flown (excluding block hours of wet leased aircraft and block hours of the AirBerlin Turkey Project). Our

fuel cost on a per ASK basis increased by 4.7% in 2012, reflecting higher average prices for fuel, partially offset by a 2.2% decrease in fuel consumption adjusted for payload per block hour (payload indexed to 2010) as part of our ongoing initiatives to improve the fuel efficiency of our fleet by, among other things, reducing aircraft weight, operating engines with less than maximum power and using one-engine taxiing. The relative increase in our ASK in 2012 was higher than the increase in block hours during the same year, which had a positive impact on our fuel cost on a per ASK basis in 2012.

The 21.4% increase in personnel expenses from TL139.0 million in 2011 to TL168.8 million in 2012 was mainly the result of a 5.0% increase in the number of employees (full-time equivalents, excluding employees of the AirBerlin Turkey Project) in 2012. The increase in personnel expenses was also driven by a 15.7% increase in the average cost per employee, which primarily reflected expenses of TL18.5 million related to the employee incentive plan in 2012. We did not have any corresponding expenses in 2011 as we incurred a net loss before tax in that year. The weakening of the euro against the Turkish Lira in 2012 had a minor offsetting effect on personnel expenses as a significant portion of our employee costs are paid in euro (approximately 63% in 2011 and 62% in 2012). Excluding the effect of changes in the euro / Turkish Lira average exchange rate and the employee incentive plan, the average cost per employee increased by 3.6% in 2012 as compared to 2011. Our personnel expense per ASK increased by 10.5% in 2012, mainly reflecting the expenses related to the employee incentive plan that year.

The increase in depreciation and amortization expenses of 39.3% from TL71.3 million in 2011 to TL99.4 million in 2012 was primarily attributable to an increase of 42.8% in the average number of aircraft operated under finance leases from 17.3 in 2011 to 24.7 in 2012. The weakening of the euro against the Turkish Lira in 2012 had a minor offsetting effect on depreciation and amortization expenses as all of our depreciation and amortization expenses are recorded in euro. The average depreciation and amortization expense per aircraft decreased by 1.5% in 2012 as compared to 2011. Our average depreciation and amortization expenses per ASK increased by 15.5% in 2012, reflecting the increase in the average number of aircraft operated under finance leases.

The decrease in operating lease expenses of 24.1% from TL111.6 million in 2011 to TL84.8 million in 2012 reflected the decrease in the average number of aircraft operated under operating leases in our fleet from 19.5 in 2011 to 13.9 in 2012 as six older aircraft that were operated under operating leases left our fleet in 2012 and were replaced by aircraft operated under finance leases. The decrease in operating lease expenses was partially offset by a 17.9% increase in the average rent expense per aircraft in U.S. dollar terms, which, in part, reflected the 7.2% increase in the U.S. dollar / Turkish Lira average exchange rate in 2012 as all of our operating lease expenses are paid in U.S. dollar. Excluding the effect of changes in the U.S. dollar / Turkish Lira average exchange rate, the average rent expense per aircraft increased by 17.9% in 2012 as compared to 2011, which reflected the addition of new leased Boeing 737-800NG aircraft to our fleet in line with our fleet expansion strategy. Our operating lease expense per ASK decreased by 30.9% in 2012, reflecting the lower average number of aircraft operated under operating leases and the increase in ASK in 2012.

The decrease in maintenance expenses of 35.9% from TL109.1 million in 2011 to TL70.0 million in 2012 was primarily attributable to an increase in the number of aircraft operated under finance leases in 2012 as these aircraft have lower maintenance costs than aircraft operated under operating leases. The average number of finance lease aircraft as a percentage of our average number of total aircraft increased from 45.8% to 62.3% in 2012. The increase in the number of sale and leaseback aircraft in relation to total aircraft operated under operating leases contributed to the decrease in maintenance expenses as we do not pay maintenance reserves for our sale and leaseback aircraft but instead provide for these aircraft at estimated cost, which is typically lower than a corresponding maintenance reserve payment. The overall decrease in maintenance expenses was partially offset by the strengthening of the U.S. dollar against the Turkish Lira in 2012 as our maintenance expenses are entirely paid in U.S. dollars. Our maintenance expenses per ASK decreased by 41.6% in 2012, which, in addition to the factors discussed above, reflected the relative increase in our ASK in 2012 that was slightly higher than the increase in block hours, which is one of the main drivers for maintenance expenses.

The increases in other significant cost items, namely handling fees and navigation expenses, were primarily attributable to the increase in our overall traffic in 2012 compared to 2011. The 11.4% increase in handling fees reflected the 10.9% increase in the number of cycles from 84,548 in 2011 to 93,800 in 2012 as the number of cycles is the primary driver for handling fees. Our handling fees per ASK increased by 1.4% in 2012, reflecting the proportionally higher increase in the number of cycles compared to the increase in ASK. The 1.4% increase in navigation expenses in 2012 was primarily a result of the increase in the

number of cycles as well as an increase in block hours flown, partially offset by the weakening of the euro against the Turkish Lira in 2012 since nearly all of our navigation expenses are paid in euro. Our navigation expense per ASK decreased by 7.7% in 2012, reflecting the lower increase in navigation expenses in relation to the increase in ASK in 2012.

*Other Operating Income and Expense*

*Selling and marketing expenses.* In 2012, our selling and marketing expenses were TL80.4 million, an increase of 18.4% as compared to selling and marketing expenses of TL67.8 million in 2011. The increase was primarily attributable to an increase in the percentage of sales through GDSs from 4.3% in 2011 to 5.3% in 2012 as we pay the GDSs a commission for each ticket sold through them. The weakening of the euro against the Turkish Lira in 2012 did not have material effect our selling and marketing expenses in 2012, as the portion of advertising expenses and commission expenses charged in euro decreased in 2012 compared to 2011. Our selling and marketing expenses per available seat increased by 2.5% in 2012.

*General administrative expenses.* In 2012, our general administrative expenses were TL50.3 million, an increase of 11.9% as compared to general administrative expenses of TL44.9 million in 2011. The increase was primarily attributable to increases of TL4.1 million, or 24.1%, in personnel expenses, TL0.4 million, or 14.8%, in IT expenses, TL0.7 million, or 17.0%, in rent expenses, TL0.3 million, or 8.3%, in depreciation and amortization expenses, and TL0.4 million, or 28.5%, in legal and notary expenses, partially offset by decreases of TL1.0 million, or 24.2%, in consultancy expenses and TL0.3 million, or 8.2%, in travel expenses, in each case from 2011 to 2012. The increase in general administrative expenses primarily reflected increased passenger volumes and the expansion of our capacity in 2012.

*Finance costs.* In 2012, our finance costs were TL49.1 million, an increase of 55.9% as compared to finance costs of TL31.5 million in 2011. The increase was primarily attributable to the increase in commission expenses related to guarantees given by Esas Holding for our finance leases of 77.9% from TL10.7 million to TL19.1 million and a foreign exchange loss of TL14.0 million, partially offset by a decrease in interest expense on bank loans of 11.8% from TL11.5 million to TL10.2 million. The increase in finance costs primarily reflected the expansion of our operations and the corresponding increase in our finance leases, and transactional foreign exchange loss.

*Finance income.* In 2012, our finance income was TL13.3 million, a decrease of 5.0% as compared to finance income of TL14.0 million in 2011. The decrease was primarily attributable to a decrease in foreign exchange gains of TL12.6 million and, to a lesser extent, an increase of TL9.7 million in foreign exchange gains on derivative contracts and an increase of TL2.2 million in interest on bank deposit.

*Other income (net).* In 2012, our other income (net) was TL4.2 million, as compared to other income (net) of TL9.9 million in 2011. The decrease was primarily attributable to a decrease in number of sale and leaseback aircraft from six in 2011 to two in 2012.

*Deferred Tax Expense*

In 2012, our deferred tax expense was TL29.0 million, as compared to deferred tax expense of TL1.4 million in 2011. The increase was primarily attributable to temporary net book value differences arising from property, plant and equipment (primarily aircraft) and carry forward tax losses.

*Net Profit / (Loss) for the Year*

In 2012, our net profit for the year was TL126.3 million as compared to net loss for the year of TL14.1 million in 2011 for the reasons set forth above.

*Cumulative Translation Adjustment*

In 2012, our cumulative translation adjustment was TL3.6 million as compared to cumulative translation adjustment of TL30.2 million in 2011.

*Cash Flow Hedge*

In 2012, our cash flow hedge was TL8.7 million as compared to cash flow hedge of TL3.3 million in 2011. The change was primarily attributable to the valuation of open hedge contracts that were accounted at fair value.

*Total Comprehensive Income for the Year*

In 2012, our total comprehensive income for the year was TL138.6 million as compared to total comprehensive income for the year of TL19.5 million in 2011 for the reasons set forth above.

***Results of Operations for the Years Ended December 31, 2011 and 2010***

*Revenue*

In 2011, our total revenue was TL1,484.1 million, an increase of 51.8% as compared to total revenue of TL977.9 million in 2010. In 2011, Pegasus Operation Revenue was TL1,468.6 million, an increase of 50.2% as compared to Pegasus Operation Revenue of TL977.9 million in 2010. The trends affecting Pegasus Operation Revenue are discussed below.

The following table sets forth our total revenue, which includes Pegasus Operation Revenue from scheduled flights, ancillary revenue, revenue from charter flights and other revenue, and the percentage of each revenue type of Pegasus Operation Revenue, as well as AirBerlin Turkey operation revenue for the years ended December 31, 2011 and 2010.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (TL in millions) | | (%) | |
| Scheduled flights revenue | 1,124.4 | 743.8 | 76.6 | 76.1 |
| Ancillary revenue | 146.0 | 94.1 | 9.9 | 9.6 |
| Charter flights revenue | 179.2 | 128.3 | 12.2 | 13.1 |
| Other revenue | 19.0 | 11.7 | 1.3 | 1.2 |
| Pegasus Operation Revenue | 1,468.6 | 977.9 | 100.0 | 100.0 |
| AirBerlin Turkey operation revenue | 15.5 | — | | |
| Total revenue | 1,484.1 | 977.9 | | |

*Scheduled Flights Revenue*

In 2011, our scheduled flights revenue was TL1,124.4 million, an increase of 51.2% as compared to scheduled flights revenue of TL743.8 million in 2010. The increase reflected the significant increases in revenue both from international and domestic scheduled flights.

*International scheduled flights.* The following table sets forth information relating to our revenue from international scheduled flights.

| | For the year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| International scheduled[1] | | |
| Revenue (TL in millions) | 649.9 | 430.3 |
| ASK (million) | 8,285 | 6,951 |
| RASK (kuruş) | 7.85 | 6.19 |
| Passengers | 3,949,363 | 3,051,177 |
| Seats | 5,388,315 | 4,233,686 |
| Cycles | 29,979 | 24,604 |
| Passengers per cycle | 132 | 124 |
| Load factor (%)[2] | 73.2 | 72.0 |
| Market share (%)[3] | 7.7 | 6.9 |

(1) Includes passengers of international split charter flights.

(2) Load factor for split charter flights included in international scheduled is calculated by dividing the number of passengers invoiced by seat number.

(3) In terms of passenger volumes.

In 2011, our revenue from international scheduled flights was TL649.9 million, an increase of 51.0% as compared to revenue from international scheduled flights of TL430.3 million in 2010. This increase was

primarily attributable to the combined effect of increases in RASK, which increased 26.7% in 2011 as compared to 2010, and ASK that increased 19.2% during the same period and reflected the addition of new aircraft to our international scheduled flight fleet. The increased RASK primarily reflected the strengthening of the euro against the Turkish Lira during the same period since revenue from international scheduled flights is predominantly generated in euro. The average euro / Turkish lira exchange rate increased by 16.8% from TL1.9983 in 2010 to TL2.3349 in 2011. Additionally, a 6.2% increase in average passenger per cycle, higher fuel surcharges reflecting increased fuel prices and shorter ASL had a positive effect on yields in 2011 and contributed to the increase in RASK in 2011. The number of passengers on our international scheduled flights increased by 29.4% from 3.1 million in 2010 to 3.9 million in 2011, reflecting increased international scheduled passenger volumes on existing passenger routes and the successful launch of a total of 12 new international routes in 2011. Despite the 4.5% increase in average seat capacity per flight on our international scheduled flights during 2011, the load factor on our international scheduled flights increased from 72.0% in 2010 to 73.2% in 2011. This increase in load factors was driven by an increase of 6.2% in average passengers per cycle on our international scheduled flights in 2011, reflecting the further improvement of our on-time performance, the increase in transit passengers driven by the expansion of our route network, the growing popularity of Sabiha Gökçen Airport among customers living on the Asian side of İstanbul and increased marketing activities and new campaigns.

Our market share in international scheduled flights to and from Turkey in terms of passenger volumes increased from 6.9% in 2010 to 7.7% in 2011.

*Domestic scheduled flights.* The following table sets forth information relating to our revenue from domestic scheduled flights.

| | For the year ended December 31, | |
|---|---|---|
| | **2011** | **2010** |
| Domestic scheduled | | |
| Revenue (TL in millions) | 474.4 | 313.4 |
| ASK (million) | 5,181 | 3,682 |
| RASK (kuruş) | 9.16 | 8.51 |
| Passengers | 6,764,552 | 4,960,693 |
| Seats | 8,906,833 | 6,346,232 |
| Cycles | 50,229 | 38,152 |
| Passengers per cycle | 135 | 130 |
| Load factor (%) | 75.9 | 78.2 |
| Market share (%)[31] | 23.2 | 19.6 |

(1) In terms of passenger volumes.

In 2011, our revenue from domestic scheduled flights was TL474.4 million, an increase of 51.4% as compared to revenue from domestic scheduled flights of TL313.4 million in 2010. This increase was primarily attributable to the combined effect of increases in ASK, which increased 40.7% in 2011 as compared to 2010 reflecting the addition of new aircraft to our domestic scheduled flight fleet, and RASK that increased 7.6% during the same period. The number of passengers on our domestic scheduled flights increased 36.4% from 5.0 million in 2010 to 6.8 million in 2011, which was mainly due to increased domestic scheduled passenger volumes on existing passenger routes and the successful launch of a total of seven new domestic routes in 2011. Even though the load factor on our domestic scheduled flights decreased from 78.2% in 2010 to 75.9% in 2011, the average passengers per cycle on our domestic scheduled flights increased by 3.6% in 2011, which primarily reflected the 6.6% increase in average seat capacity in 2011. The overall increase in RASK from domestic scheduled flights was further buttressed by higher fuel surcharges in 2011 compared to 2010, reflecting our effective yield management operations during the year and 3.6% increase in average passenger per cycle.

Our market share in domestic scheduled flights in terms of passenger volumes increased from 19.6% in 2010 to 23.2% in 2011.

*Ancillary Revenue*

In 2011, our ancillary revenue was TL146.0 million, an increase of 55.3% as compared to ancillary revenue of TL94.1 million in 2010. The increase in ancillary revenue reflected the strengthening of the euro against the Turkish Lira in 2011 since a significant portion of ancillary revenue is generated in euro.

The increase in ancillary revenue was also driven by the increase in our scheduled flight operations and passenger volumes, which resulted in increases in all ancillary revenue categories. Increases in cancellation fees and excess baggage fees per passenger in 2011 reflected our new fare structures and rules on cancellation fees and excess baggage fees in 2011. The introduction of airport check-in fees in September 2011 contributed to the overall increase in ancillary revenue. Overall, ancillary revenue per passenger increased from TL11.0 in 2010 to TL12.9 in 2011 despite a decrease in service fees, which has historically been the largest source of ancillary revenue, per passenger in 2011. This decrease in service fees primarily reflected our online sales campaigns that allowed passengers to book certain flights online without service fees.

*Charter Flights Revenue*

In 2011, our revenue from charter flights was TL179.2 million, an increase of 39.7% as compared to revenue from charter flights of TL128.3 million in 2010. The number of passengers on our charter flights increased by 10.6% from 0.56 million in 2010 to 0.62 million in 2011. In addition to the increase in passenger numbers, the increase in revenue from charter flights reflected the strengthening of the euro against the Turkish Lira during the same period as revenue from charter flights is predominantly generated in euro. An increase of TL8.7 million in wet lease revenue, which we record under our charter flights revenue and which was driven by a wet lease of two aircraft to another airline in 2011, and higher fuel surcharges in 2011 contributed to the increase in charter flights revenue. Excluding the effect of changes in the euro / Turkish Lira average exchange rate, revenue from charter flights per block hour increased by 9.3% in 2011 compared to 2010, reflecting higher fuel surcharges in 2011. The capacity allocated to our charter flight operations during the peak season was largely unchanged between 2010 and 2011.

*Other Revenue*

In 2011, our other revenue was TL19.0 million, an increase of 61.7% as compared to other revenue of TL11.7 million in 2010. The increase was primarily due to an increase of TL6.3 million in cargo revenue in 2011 as compared to 2010.

*Cost of Sales*

In 2011, our total cost of sales was TL1,376.7 million, an increase of 58.7% as compared to total cost of sales of TL867.8 million in 2010. In 2011, Pegasus Operation Cost of Sales was TL1,354.9 million, an increase of 56.1% as compared to TL867.8 million in 2010. The trends affecting Pegasus Operation Cost of Sales are discussed below.

The following table sets forth a breakdown of our cost of sales by cost type and AirBerlin Turkey operation cost of sales, the percentage of each such cost type of Pegasus Operation Cost of Sales and our CASK by cost type for the years ended December 31, 2011 and 2010.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | (TL in millions) | | (%) | | (CASK, kuruş) | |
| Jet fuel expenses | 610.6 | 337.9 | 45.1 | 38.9 | 4.08 | 2.79 |
| Personnel expenses | 139.0 | 104.2 | 10.3 | 12.0 | 0.93 | 0.86 |
| Depreciation and amortization expenses | 71.3 | 36.4 | 5.3 | 4.2 | 0.48 | 0.30 |
| Operating lease expenses | 111.6 | 78.4 | 8.2 | 9.0 | 0.75 | 0.65 |
| Maintenance expenses | 109.1 | 78.5 | 8.1 | 9.1 | 0.73 | 0.65 |
| Handling fees | 99.8 | 75.4 | 7.4 | 8.7 | 0.67 | 0.62 |
| Navigation expenses[(1)] | 101.8 | 71.6 | 7.5 | 8.3 | 0.68 | 0.59 |
| Landing expenses | 35.6 | 24.2 | 2.6 | 2.8 | 0.24 | 0.20 |
| Passenger service and catering expenses | 18.9 | 15.4 | 1.4 | 1.8 | 0.13 | 0.13 |
| Other expenses | 57.0 | 45.8 | 4.2 | 5.3 | 0.38 | 0.38 |
| Pegasus Operation Cost of Sales | 1,354.9 | 867.8 | 100.0 | 100.0 | 9.06 | 7.16 |
| AirBerlin Turkey operation cost of sales | 21.9 | 0.0 | | | | |
| Total cost of sales | 1,376.7 | 867.8 | | | | |

(1) Includes traffic control and overflight expenses.

The increase in Pegasus Operation Cost of Sales in 2011 was primarily attributable to an 80.7% increase in jet fuel expenses from TL337.9 million in 2010 to TL610.6 million in 2011. This increase reflected the increase in crude oil prices in 2011. The average price per ton we paid for our fuel purchases increased by 52.4% from TL1,203 in 2010 to TL1,833 in 2011, in each case net of any gain/loss on our hedging instruments. The increase in jet fuel expenses was also attributable to a 21.2% increase in total block hours flown (excluding block hours of wet leased aircraft and block hours of the AirBerlin Turkey Project). Our fuel cost on a per ASK basis increased by 46.4% in 2011, reflecting higher average prices for fuel, partially offset by a 3.2% decrease in fuel consumption adjusted for payload per block hour (payload indexed to 2010) as part of our ongoing initiatives to improve the fuel efficiency of our fleet by, among other things, reducing aircraft weight, operating engines with less than maximum power and using one-engine taxiing. The relative increase in our ASK in 2011 was slightly higher than the increase in block hours during the same year, which had a positive impact on our fuel cost on a per ASK basis in 2011.

The 33.5% increase in personnel expenses from TL104.2 million in 2010 to TL139.0 million in 2011 was mainly the result of a 23.6% increase in the number of employees (full-time equivalents, excluding employees of the AirBerlin Turkey Project) in 2011. The increase in personnel expenses was also driven by an 8.0% increase in the average cost per employee, which primarily reflected the strengthening of the euro against the Turkish Lira by 16.8% in 2011 as a significant portion of our employee costs are paid in euro (approximately 65% in 2010 and 63% in 2011). The increase in personnel expenses was partially offset by us not incurring any expenses related to the employee incentive plan in 2011, as compared to employee incentive plan expenses of TL6.5 million in 2010. Excluding the effect of changes in the euro / Turkish Lira average exchange rate, the average cost per employee decreased by 1.8% in 2011 as compared to 2010. Our personnel expense per ASK increased by 8.1% in 2011, mainly reflecting the strengthening of the euro against the Turkish Lira during that year.

The increase in depreciation and amortization expenses of 95.9% from TL36.4 million in 2010 to TL71.3 million in 2011 was primarily attributable to an increase of 68.0% in the average number of aircraft operated under finance leases from 10.3 in 2010 to 17.3 in 2011 and the strengthening of the euro against the Turkish Lira in 2011 as all of our depreciation and amortization expenses are recorded in euro. The average depreciation and amortization expense per aircraft increased by 16.6% in 2011 as compared to 2010 mainly due to the strengthening of the euro against the Turkish Lira in 2011. Our average depreciation and amortization expenses per ASK increased by 58.7% in 2011, reflecting the increase in the average number of aircraft operated under finance leases and the increase in the euro / Turkish Lira average exchange rate.

The increase in operating lease expenses of 42.4% from TL78.4 million in 2010 to TL111.6 million in 2011 reflected the increase in the average number of aircraft operated under operating leases in our fleet from 17.0 in 2010 to 19.5 in 2011 and a 26.5% increase in the average rent expense per aircraft in U.S. dollar terms, which, in part, reflected the strengthening of the U.S. dollar against the Turkish Lira by 11.4% in 2011 as all of our operating lease expenses are paid in U.S. dollar. Excluding the effect of changes in the U.S. dollar / Turkish Lira average exchange rate, the average rent expense per aircraft increased by 13.6% in 2011 as compared to 2010, reflecting primarily the replacement of a total of six aircraft with new leased Boeing 737-800NG aircraft in line with our fleet expansion strategy. Our operating lease expense per ASK increased by 15.4% in 2011, reflecting the strengthening of the U.S. dollar against the Turkish Lira and the increase in average rent expense per aircraft, partially offset by the lower increase in the average number of aircraft operated under operating leases in relation to the increase in ASK in 2011.

The increase in maintenance expenses of 38.9% from TL78.5 million in 2010 to TL109.1 million in 2011 was primarily attributable to the strengthening of the U.S. dollar against the Turkish Lira in 2011 as our maintenance expenses are entirely paid in U.S. dollars. The increase is maintenance expenses was also partially due to the negative difference between our accumulated redelivery provisions and the actual redelivery costs in 2011 as the actual redelivery costs were higher than the estimated redelivery provisions. Even though there was an increase in 2011 in the average number of aircraft operated under operating leases, which have higher maintenance costs than aircraft operated under finance leases, the increase in the number of sale and leaseback aircraft in relation to total aircraft operated under operating leases more than offset the effect of this increase as we do not pay maintenance reserves for our sale and leaseback aircraft. The ratio of our average number of operating lease aircraft to our average number of total aircraft decreased from 60.1% in 2010 to 51.6% in 2011. Our maintenance expenses per ASK increased by 12.5% in 2011 primarily due to the factors discussed above.

The increases in other significant cost items, namely handling fees and navigation expenses, were primarily attributable to the increase in our overall traffic in 2011 compared to 2010. The 32.5% increase in handling fees reflected the 26.4% increase in the number of cycles from 66,872 in 2010 to 84,548 in 2011 as the number of cycles is the primary driver for handling fees. The strengthening of the euro against the Turkish Lira in 2011 contributed to the increase in handling fees as a significant portion of these fees are paid in euro. Our handling fees per ASK increased by 7.3% in 2011, reflecting the increase in the euro / Turkish Lira average exchange rate and the proportionally higher increase in the number of cycles compared to the increase in ASK. The 42.1% increase in navigation expenses in 2011 was primarily a result of the increase in the number of cycles as well as an increase in block hours flown. The strengthening of the euro against the Turkish Lira in 2011 contributed to the increase in navigation expenses since nearly all of our navigation expenses are paid in euro. Our navigation expense per ASK increased by 15.1% in 2011, reflecting the increase in the euro / Turkish Lira average exchange rate.

*Other Operating Income and Expense*

*Selling and marketing expenses.* In 2011, our selling and marketing expenses were TL67.8 million, an increase of 74.8% as compared to selling and marketing expenses of TL38.8 million in 2010. The increase was primarily attributable to an increase in the percentage of sales through GDSs from 0.7% in 2010 to 4.3% in 2011 as we pay the GDSs a commission for each ticket sold through them. The strengthening of the euro against the Turkish Lira in 2011 contributed to the increase in selling and marketing expenses fees as a significant portion of our advertising expenses and all of our commission expenses were charged in euro in 2011. Our selling and marketing expenses per available seat increased by 30.8% in 2011.

*General administrative expenses.* In 2011, our general administrative expenses were TL44.9 million, an increase of 28.0% as compared to general administrative expenses of TL35.1 million in 2010. The increase was primarily attributable to increases of TL4.0 million, or 30.8%, in personnel expenses, TL1.9 million, or 86.4%, in travel expenses, TL1.2 million, or 48.5%, in depreciation and amortization expenses, TL1.0 million, or 31.1%, in consultancy expenses and TL0.9 million, or 30.1%, in rent expenses, in each case from 2010 to 2011. The increase in general administrative expenses primarily reflected increased passenger volumes and the expansion of our capacity in 2011.

*Finance costs.* In 2011, our finance costs were TL31.5 million, an increase of 83.5% as compared to finance costs of TL17.2 million in 2010. The increase was primarily attributable to the increases in interest expense on bank loans of 63.6% from TL7.0 million to TL11.5 million, in commission expenses of 69.7% from TL6.3 million to TL10.7 million and in interest on obligations under finance leases of 74.8% from TL3.5 million to TL6.2 million. The increase in finance costs primarily reflected increased borrowings related to the expansion of our fleet in 2011 and the expansion of our operations.

*Finance income.* In 2011, our finance income was TL14.0 million, an increase of 187.9% as compared to finance income of TL4.9 million in 2010. The increase was primarily attributable to an increase in foreign exchange gains of 174.6% from TL4.6 million to TL12.6 million and, to a lesser extent, an increase of TL1.1 million in interest on bank deposits.

*Other income (net).* In 2011, our other income (net) was TL9.9 million, an increase of 36.8% as compared to other income (net) of TL7.2 million in 2010. The increase was primarily attributable to income from a sale and leaseback transaction of TL10.0 million, partially offset by a TL6.7 million reversal of impairment of tangible assets recognized in 2010 (nil in 2011).

*Deferred Tax Expense*

In 2011, our deferred tax expense was TL1.4 million as compared to deferred tax expense of TL10.7 million in 2010. The decrease was primarily attributable to temporary net book value differences arising from property, plant and equipment (primarily aircraft) and carry-forward tax losses.

*Net Profit / (Loss) for the Year*

In 2011, our net loss for the year was TL14.1 million as compared to net profit for the year of TL20.2 million in 2010 for the reasons set forth above.

*Cumulative Translation Adjustment*

In 2011, our cumulative translation adjustment was TL30.2 million as compared to cumulative translation adjustment of TL1.2 million in 2010.

*Cash Flow Hedge*

In 2011, our cash flow hedge was TL3.3 million as compared to negative cash flow hedge of TL0.1 million in 2010. The change was primarily attributable to the valuation of open hedge contracts that were accounted at fair value.

*Total Comprehensive Income for the Year*

In 2011, our total comprehensive income for the year was TL19.5 million as compared to total comprehensive income for the year of TL21.3 million in 2010 for the reasons set forth above.

**Liquidity and Capital Resources**

***Borrowings***

We have historically financed our operations through bank loans, loans from our shareholder Esas Holding and cash generated from operations. The following table sets forth our loans and borrowings as of December 31, 2012, 2011 and 2010.

| | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| **Short-term borrowings** | | | |
| Loans | | | |
| Unsecured bank loans | 50,722,463 | 189,002,830 | 152,183,020 |
| Obligations under finance leases | | | |
| Secured | 135,232,251 | 103,033,355 | 57,999,800 |
| Unsecured | — | — | — |
| Total short-term borrowings | 185,954,714 | 292,036,185 | 210,182,820 |
| **Long-term borrowings** | | | |
| Loans | | | |
| Unsecured bank loans | — | — | 11,307,245 |
| Obligations under finance leases | | | |
| Secured | 1,240,919,331 | 1,030,040,742 | 621,239,241 |
| Unsecured | — | — | — |
| Total long-term borrowings | 1,240,919,331 | 1,030,040,742 | 632,546,486 |
| Total borrowings | 1,426,874,045 | 1,322,076,927 | 842,729,306 |

*Ex-Im Bank Financing*

As of December 31, 2012, 26 Boeing 737-800 NG aircraft in our fleet had been financed through loan facilities with various financial institutions active in the structured export finance sector and supported by a loan guarantee from Ex-Im Bank. Of these 26 aircraft, we have financed six aircraft with Ex-Im Bank guaranteed loans from ING Capital LLC and 20 aircraft with Ex-Im Bank guaranteed loans from JPMorgan Chase Bank, N.A. As of December 31, 2012, the balance of our loans guaranteed by Ex-Im Bank was TL1,376.2 million. Interest on our Ex-Im Bank guaranteed loans accrues at variable Libor / Euribor linked rates and is payable monthly or quarterly. The weighted-average interest rate on the total borrowings under our Ex-Im Bank guaranteed loan facilities as of December 31, 2012 was Libor / Euribor plus 22.96 basis points.

Each of our Ex-Im Bank guaranteed loan facilities takes substantially the same structure and follows standard market forms for these types of aircraft financings. On the basis of an Ex-Im Bank guarantee of up to 85% of the eligible net purchase price of the relevant aircraft and the payment of an exposure fee to Ex-Im Bank, a lender will enter into a commitment letter with us and loan documentation with an SPV as borrower (as described in the paragraph below) to provide financing for a specified number of aircraft.

The SPV borrower designated under the loan documents, acting at our instruction, will then draw down the loans benefiting from the Ex-Im guarantee to finance the purchase of aircraft from Boeing on the delivery date.

As part of the Ex-Im Bank supported financing of our Boeing aircraft, we have entered into certain lease agreements, security agreements and related arrangements. Pursuant to these arrangements, legal title to the aircraft delivered under our Ex-Im Bank financings is held by a number of SPVs, in which we have no direct equity interest. These SPVs are the borrowers of record under the loans made under the facilities, but we have agreed to indemnify the SPVs against all of their obligations under such loans, with Esas Holding providing a guarantee of all such obligations. The equity interests in these SPVs, which are indirectly beneficially owned by an unrelated orphan trust, are in turn pledged to a security trustee in favor of Ex-Im Bank and the lenders. Further, certain rights under the finance leases and their corresponding supplements are assigned to the security trustee in favor of the lenders. We operate each of the aircraft pursuant to a finance lease we have entered into with the SPVs, the financial terms of which mirror those of the relevant loans under the facilities. We generally have the right to purchase the aircraft upon termination of the lease, at the end of the 12-year term, for a nominal amount. Pursuant to this arrangement, we are currently considered to own the aircraft for accounting purposes under IFRS.

Each of the loans under the facilities is on substantially similar terms, having a maturity of 12 years from the drawdown date and being secured by a first priority security interest in the aircraft in favor of a security trustee on behalf of Ex-Im Bank and the lenders and a guarantee given by Esas Holding for the duration of the facility. Furthermore, each of our Ex-Im Bank supported credit facilities contains both cross-default and cross-collateralization provisions. These provisions provide for mandatory pre-payment of the Ex-Im Bank guaranteed loans in respect of a particular aircraft (without penalties, but with applicable breakage costs) in the event of loss or seizure of any such aircraft or equivalent events affecting such aircraft, including, under certain circumstances, the sale or other disposal of such aircraft before the paydown of the debt to the lender and the extinguishment of the Ex-Im Bank guarantee. The termination of Esas Holding's ownership of the majority of our issued share capital may also result in the acceleration of such loans. The loan documentation governing these guaranteed loans also imposes restrictive covenants on the SPVs in respect of their liabilities and the nature of their business and a restriction on other pledges of interests in the aircraft and other assets of such SPV, and imposes on us restrictions on mergers, consolidations and sale of substantially all of our assets. Rent payable by us under these finance leases must equal, in all circumstances, the amount of principal and interest payable by the SPVs under the corresponding loans. Moreover, our obligation to pay rent under the finance leases is absolute and unconditional. See also "Risk Factors—Risks Relating to Our Business—The acquisition of some of our aircraft is financed with credit support provided by Ex-Im Bank, which may result in the repossession of such aircraft by Ex-Im Bank or the lenders in the event we or Esas Holding default under the related financing documents."

The terms of the facilities and the Ex-Im Bank guarantee require that we pay certain fees in connection with such financings. In particular, these fees include arrangement, structuring or commitment fees payable to the facility arrangers, and a commitment fee payable to Ex-Im Bank based on the unutilized and non-cancelled portion of the guarantee. In the case of aircraft, for which Ex-Im Bank provides a guarantee under a specific final commitment, Ex-Im Bank charges a commitment fee based on an annual rate that is prorated on a daily basis on the non-utilized amount of the guaranteed loan. The commitment fee begins to accrue 60 days after Ex-Im Bank approval of a transaction and may not be financed. An exposure fee for the issuance of the guarantee on the date of delivery is also payable to Ex-Im Bank (based on the amount of the loan being guaranteed). Our payment of the applicable exposure fee to Ex-Im Bank is eligible for financing under the facilities.

Ex-Im Bank's policy on its guaranteed aircraft financing facilities is to first issue a preliminary commitment, followed by a final binding commitment prior to delivery of each aircraft being financed. Ex-Im Bank's final commitment is subject to certain conditions set forth in the documentation for the financing facilities and the Ex-Im Bank guarantee. These conditions include, among other things, the execution of satisfactory documentation, the creation and maintenance of the aircraft lease and related arrangements described above, that we provide satisfactory security interests in the aircraft and related assets in favor of Ex-Im Bank and the lenders, that we provide a letter of guarantee satisfactory to Ex-Im Bank in the amount of US$1,000,000 per aircraft and that the subject aircraft be registered in Turkey, be covered by adequate insurance and maintained in a manner acceptable to Ex-Im Bank. We expect that any future commitments issued by Ex-Im Bank will contain similar conditions.

We do not expect to seek Ex-Im Bank supported financing for any of the remaining five Boeing 737-800NG aircraft we are obligated to purchase under our contracts with Boeing. We expect to finance the 57 Airbus A320neo aircraft and 18 Airbus A321neo aircraft that we have placed a firm order for as well the additional 25 option aircraft (assuming this option is exercised) through the use of similar financing arrangements based on credit facilities supported by European ECAs, bank debt provided by commercial banks, and operating leases through sale and leaseback transactions taking into account, among other things, conditions of the financial markets prior to each delivery. Our ability to obtain additional loans to finance the acquisition of these Airbus aircraft is subject to the issuance of future guarantees by European ECAs, further bank commitments and the satisfaction of various contractual conditions, including the execution of satisfactory documentation and the requirement that we perform all of our obligations under our agreements with Airbus. However, such financing may not be available to us and the terms of any such financing may not be as advantageous to us as those included in our existing credit facilities. See also "Risk Factors—Risks Relating to Our Business—If we cannot secure future financing for payments of firm aircraft orders, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing cost."

*Credit Lines*

As of December 31, 2012, we had credit lines with various Turkish and foreign banks amounting to TL395 million and had drawn TL50.7 million on cash loans and TL143.3 million on non-cash loans (i.e. letters of guarantee) under these facilities. The weighted average effective interest rate on our short-term borrowings in 2012 was 5.0% for our euro denominated borrowings and 0.00% for our Turkish Lira denominated borrowings. Our credit lines are open credit facilities that can be used for terms ranging from 12 to 18 months. We believe that we will have access to additional credit lines should we require supplementary short-term financing.

*Shareholder Loans*

Historically, we have used long-term debt obtained from Esas Holding to fund some of our aircraft pre-delivery payments to Boeing. The maturities of our loans obtained for pre-delivery payments reflected the relevant aircraft delivery dates. In 2010, in connection with the increase in our share capital from TL17,075,000 to TL75,000,000, Esas Holding's subscription for our shares in the amount of TL55,385,620 was set off against the cancellation of our debt from Esas Holding. As of the date of this Offering Circular, we have no outstanding financial borrowings from Esas Holding.

We have no other long-term commercial loans other than loans extended under facilities provided by international financial institutions on the basis of guarantees issued by Ex-Im Bank. See also "—Capital Expenditures."

*Net Financial Debt*

As of December 31, 2012, our net financial debt, which we calculate as our financial debt of TL1,426.9 million less cash and cash equivalents of TL210.2 million and less 50% of advances on aircraft purchases (pre-delivery payments) of TL44.6 million, was TL1,172.1 million. The Pegasus Operation Adjusted Net Debt (representing net financial debt adjusted to reflect our capitalized operating lease obligations) was TL1,765.4 million as of December 31, 2012. For the purposes of calculating capitalized operating lease obligations, we have multiplied our operating lease expenses for the year ended December 31, 2012 of TL84.8 million by seven, which we believe is a standard capitalization multiplier used by airlines for calculating capitalized operating lease obligations.

### *Cash Flows*

The following table summarizes our cash flows for the periods indicated (see also "Selected Consolidated Historical Financial and Operational Data—Cash Flow Statement").

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (TL) | |
| Net cash from operating activities | 462,447,667 | 47,467,049 | 126,622,093 |
| Net cash used in investing activities | 10,545,034 | 33,610,221 | (101,798,816) |
| Net cash provided by / (used in) financing activities | (282,391,827) | (110,812,375) | 18,143,006 |
| Net (decrease) / increase in cash and cash equivalents | 190,600,874 | (29,735,105) | 42,966,283 |
| Cash and cash equivalents at the beginning of year | 19,549,364 | 49,284,469 | 6,318,186 |
| Cash and cash equivalents at the end of year | 210,150,238 | 19,549,364 | 49,284,469 |

*Net Cash from Operating Activities*

Net cash from operating activities increased from TL47.5 million in 2011 to TL462.4 million in 2012. Cash from operating activities in 2012 was comprised of cash generated from operations before working capital of TL339.4 million and changes in working capital of positive TL124.3 million. The changes in working capital were mainly driven by the cash inflow from an increase in trade payables of TL42.2 million, which was primarily attributable to an increase in cost of sales, and the cash inflow from an increase in other liabilities of TL58.9 million, which was mainly due to increase in passenger flight liabilities of TL48.9 million, increase in accrued direct operational cost of TL7.9 million, increase in deferred income from sale of subsidiary interest of TL11.9 million, and allowance for the loss from associate of TL7.1 million.

Net cash from operating activities decreased from TL126.6 million in 2010 to TL47.5 million in 2011. The decrease was primarily attributable to a change in working capital from positive TL31.7 million in 2010 to negative TL49.6 million in 2011. Cash from operating activities in 2011 was the result of the combination of cash generated from operations before working capital of TL104.0 million, partially offset by changes in working capital of negative TL49.6 million. The changes in working capital were mainly driven by the cash outflow from an increase in trade receivables of TL56.9 million, which was primarily attributable to an increase in operational volume and a decrease in allowance for doubtful receivables of TL 11.9 million and the cash outflow from an increase in other receivables and other current assets of TL61.0 million, which was mainly due to increase in maintenance reserve receivable of TL17.5 million, increase in incentive receivable from suppliers of TL20.2 million, increase in prepaid aircraft operating lease expense of TL8.0 million, and increase in deposits given for operating leases of TL5.5 million, partially offset by the cash inflow from an increase in trade payables of TL47.0 million, which was primarily attributable to the change in cycles per day from 23 days to 27 days and an increase in cost of sales.

*Net Cash Used in Investing Activities*

Net cash used in investing activities was TL10.5 million in 2012 compared to net cash generated by investing activities of TL33.6 million in 2011. Net cash used in investing activities in 2012 was primarily attributable to purchase of tangible assets related to leasehold improvements and intangible assets, primarily computer software, of TL20.1 million and partially offset by repayment of pre-delivery payments, including payments made by us for two aircraft that became subject to sale and leaseback arrangements in 2012. The pre-delivery payments that were repaid to us by Boeing totaled TL66.8 million and TL120.6 million in 2012 and 2011, respectively.

Net cash generated from investing activities was TL33.6 million in 2011 compared to net cash used in investing activities of TL101.8 million in 2010. Net cash generated from investing activities in 2011 was primarily attributable to repayment to us of pre-delivery payments, including payments made by us for six aircraft that became subject to sale and leaseback arrangements in 2011. The pre-delivery payments that were repaid to us by Boeing totaled TL120.6 million and TL22.2 million in 2011 and 2010, respectively.

*Net Cash Provided by / Used in Financing Activities*

Net cash used in financing activities was TL282.4 million in 2012, compared to net cash used in financing activities of TL110.8 million in 2011. Net cash used in financing activities in 2012 was mainly due

to repayment of borrowings of TL446.5 million, repayment of lease payables of TL117.4 million and interest paid of TL36.5 million, partially offset by increase in borrowings of TL318.0 million.

Net cash used in financing activities was TL110.8 million in 2011, compared to net cash provided by financing activities of TL18.1 million in 2010. Net cash used in financing activities in 2011 was mainly due to repayment of borrowings of TL201.3 million, repayment of lease payables of TL78.7 million and interest paid of TL26.4 million and offset by increase in borrowings of TL195.3 million.

***Working Capital***

We finance our working capital requirements through a combination of cash generated from operations and short-term credit lines with domestic and foreign banks. For a description of changes in our working capital during the periods under review, see "—Cash Flows—Net Cash from Operating Activities." As part of our working capital management, we use monthly cash projections based on our annual budgets. We also update the projections for the following month on a rolling basis using detailed income and expense projections. We target positive cash flow impact from working capital changes.

We believe that, given regard to our existing credit lines and available cash resources, the working capital available to us is sufficient for our present requirements, that is, for at least the next 12 months from the date of this Offering Circular.

**Capital Expenditures**

Our capital expenditures principally comprise expenditures related to aircraft pre-delivery payments. We have historically financed our capital expenditure requirements primarily through borrowings, including loans guaranteed by Ex-Im Bank and borrowings from our principal shareholder Esas Holding, equity capital injections from Esas Holding, borrowings from various banks and cash generated from operations.

The following table sets forth our capital expenditures broken down into capital expenditures related to pre-delivery payments for aircraft under construction (net of any repayment of pre-delivery payments by the aircraft manufacturer), capital expenditures related to our aircraft fleet and other capital expenditures for the years ended December 31, 2012, 2011 and 2010.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (TL thousands) | | |
| Pre-delivery payments for aircraft, net | (13,919)[3] | (47,576) | 94,259 |
| Aircraft fleet related[1] | 2,832 | 6,050 | 3,788 |
| Other[2] | 17,226 | 5,835 | 3,293 |
| Total | 6,139 | (35,691) | 101,340 |

(1) Aircraft fleet related capital expenditures include, among other things, capital expenditures related to components and repairs.

(2) Other capital expenditures include, among other things, capital expenditures related to furniture and fixtures, motor vehicles, leasehold improvements and machinery and equipment.

(3) Includes the pre-delivery payments of US$8.8 million we made in 2012 for the aircraft covered by the Airbus Order.

As part of our growth strategy, we are increasing the size of our fleet and expect to continue to incur substantial capital expenditures, primarily related to the purchase of Airbus A320neo and A321neo aircraft and Boeing 737-800NG aircraft. As of the date of this Offering Circular, we have five outstanding firm purchase orders with Boeing for new 737-800NG aircraft to be delivered between 2013 and 2015 and 57 and 18 firm purchase orders for Airbus A320neo aircraft and A321neo aircraft, respectively, to be delivered between 2015 or 2016 (depending on the engine option we select) and 2022 under the Airbus Order. The Airbus Order also includes an option for 25 additional aircraft. See "Business—Aircraft."

Based on expected prices at the date of delivery (i.e., list prices that exclude price and payment term concessions but take into consideration our expectation of applicable escalation adjustments and aircraft configurations), our expected capital expenditures related to the remaining five firm order Boeing 737-800NG aircraft and the 75 firm order aircraft and 25 option aircraft (assuming this option is exercised in full) under the Airbus Order total approximately US$12.5 billion, consisting of capital expenditures of approximately US$0.5 billion related to our outstanding orders of Boeing 737-800NG aircraft and

approximately US$12.0 billion related to our orders for Airbus A320neo and A321neo aircraft. Our purchase orders with Boeing and Airbus are subject to confidential price and payment term concessions from the listed purchase prices as well as adjustments based on escalation adjustment clauses (in the case of the Airbus aircraft, subject to a maximum limit), and thus the actual purchase price we pay for the aircraft we have ordered will be different, typically lower, than their list prices. The anticipated sources of funding for our planned capital expenditures are a portion of the proceeds from the Offering, borrowings and cash provided by operations. See "—Liquidity and Capital Resources—Borrowings." We expect only marginal non-aircraft capital expenditures in the near term.

As of the date of this Offering Circular, we have financed a total of nine Boeing 737-800NG aircraft financed through sale and leaseback arrangements where we first transferred our aircraft order to a leasing company, after which we entered into an operating lease agreement with the leasing company and leased the aircraft that the leasing company had purchased based on the transferred order. The term of the leases under these operating lease agreements is eight years. While the costs related to sale and leaseback arrangements are slightly higher than the costs of Ex-Im supported finance leases and expected costs of European ECA supported financing, we believe that sale and leaseback arrangements provide us with certain benefits, including the additional flexibility to manage our balance sheet structure and the ability to mitigate the residual value risk relating to aircraft ownership. We expect to finance each of the remaining five Boeing 737-800NG aircraft to be delivered to us between 2013 and 2015 through sale and leaseback arrangements. With regard to our future fleet of Airbus A320neo and A321neo aircraft, while we have not made a decision regarding whether we will own or lease the new aircraft under operating leases, we expect to continue to actively manage this fleet and to maintain a balanced portfolio of owned aircraft and aircraft under operating leases (including pursuant to sale and leaseback arrangements). We believe that a balanced mix of owned and leased aircraft also provides additional operational flexibility as it increases our ability to adjust our fleet size to our operational needs by allowing us to more efficiently manage the inflow and outflow of aircraft.

We are required to make pre-delivery payments at specific dates prior to the aircraft's scheduled delivery for each Boeing 737-800NG aircraft we have ordered. As of December 31, 2012, the aggregate pre-delivery payments made by us for undelivered Boeing 737-800NG aircraft and Airbus A320neo and A321neo aircraft totaled US$50.0 million. The amount of each pre-delivery payment varies based on the aircraft's list price. The final pre-delivery amount is determined when the aircraft is delivered to us by Boeing based on the aircraft's actual purchase price, which typically is, due to price concessions, below its list price. The difference between the pre-delivery payments made by us based on the list price of the aircraft plus financing cost and the final pre-delivery payment that is based on the actual purchase price of the aircraft is repaid to us by Boeing or deducted from the pre-delivery payments of other aircraft. In 2012, 2011 and 2010, the pre-delivery payments that were repaid to us by Boeing totaled US$40.7 million, US$70.0 million and US$15.2 million, respectively. In the case of aircraft that we have ordered and paid pre-delivery payments but that subsequently became subject to a sale and leaseback arrangement, the total amount of pre-delivery payments made by us for such aircraft is reimbursed to us by Boeing.

The Airbus Order includes a pre-delivery payment mechanism.

**Contractual Obligations**

We have various contractual obligations and commercial commitments to make future payments, primary related to the acquisition of aircraft. The following table summarizes our future obligations under these contracts due by the periods indicated as of December 31, 2012.

| | Less than 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | | | | (TL) | | |
| Financial liabilities | 2,747,783 | — | 48,630,965 | — | — | 51,378,748 |
| Trade payables (including related parties) | 88,538,575 | — | — | — | — | 88,538,575 |
| Other liabilities | 42,010,805 | 9,062,074 | 6,709,086 | — | — | 57,781,965 |
| Obligations under finance leases | 19,067,920 | 16,377,733 | 105,940,038 | 582,282,296 | 705,874,233 | 1,429,542,220 |
| Total | 152,365,083 | 25,439,807 | 161,280,089 | 582,282,296 | 705,874,233 | 1,627,241,508 |

As of December 31, 2012, we had leased a total of 13 aircraft under operating leases, including one Boeing 737-400 and 12 Boeing 737-800NG aircraft. In 2013, we have received the delivery of one new Boeing 737-800NG aircraft that we operate under an operating lease and redelivered to the relevant lessor one Boeing 737-800NG aircraft and one Boeing 737-400 aircraft that we operated under operating leases. We operate, but do not own, our operating lease aircraft. We have no right or obligation to acquire these aircraft at the end of the relevant lease terms. All our operating leases are U.S. dollar denominated and each of them requires us to make fixed rental payments. For more information on our commitments to purchase aircraft and our obligations under operating leases, see Note 18 and Note 19, respectively, to our IFRS Financial Statements.

**Off-Balance Sheet Liabilities**

An off-balance sheet arrangement includes any contractual obligation, agreement or transaction arrangement involving an unconsolidated entity under which a company has (i) retained a contingent interest in transferred assets, (ii) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development services with the company, (iii) made guarantees, or (iv) an obligation under derivative instruments classified as equity. We have no arrangements of the types described in the first two categories that we believe may have a material current or future effect on our business, financial condition or results of operations. As of December 31, 2012, guarantees granted by us for the benefit of third parties, principally relating to guarantee letters given to various airport and air traffic authorities, handling companies and suppliers, totaled TL98,531,069. As of the same date, we had provided guarantees amounting to TL44,814,564 for operating lease aircraft until the end of the lease term. The fair value of derivative financial instruments which are not traded in an active market, such as our fuel hedges, is determined using valuation techniques based on market rates and expected yields. Realized gains/losses from derivative financial instruments at the time of the settlement may be different than the fair values as of the balance sheet date. For a discussion of the effect of forward fuel purchase contracts subject to hedge accounting and fuel price fluctuations on our shareholders equity as of December 31, 2012, see "—Qualitative and Quantitative Disclosures about Market Risk—Commodity Price Risk."

**Qualitative and Quantitative Disclosures about Market Risk**

We are exposed to market risks in respect of foreign currency exchange rates and interest rates. We seek to minimize external financial and market risks whenever possible, including by entering into a variety of derivative financial instruments to manage our exposure to foreign currency risk. We are also exposed to capital risk, liquidity risk, credit risk and commodity price risk resulting from fuel prices. Risk management is carried out by our finance department under the guidance of our board of directors. Our board of directors provides principles for over-all risk management as well as polices covering specific areas, such as foreign exchange risk, interest rate and capital risk.

***Foreign Currency Risk***

Currency risk is the risk that our financial results will be adversely impacted by changes in exchange rates to which we are exposed. We are exposed to foreign exchange risk through the impact of currency rate changes on translation into the euro of our foreign currency denominated assets and liabilities and non-euro denominated currency transactions. These risks are monitored by an ongoing analysis of our foreign currency position. In 2012, our net profit before tax would have decreased/increased by TL23,242,348 as a result of a 10% devaluation/appreciation of the euro against the U.S. dollar, and by TL308,544 as a result of a 10% appreciation/devaluation of the euro against the Turkish Lira, keeping all other variables constant. This 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. See Note 29 to our IFRS Financial Statements and "—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Exchange Rate Fluctuations and Foreign Currency Translation."

As our functional currency is euro but we incur a significant part of our cost of sales and expenses in non-euro currencies, in particular U.S. dollars and Turkish Lira, we introduced a currency hedging program in August 2011 to reduce our exposure to volatility in exchange rates. Since then, we have aimed to hedge our euro, Turkish Lira, British pound sterling and Swiss franc denominated surplus totaling up to

100% of our U.S. dollar needs through each year. In 2012, we hedged 94.8% of our U.S. dollar short positions. Our hedging policy allows our foreign currency hedges to cover various currencies, including Turkish Lira, euro, British pound sterling and Swiss franc, for terms of up to 12 months. The following table sets forth the realized and unrealized gains and losses related to our currency hedging program for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (TL in millions) | | |
| Realized gain / (loss) | 20.3 | (7.8) | (2.2) |
| Unrealized gain / (loss) | (10.6) | 5.5 | 2.0 |

For the purposes of the IFRS Financial Statements, we have selected Turkish Lira as our reporting currency. We record translation gains and losses arising from translations of euro to Turkish Lira under translation reserve.

***Interest Rate Risk***

We have a significant number of borrowings with variable interest rates that are based on market interest rates and we are therefore subject to volatility in market interest rates, which may affect the cost of our current floating rate indebtedness and future financing. We seek to manage this risk by maintaining an appropriate mix between floating and fixed rate borrowings. As of December 31, 2012, 96.4% of our indebtedness was floating rate and 3.6% fixed rate. If interest rates had been 0.5% lower/higher as of December 31, 2012, our profit before tax would have increased/decreased by TL6,792,472, keeping all other variables constant. See Note 29 to our IFRS Financial Statements and "—Factors Affecting Our Results of Operations—Factors Affecting Our Costs—Interest Rate Fluctuations."

***Capital Risk***

The primary objective of our capital management strategy is to ensure that we maintain a healthy capital structure that supports our business operations and maximizes shareholder value. We manage our capital structure and make adjustments to it in the light of changes in economic conditions. We review the cost of capital together with the risk associated with the capital structure. As a part of this review, we consider the cost of capital and the risks associated with capital. Based on these evaluations, we seek to balance our overall capital structure, from time to time, through capital increases as well as by obtaining new debt or repaying existing debt.

***Liquidity Risk***

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

***Credit Risk***

We are exposed to counterparty risk when investing our cash reserves and using derivative instruments. We proactively review our counterparties to determine any adverse changes in our counterparties' financial condition. We do not believe that we have any significant credit risk exposure to any single counterparty.

***Commodity Price Risk***

Fuel costs constitute a substantial portion of our cost of sales and they accounted for TL337.9 million, or 38.9%, TL610.6 million, or 45.1%, and TL702.4 million, or 48.0%, of Pegasus Operation Cost of Sales for the years ended December 31, 2010, 2011 and 2012, respectively. Historically, we had not entered into hedging arrangements against fluctuations in fuel prices. However, in 2008, following the sharp increase in

fuel prices and the continuous increase in our fuel consumption, we commenced entering into hedge arrangements covering a portion of our charter consumption. Subsequently, in August 2011, we introduced a new fuel price hedging program.

Our fuel price hedging program includes a primary non-discretionary program for the first 30% of our anticipated fuel consumption and a supplemental discretionary program for an additional 30% of our anticipated fuel consumption, in both cases for terms of up to 12 months. Both programs use swap and option arrangements on jet fuel and Brent oil. In 2012, we hedged 45% of our fuel consumption during the year at an average price of US$995 per ton. For the year 2013 and onwards, we expect to hedge up to 60% of our fuel consumption covering all our flight operations on a rolling basis. Each month, we add approximately 5% forward to maintain a monthly 60% hedge percentage. As of March 31, 2013, we had hedged 47.3% of our anticipated total annual fuel requirement for 2013. The following table sets forth the realized and unrealized gains and losses related to our fuel price hedging program for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (TL in millions) | | |
| Realized gain / (loss) | 5.6 | 0.3 | (0.3) |
| Unrealized gain / (loss) | 11.9 | 3.2 | — |

Due to forward fuel purchase contracts subject to hedge accounting, a 1% increase/decrease in fuel prices would have increased/decreased our shareholders' equity by TL2,167,117 as of December 31, 2012 excluding the effect of deferred taxes, keeping all other variables constant.

Some derivative instruments used in our fuel hedging program have downside risk and may result in hedging losses if the underlying commodity prices drop below established floors. We actively manage this downside risk by using option structures. We do not hold or issue derivative financial instruments for trading purposes. As part of our hedging activities, we are exposed to our counterparties' performance and credit risks if our counterparties fail to meet their obligations. See also "—Credit Risk."

We believe that our fuel hedge program is an important part of our strategy to reduce our exposure to volatile fuel prices, and we expect to expand our hedging program. However, significant changes in market conditions could affect our decisions regarding hedging. Further, while our hedging strategies can cushion the impact of fuel price increases in the short term, in the medium to longer term, such strategies cannot be expected to eliminate the impact of an increase in the market price of jet fuel.

## Critical Accounting Policies

Critical accounting policies are those policies that require the application of our management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

A detailed description of the significant accounting policies we use in preparing our consolidated financial statements are set forth in Note 3 to our IFRS Financial Statements.

### *Useful Lives and Residual Values of Tangible Assets and Aircraft*

We have allocated depreciation over tangible assets by taking into consideration the useful lives and residual values which were explained in Note 3.12 and Note 10. The determination of the estimated useful lives requires management to make assumptions and judgments, which it bases on its historical experience and its business plans. See Note 3.12 and Note 10 to the IFRS Financial Statements.

### *Income Taxes*

We recognize deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. As of the date of this Offering Circular, we have deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, our management has determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which our management considered include future earnings potential, cumulative losses in recent years, history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences, tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. Based on the available evidence, our management believed that sufficient taxable profit will be available to utilize these deferred tax assets as of December 31, 2012.

### *Redelivery Provision*

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

### *Litigation Provision*

We are party to various lawsuits, legal claims and fines as part of the normal course of our business. Our management, with the assistance from legal advisers, analyzes these claims and lawsuits, assesses their potential financial impact and, if necessary, decide to recognize a provision based on the result of this assessment. We have provided TL995,188 for litigation claims as of December 2012.

### *Tax Investigation*

During 2012, the inspection officers of the Ministry of Finance of Turkey audited our accounts and transactions for 2009, 2010, 2011 and January 2012. The tax inspectors have challenged the applied VAT rates remitted on behalf of the non-resident aircraft lessor companies that are party our finance leases and determined that we had an accrued VAT liability of TL30,872,430 (excluding any interests applicable thereon) and, in addition, imposed a tax penalty of TL46,308,645 on us. We estimate that the default interest on the accrued VAT liability as of December 31, 2012, based on the default interest rates announced by the Presidency of Revenue Administration as of the same date, was TL8,340,919. In order to mitigate any risk associated with future periods, and due to the fact that the change in rate does not create any cash outflow, we have begun to apply the 18% VAT rate "with objection" from December 1, 2012 instead of the previous 1% VAT tax rate. The assessment of the tax inspector did not include the period between February 1, 2012 and November 30, 2012 and no liability has been calculated for this period.

We have obtained opinions from legal and tax advisers and have also evaluated the private rulings issued by the Revenue Administration of Republic of Turkey. On this basis, we believe that we have correctly applied the 1% VAT rates promulgated by Government Decrees. Likewise, based on the opinions of such tax advisers and the evaluation of the rulings, we have concluded that payment related to penalties is not probable, including for the period which has not been audited, and we have not provided for this contingent liability. See also "Risk Factors—Risk Relating to Our Business—We may incur losses as a result of the accrued value-added tax liability and tax penalty imposed on us in connection with the value-added tax rates on our finance lease transactions" and "Business—Legal Proceedings—Tax Investigation Regarding Value-Added Tax on Finance Lease Agreements."

***Fair Value of Derivatives and Other Financial Instruments***

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

**Recent Accounting Pronouncements**

As of the date of this Offering Circular, the following standards and interpretations that we expect may have an effect on our future financial statements were in issue but either not yet effective or not yet reflected in our financial statements as they are effective for the ongoing annual period:

- ***IFRS 9—Financial Instruments.*** IFRS 9 introduces new requirements for the classification and measurement of financial assets, including requirements for the classification and measurement of financial liabilities and for derecognition. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. We anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of our financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

- ***IFRS 13—Fair Value Measurement.*** IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. We anticipate that IFRS 13 will be adopted in our consolidated financial statements for the annual period beginning January 1, 2013 and that the application of IFRS 13 will affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

- ***IFRS 7 / IAS 32—Offsetting Financial Assets and Financial Liabilities and Related Disclosures***. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement, while the amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. The amendments to IFRS 7 are effective for annual periods beginning on or after January 2013 1, and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after January 1, 2014, with retrospective application required. We anticipate that the application of these amendments to IFRS 7 and IAS 32 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

For a description of these standards and interpretations and other standard and interpretations that were in issue but not yet effective, see Note 2.d to the IFRS Financial Statements.

## MANAGEMENT

### Board of Directors

Pursuant to the TCC and our articles of association, our board of directors is responsible for our management. According to our articles of association, the board of directors shall consist of a minimum of five and a maximum of eight members appointed by our shareholders, including independent board members (as such term is defined by the CMB) comprising at least one-third of the total number of directors. As of the date of this Offering Circular, our board of directors consists of eight members.

Our articles of association require the formation of audit, corporate governance, early detection of risks and nomination and appointment committees to assist our board of directors as described further below, although the board of directors retains final decision-making authority. Our board of directors is further authorized to establish other committees if deemed necessary. Under Turkish law, directors can be appointed from among shareholders as well as non-shareholders, and both real persons and legal entities can be appointed as directors. In the event a legal entity is appointed as a director, a real person must be appointed by the legal entity director as its representative to exercise all rights and fulfill all duties of a director on behalf of the legal entity. See "Description of Our Share Capital—Board of Directors."

### Members of the Board of Directors

The following table sets forth certain information regarding each member of our board of directors as of the date of this Offering Circular.

| Name | Year of birth | Position | Year first elected to position | Year term ends |
|---|---|---|---|---|
| Ali Sabancı | 1969 | Chairman | 2005 | 2014 |
| Çağatay Özdoğru | 1966 | Vice chairman | 2007 | 2014 |
| Emre Berkin | 1961 | Board member | 2010 | 2014 |
| Sertaç Haybat | 1952 | Board member | 2005 | 2014 |
| Cem Kozlu | 1946 | Board member | 2013 | 2014(1) |
| Conor McCarthy | 1962 | Board member | 2012 | 2014 |
| Mehmet Sağıroğlu | 1951 | Board member | 2013 | 2014(1) |
| Raymond Douglas Webster | 1946 | Board member | 2008 | 2014 |

(1) The director has been appointed by a resolution of the board of directors and will serve throughout the original term of his predecessor subject to the approval of such appointment by our shareholders in the first upcoming General Assembly meeting.

***Ali Sabancı, Chairman.*** Mr. Sabancı has served as the chairman of our board of directors since 2005. He previously held several positions at Morgan Stanley & Co. Incorporated and Akbank T.A.Ş. between 1991 and 1997. He also served as the head of projects of Sabancı Holding between 1997 and 2001 and as the executive assistant general manager for strategy and business development between 2001 and 2004. Mr. Sabancı serves as a member of the board of directors of Esas Holding and Air Berlin. Mr. Sabancı holds a graduate degree in economics and politics from Tufts University and a bachelor's degree in international finance from Columbia University Business School.

***Çağatay Özdoğru, Vice Chairman.*** Mr. Özdoğru has served as a member of our board of directors since 2007. Between 1997 and 2011, he held various positions at France Telecom Group where his last position was vice president of REEMEA region. During his tenure as the head of IT & telecommunications industry for Sabancı Holding between 2002 and 2005, he served as general manager, assistant general manager and executive member of the board of directors for group companies such as Turk Nokta Net, Akinternet, I-BimSA and Sabancı Telekom. Mr. Özdoğru joined Esas Holding in June 2005 as a member of the executive committee. Currently, he also serves as a member of the board of directors of Esas Holding subsidiaries. Mr. Özdoğru holds a graduate degree in telecommunications engineering from George Washington University and a bachelor's degree in electronics and telecommunications engineering from İstanbul Technical University.

***Emre Berkin.*** Mr. Berkin has served as a member of our board of directors since 2010. He started working for Digital Equipment Corporation in 1984 and served in sales, consultancy, support and service positions in the United States and in Turkey. Between 1993 and 2006, Mr. Berkin worked for Microsoft Corporation holding various positions, including vice president for Europe, Middle East and Africa, and chairman of Middle East and Africa operations. He was also the first general manager of Microsoft

Turkey. Mr. Berkin currently runs an independent consulting practice focused on international business development, mergers and acquisitions, funding and investments, and he also serves a member of the boards of directors of various companies in and outside of Turkey. Mr. Berkin holds a graduate degree from DePaul University and a bachelor's degree from Middle East Technical University in computer engineering.

***Sertaç Haybat.*** Mr. Haybat has served as a member of our board of directors since 2005 and is our general manager. Mr. Haybat started working in the airline industry as the maintenance manager for Bursa Airlines in 1979. He worked for Turkish Airlines in three different occasions, first between 1982 and 1987 as a member of the engineering team, later between 1989 and 1993 as strategic planning and investments manager, marketing director and as sales director for Singapore, Malaysia and Indonesia, and between 1997 and 2003, as a member of the executive management team responsible for finance and corporate planning. Mr. Haybat also served as a member of board of directors of SunExpress until 2003. Mr. Haybat holds a bachelor's degree in aeronautical engineering from the University of Manchester.

***Cem Kozlu.*** Mr. Kozlu has served as a member of our board of directors since 2013. Mr. Kozlu held several positions at The Coca-Cola Company between 1996 and 2006 where his last position was the president of the company's Central Europe, Eurasia and Middle East operations. Since 2006, he has continued to serve as consultant to Coca-Cola Eurasia and Africa Group. Mr. Kozlu served as a member of Parliament in the Turkish Grand National Assembly from 1991 to 1995 and was the chairman and CEO of Turkish Airlines from 1988 to 1991. He also served as the president of the Association of European Airlines in 1990. Mr. Kozlu holds a bachelor's degree from Denison University and an MBA degree from Stanford University. He also holds a Ph.D. in administrative sciences from Boğaziçi University.

***Conor McCarthy.*** Mr. McCarthy has served as a member of our board of directors since 2012. Mr. McCarthy started working for Aer Lingus in 1978 and spent a total of 18 years with the company in engineering, operations, maintenance, commercial planning, marketing, route economics, finance, strategic management, fleet planning and general management. After leaving Aer Lingus in 1996 as the chief executive officer of Aer Lingus Commuter, Mr. McCarthy joined Ryanair and served as its director of group operations until 2000. Mr. McCarthy is currently the executive chairman at Dublin Aerospace Ltd. and a director of AirAsia, which he also helped to co-found. In addition, he is the managing director of PlaneConsult.com. Mr. McCarthy holds a bachelor's degree in engineering from Trinity College Dublin.

***Mehmet Sağıroğlu.*** Mr. Sağıroğlu has served as a member of our board of directors since 2013. He previously held several positions at Türkiye Sinai Kalkınma Bankası between 1980 and 1999 where his last position was head of corporate finance. Mr. Sağıroğlu served as the CEO of a joint venture corporate finance advisory company founded by a German investment banking group, IEG Investment Banking, from 2011 to 2012. Currently, he serves as the independent member of the board of directors of Alarko Gayrimenkul Yatırım Ortaklığı A.Ş. and the chairman of the Association of Listed Companies' Executives (Koteder). Mr. Sağıroğlu holds a bachelor's degree in business administration from Boğaziçi University.

***Raymond Douglas Webster.*** Mr. Webster has served as a member of our board of directors since 2008. From 1965 to 1996, Mr. Webster worked for Air New Zealand Limited where he held various positions in the engineering and cargo business units, marketing, sales and operations in the Americas, and was later assigned as the general manager of strategic planning where he was responsible for identification, evaluation and implementation of corporate development options, including the concept development and planning of a start-up value based airline serving short-haul routes in the Australasian market. Mr. Webster worked for EasyJet plc between 1996 and 2005, serving first as the managing director and later taking over the duties of chief executive officer prior to listing of EasyJet plc on the London Stock Exchange. Mr. Webster holds a bachelor's degree in engineering from Canterbury University.

**Members of Senior Management**

| Name | Year of birth | Position | Year appointed to position |
|---|---|---|---|
| Sertaç Haybat | 1952 | General Manager | 2005 |
| Serhan Ulga | 1966 | Senior Vice President, Finance and Human Resources and Chief Financial Officer | 2007 |
| Nadir Kabaş | 1956 | Senior Vice President, Operations | 2012 |
| Servet Ulaşan | 1963 | Senior Vice President, Technical | 1996 |
| Nurçin Özsoy | 1950 | Senior Vice President, Flight Services | 2007 |
| Güliz Öztürk | 1970 | Senior Vice President, Commercial | 2010 |
| K. Mustafa Helvacıoğlu | 1957 | Vice President, Safety Management Systems | 2012 |
| Mustafa Hesapçıoğlu | 1956 | Vice President, Quality | 2008 |
| Aycan Kurtoğlu | 1961 | Vice President, Chief Information Officer | 2005 |
| Verda Beste Taşar | 1977 | Vice President, Investor Relations | 2013 |
| Cahit Taşbaş | 1959 | Vice President, Training | 2006 |
| Boğaç Uğurluteğin | 1971 | Vice President, Ground Operations | 2001 |
| Mine Öztürk | 1967 | Vice President, Internal Control | 2010 |
| Tayfun Bora | 1964 | Manager, Security | 2005 |
| Gürol Yüksel | 1946 | General Manager of İzAir | 2007 |
| Utkan Önder | 1968 | General Manager of PUEM | 2011 |
| Ilgar Alptekin | 1947 | General Manager of Air Manas | 2012 |

***Sertaç Haybat.*** See "—Members of the Board of Directors."

***Serhan Ulga.*** Mr. Ulga has served as our senior vice president responsible for finance and human resources and has been our Chief Financial Officer since 2007. Mr. Ulga previously held various positions at Ernst & Young in İstanbul and in Boston, United States between 1988 and 1995. From 1995 to 2000, he worked for Rockwell International (now Rockwell Automation) in Pittsburgh, United States as Senior Internal Auditor and Costa Mesa, United States as Manager of Financial Accounting. In 2000, he joined Boston Scientific Corporation as Manager of Worldwide Financial Reporting at its world headquarters, in Natick, United States, later working for Boston Scientific's International Sales Division as Senior Manager responsible for developing and implementing divisional and global finance policies. Mr. Ulga returned to Turkey in 2003 to work for Paxar Turkey (now Avery Dennison) as Finance and IT director until 2004. Mr. Ulga subsequently worked for Doğan Yayın Holding as Financial Controller until 2006 and Polisan Holding as Chief Financial Officer and a Member of the Executive Management Committee until 2007. Mr. Ulga joined Pegasus in February 2007. Mr. Ulga holds a bachelor's degree in Business Administration from Boğaziçi University. Mr. Ulga is a Certified Public Accountant in the Commonwealth of Massachusetts, United States and is also a Certified Management Accountant.

***Nadir Kabaş.*** Mr. Kabaş has served as our senior vice president responsible for operations since 2012. In 1992, he commenced working for İstanbul Airlines and joined Pegasus in 2000. He has held various positions with Pegasus, including as flight operations director. Mr. Kabaş is a graduate of the Turkish Air Force Academy.

***Servet Ulaşan.*** Mr. Ulaşan has served as our senior vice president responsible for technical since 2011 and has held various positions with Pegasus between 1996 and 2012, including as maintenance manager. Before joining us, Mr. Ulaşan worked for Turkish Airlines between 1985 and 1996.

***Nurçin Özsoy.*** Ms. Özsoy has served as our senior vice president responsible for flight services since 2007. Ms. Özsoy held various positions at Turkish Airlines between 1974 and 1993, including cabin attendant, senior cabin attendant, cabin crew examiner, cabin crew instructor and cabin crew training supervisor, and was later appointed as cabin crew training manager, in which position she served from 1993 to 2003. Prior to joining Pegasus in 2007, Ms. Özsoy worked for Onur Air as their cabin crew manager.

***Güliz Öztürk.*** Ms. Öztürk has served as our senior vice president responsible for commercial operations since 2010. Before that, she served as our sales director responsible for scheduled flights between 2008 and 2010 and our director responsible for scheduled flights between 2005 and 2008. Ms. Öztürk worked for Turkish Airlines between 1990 and 2003, holding various positions, including international relations and agreements specialist, assistant manager and manager, senior vice president and vice president of marketing and sales. Between 2003 and 2005, Ms. Öztürk worked as the human

resources director for the tourism and aviation division of Ciner Group. Ms. Öztürk joined Pegasus in July 2005. Ms. Öztürk holds a bachelor's degree in psychology from Boğaziçi University.

***K. Mustafa Helvacıoğlu.*** Mr. Helvacıoğlu has served as our senior vice president responsible for safety management systems since 2012. He joined Pegasus in 1998 and has held various positions with us, including as flight safety and emergency response manager and ground training instructor. He is a graduate of the Turkish Air Force Academy.

***Mustafa Hesapçıoğlu.*** Mr. Hesapçıoğlu has served as our vice president responsible for quality since 2008. Before joining Pegasus, Mr. Hesapçıoğlu worked between 1988 and 2008 with various airlines, including İstanbul Airlines, Atlasjet and Free Bird Airlines. He is a graduate of the Turkish Air Force Academy and served in the Turkish military.

***Aycan Kurtoğlu.*** Ms. Kurtoğlu has served as our Chief Information Officer since 2005. Before joining us, she held various positions at Turkish Airlines from 1989 to 2003, most recently as vice president of Information Technology. She also served as system programmer at Turkish Aerospace Industries and Halk Bank. Ms. Kurtoğlu holds a bachelor's degree in engineering from Middle East Technical University.

***Verda Beste Taşar.*** Ms. Taşar joined Pegasus as our vice president responsible for investor relations in April 2013. Before joining Pegasus, she served as the head of investor relations and as manager in the Strategy and Business Development Department in Doğuş Otomotiv between 2001 and 2003. Between 2003 and 2006, Ms. Taşar served as logistics director at Reysaş Transportation & Logistics and from 2006 until 2013 Ms. Taşar served as strategy and business development manager and investor relations director at Doğuş Otomotiv. Ms. Taşar holds a bachelor's degree in business and administrative sciences from Marmara University.

***Cahit Taşbaş.*** Mr. Taşbaş has served as our vice president responsible for training since 2006. Mr. Taşbaş served in the Turkish Air Force as pilot until 1999 and joined us in 1999 as a pilot. Mr. Taşbaş is a graduate of the Turkish Air Force Academy.

***Boğaç Uğurluteğin.*** Mr. Uğurlutegin has served as our senior vice president responsible for ground operations since 2007. He joined Pegasus in 1994 as ground operations officer and has held various positions with Pegasus. Mr. Uğurluteğin is a graduate of London International College.

***Mine Öztürk.*** Ms. Öztürk has served as our vice president responsible for internal control since September 2010. Before joining us, she held various positions from 1989 to 2005 at Turkish Airlines, where she joined as a finance specialist and later took up various positions in technical, finance and commercial departments, including serving as corporate finance controller between 2000 and 2005. Ms. Öztürk joined us in 2005 as budget and finance manager and subsequently served as our internal audit manager. Between March 2007 and September 2010, she served as coordinator at İzAir. Ms. Öztürk holds a bachelor's degree in management engineering from İstanbul Technical University.

***Tayfun Bora.*** Mr. Bora has served as our manager responsible for security since 2005. He started working for Çelebi Yer Hizmetleri A.Ş. in 1987 and spent a total of 12 years with the company in various positions. He is a member of the Turkish National Civil Aviation Security Committee as a representative of the Private Aviation Enterprises Association of Turkey. Mr. Bora is a graduate of the Turkish military high school.

***Gürol Yüksel.*** Mr. Yüksel has served as İzAir's general manager since 2007 and is a member of the board of directors of İzAir. He started working for Turkish Airlines as a member of the sales team in 1975 and held various positions, including as country manager in Kuwait, Saudi Arabia and Jordan before being appointed as cargo director in 1987. He also served as the CEO of Havaş Yer Hizmetleri A.Ş., Sky Airlines and Inter Airlines and a member of the board of directors of SunExpress. Mr. Yüksel holds a bachelor's degree in economics from İstanbul University.

***Utkan Önder.*** Mr. Önder has served as the general manager of PUEM since 2011 and has 19 years of experience in the aviation sector. Before joining PUEM, Mr. Önder worked between 1993 and 2009 for Turkish Airlines as training manager and lectured at Kocaeli University for two years. Mr. Önder holds a bachelor's degree in engineering from Yıldız Teknik University.

***Ilgar Alptekin.*** Mr. Alptekin has served as the general manager of Air Manas since 2012. Before joining Air Manas, he held various positions at Turkish Airlines between 1994 and 2003, including as the

president and vice president for sales in Turkey and Middle East and North Africa and the director for Japan.

**Corporate Governance**

As a privately controlled company, we have not historically implemented certain aspects of corporate governance for public companies such as heightened requirements for the approval of related party transactions. However, following the Offering we will be subject to certain mandatory and non-mandatory corporate governance rules stipulated in the Corporate Governance Communiqué, the TCC and the Capital Markets Law, among others.

***CMB Corporate Governance Principles***

Until 2011, there were no mandatory corporate governance rules generally applicable to public companies in Turkey. In 2003, the CMB issued a set of recommended principles for public companies, which applied to public companies on a "comply or explain" basis. The Corporate Governance Communiqué was published and entered into force on December 30, 2011, providing certain mandatory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the ISE. In February 2013, the CMB published a number of amendments to the Corporate Governance Communiqué, some of which grant exceptions that are applicable only to banks.

The Corporate Governance Communiqué contains principles relating to (i) the listed company's shareholders, (ii) public disclosure and transparency, (iii) the stakeholders of the listed company, and (iv) the board of directors of the listed company ("Corporate Governance Principles"). A number of principles are compulsory while the remaining principles apply on a "comply or explain" basis. According to the Corporate Governance Communiqué, any non-compliance with non-mandatory principles and the reasons for such non-compliance will have to be explained in the annual corporate governance principles compliance report that is published as part of the relevant listed company's annual report.

The mandatory principles under the Corporate Governance Communiqué for public companies relate to such matters as (i) the composition of the board of directors, (ii) appointment of independent board members, (iii) board committees, (iv) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué; and (v) shareholder information rights in connection with General Assembly meetings.

The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalization and the market value of their free-float shares, subject to recalculation on an annual basis. The CMB has classified 24 companies for the year 2013 as "Tier 1" companies, to which all of the mandatory principles set out in the Corporate Governance Communiqué apply. Some of these mandatory principles are not applicable to Tier 2 (24 companies in 2013) or Tier 3 companies (i.e., listed companies other than Tier 1 or Tier 2 companies). Following the Offering, we expect Pegasus to be classified as a Tier 2 company.

All Tier 1 and Tier 2 companies are required to have a number of independent board members equivalent to at least one-third of the number of directors. However, these companies can apply to the CMB in order to limit the number of independent board members to two, irrespective of the ratio of the company's free-float shares, as long as at least 51% of their share capital is equally owned by two independent shareholders contractually sharing equal management control but having no direct or indirect shareholding, management or audit relationship between themselves. Tier 3 companies do not have to satisfy the one-third ratio of independent directors, although they are required to have at least two independent directors. As of the date of this Offering Circular, our board of directors has three independent members, Cem Kozlu, Mehmet Sağıroğlu and Raymond Douglas Webster.

The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independence" of individuals nominated as independent board members in Tier 1 companies. Those nominated for such positions must be evaluated by the Nomination Committee of the board of directors against the applicable criteria stated in the Corporate Governance Communiqué. The board of directors is required to prepare a list of nominees based on this evaluation for final review by the CMB, which is authorized to issue a "negative view" on any nominee and prevent his or her appointment as independent members of the board of directors. Tier 2 and Tier 3 public companies are not required to go through the CMB pre-assessment for the appointment of independent directors, although the nominations must still be

evaluated by the nomination committee of the boards of such companies. The Corporate Governance Communiqué also requires listed companies to establish certain other board committees.

In addition to the mandatory principles regarding the composition of the board of directors and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all related party transactions, transactions creating any guarantee, pledge or mortgage in favor of third parties, transactions that may result in a conflict of interest with the company or its subsidiaries and certain other transactions deemed material by the Corporate Governance Communiqué. For example, "material transactions" are defined as the lease, transfer or establishment of rights *in rem* over the total or a substantial part of the listed company's assets, acquisition or lease of a material asset, establishment of privileges or changes in the scope of current privileges and delisting of the Company. All of these types of transactions must be approved by the majority of the independent board members. If the majority of the independent directors do not vote in favor of such board resolutions, the relevant transaction will be subject to the approval of the shareholders' General Assembly, which will convene without required meeting quorums, where the decision quorum is a two-thirds majority (simple majority will apply in the event the majority of the capital is represented at the General Assembly) of the shares represented at the General Assembly and entitled to vote and where the related parties to those transactions will not be able to vote. The foregoing framework also applies to all related party transactions as well as transactions creating any guarantee, pledge or mortgage in favor of third parties.

***Audit Committee***

We established an audit committee in April 2011. The audit committee will be restructured in compliance with the Corporate Governance Principles and the most recent amendment of our articles of association in March 2013. Our articles of association require our audit committee to be composed of two independent directors. Pursuant to our articles of association, the audit committee will assist our board of directors with the aim of ensuring the proper operation and efficiency of our accounting and internal control systems as well as the audit and public disclosure of our financial information. Following the Offering, the audit committee also will be responsible for (i) evaluating audit firms to support the decision-making of our board of directors in the selection of our outside independent audit firm, (ii) the continuous monitoring of the compliance of our financial statements with Turkish legislation as well as international accounting principles, and (iii) investigating any complaints regarding our internal controls and independent auditing.

Following the Offering, the audit committee will consist of two members, both of which will be appointed from among the independent non-executive members of our board of directors.

We also have an internal audit department that assists the audit committee in performing its duties. The department comprises three employees as of the date of this Offering Circular, including the internal audit director who is the head of the department. We intend to hire additional audit team members. The audit committee meets with the internal audit department regularly to discuss existing and potential issues.

***Corporate Governance Committee***

Historically, we did not have a corporate governance committee. Pursuant to our articles of association, a corporate governance committee will be established after the Offering to assist our board of directors in connection with our compliance with the Corporate Governance Principles, as well as with salary, benefits and performance evaluations, career planning and disclosure of material events. Our articles of association require our corporate governance committee to be composed of three members, and the chairman must be appointed from among our independent directors in compliance with the Corporate Governance Principles.

Our board of directors is also authorized to appoint members who are not members of the board of directors to the corporate governance committee.

***Nomination and Appointment Committee***

Prior to the Offering, we did not have a nomination and appointment committee. Pursuant to our articles of association, a nomination and appointment committee will be established after the Offering to assist our board of directors in connection with the determination of the appointment criteria and qualifications for members of the board of directors and our senior management and determination of applicable candidates for such positions. Our articles of association require our nomination and

appointment committee to be composed of three members, and the chairman must be appointed from among our independent directors in compliance with the Corporate Governance Principles.

Our board of directors is also authorized to appoint members who are not members of the board of directors to the nomination and appointment committee.

***Committee on the Early Detection of Risks***

Prior to the Offering, we did not have a committee on the early detection of risks. Pursuant to our articles of association, a committee responsible for the early detection of risks will be established after the Offering to assist our board of directors in connection with the preliminary diagnosis of events that endanger the existence, development and continuity of the Company, the implementation of appropriate remedies and the management of risks.

The committee will consist of three members and the chairman will be appointed from among the independent members of our board of directors as required by the Corporate Governance Principles. Our board of directors is also authorized to appoint members who are not members of the board of directors to the committee.

Pursuant to our articles of association, our board of directors is authorized to determine the scope of responsibility and duties of the foregoing committees and to establish further committees to address various other matters.

***Safety Committee***

Even though not required under the Corporate Governance Principles or our articles of association, in line with our commitment to conduct safe operations, we have established a safety committee. The safety committee is to consist of at least three members, including our General Manager and two non-executive directors. The non-executive directors who are members of the safety committee generally do not represent themselves as experts in the fields of safety or risk management. Thus, it is not the responsibility of the safety committee directly to conduct safety or risk reviews.

The safety committee has the authority to (i) monitor management's efforts to ensure the safety of our passengers and employees, (ii) monitor and assist management as necessary in creating a uniform safety culture that achieves the highest possible industry performance measures, and (iii) periodically review with the relevant personnel and such outside experts as the safety committee deems prudent all aspects of airline safety such as safety-related programs, safety investigation programs and results, risk assessments and recommendations, operational risk management strategies and policies, and compliance with applicable safety laws and regulations.

***Corporate Governance Personnel***

Public companies in Turkey are required to employ at least one person to coordinate corporate governance practices and performance of the obligations arising from the capital markets legislation. Such employee must have received the relevant license from the CMB and must be employed as a full-time manager reporting directly to the most senior executive manager. In April 2013, we appointed Verda Beste Taşar as our vice president responsible for investor relations. Her duties include, among other things, the duties assigned to corporate governance personnel in the capital markets legislation.

***Shareholder Relations***

Public companies in Turkey must establish a shareholder relations department whose mandate includes protecting the rights of shareholders and coordinating communication among shareholders. This department must report directly to the board of directors and must have the following duties:

- to keep updated records of each shareholder;
- to respond to queries from shareholders to the extent that such queries do not relate to matters that could be classified as commercial secrets, non-public or confidential information;
- to ensure that shareholders' meetings are convened in accordance with applicable laws, the articles of association and other internal regulations of the public company;
- to prepare relevant documents that may be distributed to shareholders at the shareholders' meeting;

- to record the results of voting at any shareholders' meeting and to send reports regarding such results to the shareholders; and
- to monitor public disclosure policies of the company and compliance therewith.

We expect that our investor relations director described under "—Corporate Governance Personnel" above will be responsible for managing our shareholder relations department.

**Compensation**

The aggregate salaries and short and long-term benefits we paid to our directors and senior management for the years ended December 31, 2012, 2011 and 2010 amounted to TL4,211,143, TL2,639,769 and TL1,944,669, respectively. In addition to salary payments, we also provide certain benefits to senior management, including private pension plans and company vehicles.

In March 2011, we introduced our executive bonus plan. Employees on the vice president level and above are eligible to take part in the executive bonus plan and, as of the date of this Offering Circular, a total of 23 persons are covered by the plan. Bonuses under the plan, which is all-cash and does not include any share-based components, are based on Pegasus Operation EBITDAR performance and the satisfaction of the person's individual performance targets during the relevant period. Each person covered by the executive bonus plan is allocated a personal pool and payments from this pool are made during a four-year vesting period.

**Other Matters**

In February 2007, a civil proceeding against Conor McCarthy, a member of our board of directors, was initiated in Poland with respect to alleged damage caused to the owners of the Polish low-cost airline AirPolonia purportedly arising from an expected, but not realized, investment in the airline by a third party. In October 2011, the Regional Court in Warsaw dismissed the claim as both meritless as well as directed at the wrong respondent. The plaintiffs appealed the decision and such appeal was dismissed by the Court of Appeal in Warsaw in August 2012. In the course of the civil proceedings, the plaintiffs filed a notification of an alleged criminal offense with the office of the Regional Prosecutor in Warsaw, based on the same allegations as in the civil case. The Prosecutor twice refused to initiate criminal proceedings against Mr. McCarthy, subsequent to which the plaintiffs on their own brought criminal charges (as permitted under Polish criminal procedure law) against Mr. McCarthy in the Regional Court in Warsaw alleging that the failure to invest described above constituted fraud. The criminal proceedings remain pending as of the date of this Offering Circular. Mr. McCarthy and his counsel believe that, based on the outcome of the civil proceedings as well as the repeated rejection of the criminal notification by the Prosecutor, the criminal charges are unfounded and ultimately will be rejected by the court.

## PRINCIPAL SHAREHOLDERS

As of the date of this Offering Circular, we are 100.0% controlled by members of the Sabancı family through their beneficial ownership of our shares, both directly and indirectly through Esas Holding. See "Risk Factors—Risks Relating to Our Relationship with the Sabancı Family and Esas Holding—We are controlled by majority shareholders whose interests may not be aligned with our interests or those of other holders of our shares" and "Related Party Transactions."

The following table sets forth certain information with respect to the beneficial owners of our outstanding shares.

| Name of owner | Shares owned prior to the Offering | | Shares owned after the Offering | |
|---|---|---|---|---|
| | Number | % of outstanding share capital | Number | % of outstanding share capital |
| Esas Holding | 72,375,570 | 96.50% | 64,353,570 | 62.92% |
| Emine Kamışlı | 874,810 | 1.17% | 874,810 | 0.86% |
| Ali Sabancı | 874,810 | 1.17% | 874,810 | 0.86% |
| Kazım Köseoğlu | 437,405 | 0.58% | 437,405 | 0.43% |
| Can Köseoğlu | 437,405 | 0.58% | 437,405 | 0.43% |
| Public stockholders | — | — | 35,294,000 | 34.51% |
| Total | 75,000,000 | 100.00% | 102,272,000 | 100.00% |

Esas Holding, which was established in 2000 as a venture capital company by first and second generation Sabancı family members ascended from Mr. Şevket Sabancı, is currently among the leading holding companies in Turkey. As of December 31, 2012, Esas Holding had a total of 11 group companies active in the aviation, food, health, retail and real estate sectors. Esas Holding is wholly owned by members of the Sabancı family. The following table sets forth the shareholders of Esas Holding as of the date of this Offering Circular.

| Name of Esas Holding shareholder | % of outstanding share capital held |
|---|---|
| Şevket Sabancı | 20.00% |
| Zerrin Sabancı | 20.00% |
| Emine Kamışlı | 20.00% |
| Ali Sabancı | 20.00% |
| Kazım Köseoğlu | 10.00% |
| Can Köseoğlu | 10.00% |
| Total | 100.00% |

## RELATED PARTY TRANSACTIONS

We are controlled by members of the Sabancı family through their beneficial ownership of our shares, both directly and indirectly through Esas Holding. Esas Holding owns 96.5% of our outstanding shares and will own approximately 62.9% of our outstanding shares after the Offering. Set forth below is a summary of our material transactions and arrangements with Esas Holding and our other related parties. Because of the scope of our various relationships with our affiliates, we cannot assure you that each of the agreements and transactions, if considered separately, has been effected on terms no less favorable to us than could have been obtained from an unrelated party. See "Risk Factors—Risks Relating to Our Relationship with the Sabancı Family and Esas Holding." For additional information about our transactions with related parties, see Note 6 to the IFRS Financial Statements.

### Aircraft Financing

Esas Holding provides financial guarantees for the financing of aircraft we own through finance leases. We pay Esas Holding commission payments for these guarantees, which we record as finance expenses. These expenses amounted to TL11,692,202, TL6,973,686 and TL3,672,656 in 2012, 2011 and 2010, respectively.

In addition, in 2010 we received loans from Esas Holding to fund certain of our aircraft pre-delivery payments. Later in 2010, these loans were offset against Esas Holding's contribution to our share capital. The interest expense related to these loans in 2010 amounted to TL3,454,936.

### Headquarters Lease

On August 9, 2012 we entered into a lease agreement with a term of five years with EAG Turizm İnşaat Sanayi ve Ticaret A.Ş., a subsidiary of Esas Holding, for the lease of our new headquarters. The agreement is automatically renewable for another term of five years. Our previous headquarters were leased from Esas Holding. For information on our historical rent payments to Esas Holding, see Note 6(ii)(d) to the IFRS Financial Statements.

Pursuant to an additional protocol with EAG Turizm İnşaat Sanayi ve Ticaret A.Ş., we executed a sub-lease agreement with PUEM. on September 1, 2012 leasing out space within our headquarters to PUEM for a term of five years.

İzAir leases its headquarters from İzmirliler Otelcilik. İzAir held 49.99% of İzmirliler Otelcilik's shares from 2006 to May 2012, when these shares were transferred to us.

### Wet Lease Agreements

On March 11, 2013, we entered into a wet lease agreement with İzAir. The wet lease agreement became effective on April 1, 2013. The agreement will expire on September 30, 2013. Under the wet lease agreement, we have wet leased three Boeing 737-800 aircraft (two with a configuration of 189 seats and one with a configuration of 186 seats) from İzAir on an ACMI basis. We maintain the commercial control of the three aircraft which operate under our call sign while İzAir is responsible for the operational control of the aircraft. Rent payments related to the wet lease arrangement will be determined between İzAir and us based on the flight schedules of the aircraft.

### Service Agreements

We procure call center services from CallPex, in which the chairman of our board of directors, Ali Sabancı, holds a 28% interest. See "Business—Sales and Distribution—Call Center." Our purchases of call center services from CallPex totaled TL6,841,288, TL5,940,943 and TL3,949,552 in 2012, 2011 and 2010, respectively.

We procure services related to archiving and storage of our documents or electronic records, images or any other electronic data through RM Arşiv Yönetim Hizmetleri A.Ş., where the chairman of our board of directors, Ali Sabancı, serves as a director and in which he holds a 0.002% interest. Our purchases from RM Arşiv Yönetim Hizmetleri A.Ş. totaled TL26,137, TL6,934 and TL3,754 in 2012, 2011 and 2010, respectively.

We entered into a technical services agreement with İzAir on June 15, 2012. The agreement was valid until December 20, 2012 but was subsequently extended pursuant to an additional protocol until June 20, 2013. Under the agreement, we provide certain engineering and planning services relating to İzAir's

aircraft and their components via our technical department located at Sabiha Gökçen Airport. Under the terms of the agreement, we control the aircraft checks, unit change plans, scheduled component changes, modifications and development as well as maintenance of engines and auxiliary on behalf of İzAir. İzAir retains the ultimate responsibility for the airworthiness of its aircraft.

We are also party to a maintenance services agreement with İzAir, which has been in effect since January 1, 2011. The agreement is initially valid for a period of one year, and can be extended by additional annual periods unless terminated by either party. The agreement relates to the provision of planned and unplanned maintenance services by us, within the scope of our SHY 145 line maintenance authority to the aircraft in İzAir fleet. Pursuant to the terms of the agreement İzAir ultimately remains accountable for the airworthiness of its aircraft and obtaining the necessary approvals, including for its maintenance program, from the Civil Aviation Authority as the aircraft operator. Under the agreement, we are allowed to procure services from other SHY 145 / EASA PART 145 approved maintenance service providers whenever necessary or if the required work is beyond our authorization. Pursuant to the agreement, we provide the necessary insurance for the aircraft in İzAir's fleet as part of the insurance coverage procured for our own fleet.

For information relating to our joint venture with PUEM, see "Business—Material Agreements—PUEM Joint Venture Agreement."

**Other Agreements**

We have acquired consultancy services related to revenue management and maintenance from Wordison Limited Trading (PlaneConsult.com), a company that is controlled by Conor McCarthy who is a member of our board of directors. Mr. McCarthy was not involved in the decisionmaking regarding these services. The total amount we paid to Wordison Limited Trading for these services in 2012 was TL112,737. We did not acquire any consultancy services from Wordison Limited Trading in 2011 or 2010.

We also have a business relationship with Thomas Cook Group Plc ("Thomas Cook"), one of our charter customers, and Hedef Medya Tanıtım İnteraktif Medya Pazarlama A.Ş. ("Hedef Tanıtım"), from which we procure marketing services. Emre Berkin, who is a member of our board of directors, is also a member of the boards of directors of these two companies. The total amount we received from Thomas Cook for the charter services provided in 2012, 2011 and 2010 was TL9,978,472, TL693,151 and TL476,085, respectively, and the total amount we paid to Hedef Tanıtım for the marketing services procured in 2012, 2011 and 2010 was TL165,893, TL134,667 and TL128,254, respectively.

## REGULATORY FRAMEWORK

### Overview

The air transportation industry has historically been, and continues to be, subject to significant governmental regulation both internationally and domestically. We are an airline licensed by the Republic of Turkey. Therefore, the regulatory framework in Turkey along with international regulations to which Turkey is a party and, to certain extent, EU regulations are relevant to our operations.

The regulatory system for international air transport is based upon the general principle of each state having sovereignty over its air space and the right to control the operation of air services over its territory. As a consequence, international air transport rights are based primarily on traffic rights granted by individual states to other states in bilateral air traffic agreements. Some air traffic rights are granted in multilateral agreements.

Turkey is a founding member of ICAO, an agency of the United Nations, and a member to most of the other main international aviation organizations that are responsible for setting industry standards, including the European Civil Aviation Conference ("ECAC") and its associated body the Joint Aviation Authorities Training Organization ("JAA TO"), and Eurocontrol, which is an autonomous European organization responsible for, among other things, the safety of air navigation and the collection of route charges for en route air navigation facilities and services throughout Europe. ICAO has codified the principles and techniques of international air navigation covering a wide range of matters, including aircraft operations, personnel licensing, security, accident investigations, navigation services, airport design and operation and environmental protection, and fosters the planning and development of international air transport to ensure safe and orderly growth. The Civil Aviation Authority further cooperates with EASA, the agency of the EU which has been given specific regulatory and executive tasks in the field of civilian aviation safety, based on the working agreement dated December 14, 2006, on the collection and exchange of information on the safety of aircraft using European Community airports and airports of the Republic of Turkey. EASA has taken over many of their functions in the interest of aviation standardization across the EU, which is also applied to non-EU aircraft used in the EU.

Turkey is party to a number of multilateral treaties of such organizations, including the Chicago Convention of 1944 (*Convention on International Civil Aviation*), as amended (the "Chicago Convention"), the Rome Protocol of 1952, the New York Protocol of 1971 and the Vienna Protocol of 1971, the Paris Agreement of 1956 (*the Multilateral Agreement on Commercial Rights of Non-Scheduled Services in Europe*), the Eurocontrol Convention of 1960 (*Eurocontrol International Convention relating to Cooperation for the Safety of Air Navigation*), the Tokyo Convention of 1963 (*Convention on Offences and Certain Other Acts Committed on Board Aircraft*), the Hague Convention of 1970 (*Convention for Suppression of Unlawful Seizure of Aircraft*) including additional protocols thereto, the Montreal Convention of 1971 (*Convention for the Suppression of Unlawful Acts against Safety of Civil Aviation*) and the Warsaw Convention of 1929 (*Convention for the Unification of Certain Rules Relating to the International Carriage by Air*) as amended by the Hague Protocol of 1955 and the Montreal Protocol No. 4 of 1975. More recently, Turkey became a signatory to the Montreal Convention of 1999 (*Convention for the Unification of Certain Rules for International Carriage by Air*), the ratification of which became effective on March 26, 2011. The Montreal Convention of 1999 supersedes the applicable provisions of the Warsaw Convention of 1929 and related instruments, as applicable.

As of the date of this Offering Circular, Turkey has signed bilateral air traffic agreements with 138 countries. The single-designated agreements authorize only one airline from each state-party to use the other party's aviation gateways and operate on the designated route, while multiple-designated agreements allow for more than one airline from each state-party to benefit from the traffic rights being made available. All bilateral air traffic agreements carry their own particular conditions such as capacity and frequency limitations, providing permission for traffic rights only to and from specified airports or cities. Turkish Airlines, as the state-controlled legacy carrier, is typically the sole designated Turkish airline under bilateral agreements with single designation, meaning that that no other Turkish air carrier may enter into the aviation market and routes covered by such agreements.

The following table sets forth the countries with which Turkey has bilateral air traffic agreements as of the date of this Offering Circular.

| | | | |
|---|---|---|---|
| Afghanistan | Ethiopia | Luxembourg | Slovakia |
| Albania | Fiji | Macedonia | Slovenia |
| Argentina | Finland | Madagascar | Somalia |
| Algeria | France | Malaysia | South Africa |
| Australia | Gabon | Maldives | South Korea |
| Austria | Gambia | Mali | South Sudan |
| Azerbaijan | Georgia | Malta | Spain |
| Bahrain | Germany | Mauritania | Sri Lanka |
| Bangladesh | Ghana | Mexico | Sudan |
| Belarus | Greece | Moldova | Swaziland |
| Belgium | Hong Kong | Mongolia | Sweden |
| Benin | Hungary | Montenegro | Switzerland |
| Bosnia and Herzegovina | Iceland | Morocco | Syria |
| Botswana | India | Nepal | Tajikistan |
| Brazil | Indonesia | Netherlands | Tanzania |
| Bulgaria | Iran | New Zealand | Thailand |
| Burkina Faso | Iraq | Nigeria | Togo |
| Burundi | Ireland | Norway | Tunisia |
| Cameroon | Israel | Oman | Turkish Republic of North Cyprus |
| Canada | Italy | Pakistan | Turkmenistan Uganda |
| Cape Verde | Ivory Coast | Paraguay | Ukraine |
| Central African Republic | Jamaica | Peru | Union of the Comoros |
| Chad | Japan | Philippines | United Arab Emirates |
| China | Jordan | Poland | United Kingdom |
| Columbia | Kazakhstan | Portugal | United States of America |
| Congo | Kenya | Qatar | Uzbekistan |
| Croatia | Kosovo | Romania | Venezuela |
| Cuba | Kuwait | Russian Federation | Vietnam |
| Czech Republic | Kyrgyzstan | Rwanda | Yemen |
| Democratic Republic of Congo | Laos | Sao & Tome Principe | Zambia |
| Denmark | Latvia | Saudi Arabia | Zimbabwe |
| Djibouti | Lebanon | Senegal | |
| Dominican Republic | Lesotho | Serbia | |
| Egypt | Libya | Sierra Leone | |
| Estonia | Lithuania | Singapore | |

Turkey has a so-called "open skies" agreement only with the United States. "Open skies" is an international policy concept to liberalize rules and regulations applicable to the international commercial aviation industry, aiming for a competition-based international aviation system with minimum governmental interference. The air transport agreement between Turkey and the United States entered into effect in 2000 and provides for, among other things, the fair and equal treatment of air carriers from the respective state-party to compete in providing international commercial aviation services, right to fly across territory without frequency or designated air carrier restrictions, limitation on governmental interference on pricing, ability for the air carriers to provide their own ground-handling services or set-up their own offices and direct sales mechanisms within the territory of the respective state-party, and non-discriminatory payment obligations such as user charges.

IATA membership, although not required for air carriers to operate, is open to both scheduled and non-scheduled air carriers. IATA is the prime vehicle for inter-airline cooperation in promoting safe, secure and economical air transportation services for the benefit of consumers and travelers. IATA also identifies and develops operational solutions for all areas affecting aircraft and airlines, either aloft or aground. Pegasus has been a member of IATA since 2006.

**National and International Aviation Regulations**

***Overview***

The Turkish aviation sector is principally regulated by the Civil Aviation Authority, an independent administrative authority with its own budget operating under the supervision of the Ministry of Transportation. The principal laws regulating the Turkish aviation industry are the Civil Aviation Law

(No. 2920) of 1983, Decree on the Organization and Duties of the Ministry of Transportation, Maritime Affairs and Communication (No. 665) of 2011 and Law on the Organization and Duties of the Civil Aviation Authority (No. 5431) of 2005. In addition, the Civil Aviation Authority lays down rules such as regulations, instructions and directives that regulate the civil aviation sector under the authority granted by this primary legislation. DHMİ, which was established as a commercial public enterprise under the auspices of the Ministry of Transportation based on the provisions of the Decree Law on Public Commercial Entities (Decree Law No. 233), is the other main entity in Turkey that is actively involved in the regulation of air traffic and several other aviation related services. According to its founding charter published in the Official Gazette dated November 8, 1984 and numbered 18569, DHMİ is vested with the duty and the authority of operating airports as well as regulating and controlling air traffic within the borders of Turkey.

The main responsibility of the Civil Aviation Authority is to implement policies that are established by the Ministry of Transportation and the standards that are set by the international aviation organizations by determining principles, rules and standards to regulate the operations of Turkish air carriers, especially on matters relating to air safety, aircraft certification, personnel licensing and training, maintenance, manufacture, repair, airworthiness, operation of aircraft and ground services. The Civil Aviation Authority also has a supervisory role over the operations of Turkish air carriers.

Airports in Turkey that are open to international commercial flights are operated by the DHMİ (or jointly operated together with the Turkish military), with certain exceptions, including Sabiha Gökçen Airport in İstanbul, which is owned and operated by the Turkish Undersecretariat of Defense Industries.

As of the date of this Offering Circular, according to the Civil Aviation Authority, a total of 15 air carriers are licensed by the Civil Aviation Authority to operate in Turkey, eight of which are licensed for scheduled and unscheduled passenger and cargo flights, while three air carriers are licensed for cargo flights only. The remaining four carriers are licensed to undertake unscheduled passenger and cargo flights. With the exception of Turkish Airlines, 50.88% of which is publicly traded on the ISE, all air carrier entities in Turkey are privately held as of the date of this Offering Circular.

***Sovereignty of Turkish Airspace***

Pursuant to the Civil Aviation Law, Turkey enjoys full and exclusive sovereignty over its airspace, which is principally open to flights by state aircraft, Turkish civil aircraft registered with the Turkish aircraft registry and other aircraft that are permitted to fly within the Turkish airspace by way of international agreements or a particular consent of the Ministry of Transportation. However, commercial passenger, mail and cargo flights between two destinations in Turkey are only permitted to be conducted by Turkish civil aircraft.

A Turkish civil aircraft is defined in the Civil Aviation Law as aircraft owned by: (i) Turkish citizens; (ii) companies incorporated in Turkey, provided that the majority of the voting rights in such company is owned by Turkish shareholders and that the majority of those authorized to govern and represent such entity are Turkish citizens; or (iii) professional chambers, associations, foundations, political parties or unions, provided that the majority of those constituting the administrative body of the relevant entities are Turkish citizens.

***Regulation of Turkish Air Carriers***

To operate in Turkey, that is, to undertake commercial passenger and/or cargo flights, carriers are required to hold an air operator certificate attesting to their operational and technical competence to conduct airline services with specified types of aircraft. The duties of and the minimum compliance requirements applicable to Turkish air carriers, as well as the conditions for obtaining and maintaining the air operator certificate, are mainly regulated by the Civil Aviation Law and the SHY-6A.

Turkish air carriers are subject to a number of organizational and operational requirements imposed by the SHY-6A. More than half of the capital of an air carrier entity must be owned by Turkish shareholders, while Turkish citizens must also make-up the majority of the members of the board of directors of such an entity. Turkish air carriers have to maintain a minimum number of aircraft registered with the Turkish aircraft registry in their fleet and also to comply with the minimum paid-in capital requirements stipulated by the SHY-6A. In this respect, a scheduled flights license holder must maintain at least five aircraft in its fleet and a non-scheduled flights license holder must maintain at least three aircraft

in its fleet (owned or leased). Any air carrier entity is also required to maintain US$1 million of capital for each aircraft in the fleet which must be fully paid in cash. Other operational obligations include requirements relating to the qualifications of managing and operational personnel, operational documentation, internal training, quality and safety mechanisms and operational and financial reporting and surveillance.

The Civil Aviation Authority has been vested with a broad authority to amend, temporarily suspend or cancel an air operator certificate or to ground flight operations with respect to an air carrier entity in the event of violation of a number of obligations set forth in SHY-6A. See "Risk Factors—Risks Relating to the Airline Industry—We are subject to extensive international and domestic regulations and changes in, or our non-compliance with, these regulations could adversely affect our financial condition and business model."

***Ownership and Registration of Aircraft***

The Turkish aircraft registry is established and kept by the Ministry of Transportation, pursuant to the provisions of the Civil Aviation Law. The registry holds information on the aircraft manufacturer and model, the owner of the aircraft and the Turkish registration mark assigned to the aircraft. Registration of ownership, other rights *in rem* including mortgage and lease agreements relating to an aircraft are necessary for the effect of such title or right to be binding on third parties.

Only Turkish civil aircraft can be registered with the Turkish aircraft registry provided that the aircraft is not registered in another country and maintains a valid airworthiness certificate issued by the Turkish authorities.

The registration of any aircraft may be cancelled if it is found that the aircraft is not in compliance with the requirements for registration and, in particular, if the aircraft fails to qualify as a Turkish civil aircraft with respect to the applicable ownership requirements of the Civil Aviation Law and the SHY-06.

***Traffic Rights***

Domestic traffic rights are regulated by the Civil Aviation Authority in accordance with the Civil Aviation Law, while international traffic rights are regulated in compliance with the Chicago Convention in addition to two and five freedom acts and bilateral air traffic agreement between the countries.

***Slot Allocation***

In Turkey, domestic aircraft slot allocation policies are regulated by the Civil Aviation Law and the DHMİ Slot Instruction ("Slot Instruction"). The Slot Instruction takes the EU Slot Regulation 95/93 and the IATA rules and standards as reference and authorizes DHMİ as the slot coordinator with respect to Level 3 (fully coordinated) airports. Principles set out by IATA, ICAO and EU regulations govern international and EU slot allocation.

IATA classifies airports in the following three categories:

- Level 1 includes those airports whose capacities are generally adequate to meet the demands of users. IATA refers to these airports as "non-coordinated;"
- Level 2 includes airports where, due to demand, a more formal level of co-operation and facilitation is required to avoid exceeding scheduling parameters. Level 2 airports have slot controls in place only at peak times. IATA refers to these airports as "schedules facilitated;" and
- Level 3 includes those airports where demand exceeds coordination parameters and voluntary cooperation to resolve the problems is no longer appropriate. On this level, formal procedures have been implemented at the airport to allocate capacity and coordinate schedules. Airports with such high levels of congestion are referred to by IATA as "fully-coordinated."

Fully-coordinated (Level 3) airports allocate slots to airlines through special slot coordinators and airlines must have been allocated slots before they can operate at that airport. As of December 31, 2012, Europe had 161 fully-coordinated Level 3 airports (including those that were fully coordinated for the summer or winter seasons only). Atatürk airport in İstanbul and the Antalya airport are the two fully-coordinated (Level 3) airports in Turkey, the latter being fully coordinated for the summer season only,

while Sabiha Gökçen Airport is a schedules facilitated (Level 2) airport during both the summer and the winter season.

IATA has developed principles for the scheduling process, detailed in the IATA worldwide slot guidelines. The system of allocating slots at coordinated airports is based on the principle of historic “grandfather” rights coupled with the so-called “80/20 rule,” which means that if an airline uses at least 80% of the time for which it is allocated during a six-month IATA traffic season, it is entitled to have those slots re-allocated to it for the next corresponding season. As a result of the “grandfather” rights, airlines can exchange, buy and sell slots between themselves, provided certain formalities are satisfied.

If any new slots become available at fully-coordinated airports, they go into a slot pool, half of which must be made available to new entrant carriers. Schedules are planned in semi-annual terms, that is, for the summer and winter seasons. Schedules for the following season are fixed at the biannual IATA scheduling conferences.

***Airport Charges and Other Regulatory Charges***

Overflight charges, landing, parking and similar fees are determined in Turkey by DHMİ. Pursuant to the Civil Aviation Law, airport terminal charges are charged to customers in return for services rendered at the airport and the use of the airport facilities are determined in tariffs to be approved by the Ministry of Transportation, which must be in compliance with the provisions of the Chicago Convention. All other charges, such as licensing and certification, are determined by the Civil Aviation Authority. Air carriers have the right to determine their airfares without prior regulatory approval.

Charges related to international overflights generally within the European continent are governed by Eurocontrol rules. Aircraft operators are primarily responsible for the payment to Eurocontrol of charges incurred in relation to their aircraft.

***Environmental Compliance***

Air carriers are subject to various laws and regulations relating to the protection of the environment, including the disposal of materials and chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities, each of which may impose administrative sanctions in case of violation, in addition to any eventual criminal or civil liabilities.

The aviation sector was included in the EU Emission Trading System at the start of 2012. However, in November 2012, the European Commission submitted a proposal in 2012 that deferred application of the scheme to flights operated to and from countries outside the EU Emission Trading System until after the ICAO General Assembly in the fall of 2013 with the goal of allowing more time for a global agreement addressing aviation emissions to be reached. The scheme continues to apply to all flights within and between the 31 European countries where the EU Emission Trading System is currently being operated. The EU Emission Trading System, which had applied mainly to energy producers, is a cap-and-trade system for carbon-monoxide (“CO”) emissions to encourage industries to improve their CO efficiency. Under the legislation, airlines are granted initial CO allowances based on historical “revenue ton kilometers” and a CO efficiency benchmark. Any shortage of allowances has to be purchased in the open market or at government auctions. As of the date of this Offering Circular, the EU Emission Trading System is not operated in Turkey.

***Safety and Security***

Safety and security issues such as licensing, approved maintenance training and reporting are regulated under the Civil Aviation Law and through a number of regulations such as the SHY-6A and the Regulation on Reporting and Assessment of Air Traffic Management Related Safety Occurrence. On the international and EU level, principles set out in ICAO, EASA and IATA Operational Safety Unit (IOSA) regulations govern safety matters.

***Liability of Airlines***

Pursuant to the Civil Aviation Law, an air carrier is responsible for any material damage to passengers within the aircraft or at take-off and landing in addition to any loss of or damage to any registered baggage or cargo during the flight, at an airport, or for a period that the carrier is responsible for that baggage or the cargo. The Civil Aviation Law refers to the Warsaw Convention of 1929 (including its additional

protocols) with respect to the limitation of an air carrier's liability. However, the Warsaw Convention of 1929, which governed air carrier's liability for death and injury, was superseded by the Montreal Convention of 1999. The Montreal Convention of 1999 introduced a new legal framework to govern air carrier liability in the event of damage caused to passengers, baggage or goods during international journeys.

Pursuant to the Civil Aviation Law, air carriers must procure and maintain legal liability insurance to cover risks associated with domestic and international passenger and cargo carriage, and third-party liability insurance to cover risks associated with damages which may be incurred by third parties due to the operations of the air carrier. The minimum risk coverage and applicable limits are set forth in detail under the relevant regulations published by the Ministry of Transportation. In addition, the Regulation on Passengers' Rights published on December 3, 2011 established common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or log delay of flights in line with the Regulation (EC) No 261/2004 of the European Parliament and of the Council of February 11, 2004.

## DESCRIPTION OF OUR SHARE CAPITAL

The following is a description of the rights attaching to our shares, which rights are derived from the TCC, the Capital Markets Law, CMB regulations and our articles of association.

### Overview

Both the TCC and the Capital Markets Law have recently been revised. The new TCC entered into force on July 1, 2012 and the new Capital Markets Law became effective as of December 31, 2012, each introducing significant changes to Turkish law, including some of the matters that are described below. Both laws include transition periods during which Turkish joint stock companies are required to comply with certain provisions or secondary regulations clarifying the implementation of various matters covered by the TCC or the Capital Markets Law. As of the date of this Offering Circular, a number of secondary regulations under the TCC and the Capital Markets Law have not yet been published, and certain other rules brought by the TCC and the Capital Markets Law as well as the related secondary regulations that have become effective to date remain untested to a significant extent and may be subject to varying interpretations or further amendments. The following discussion is based on the TCC and the Capital Markets Law and the related secondary regulations as in force and interpreted as of the date of this Offering Circular.

At the time of our incorporation our initial share capital was TL8,400. The following table sets forth the capital increases we have undertaken in the last five years.

| Date of registration | New total share capital following increase (TL) |
|---|---|
| March 13, 2006 | 14,175,000 |
| August 28, 2006 | 17,075,000 |
| March 10, 2010 | 23,575,000 |
| December 20, 2010 | 75,000,000 |

Our current issued share capital is TL75,000,000 divided into 75,000,000 ordinary shares each having a nominal value of TL1.00. Our issued share capital is fully paid. After the Offering, our issued share capital will be TL102,272,000. We adopted the authorized capital system in March 2013 based on the approval from the CMB on February 22, 2013. Our authorized capital ceiling is TL500,000,000 and our board of directors is authorized to increase our issued capital up to this amount through issuing new shares or premium shares by way of restricting the pre-emption rights of the existing shareholders. The current authorized capital approval obtained from the CMB is valid until 2017. All of our shares are in registered form.

After the completion of the Offering, the Sabancı family, through their beneficial ownership of our shares, both directly and indirectly through Esas Holding, will hold 65.5% of our shares. Accordingly, after the completion of the Offering, members of the Sabancı family, through their direct and indirect ownership in us, will continue to be able to control all matters requiring shareholder approval, including amending our articles of association, authorizing payments of dividends to the extent permissible under applicable rules and restricting the pre-emption rights of shareholders. See "Risk Factors—Risks Relating to Our Relationship with the Sabancı Family and Esas Holding." For additional information on our shareholding structure prior to and after the Offering, see "Principal Shareholders."

### Term, Object and Purpose

We were incorporated on January 12, 1990 as a joint stock company under Turkish law under the trade name Pegasus Hava Taşımacılığı Anonim Şirketi and are registered with the İstanbul Trade Registry under number 261186. We are incorporated for a perpetual term.

Pursuant to Article 3 of our articles of association, our primary objective is to conduct air transportation of passengers and cargo through scheduled and unscheduled flights in and outside of Turkey, from Turkey to other countries and from other countries to Turkey.

### Pre-emption Rights

Turkish companies may increase their capital, among other methods, through the issuance of new shares, and such issuance may be in the form of a rights issue or a bonus issue. Absent a General Assembly

resolution or, for companies such as Pegasus which have adopted the authorized capital system, a resolution of the board of directors stating otherwise, existing shareholders of a Turkish company are entitled to subscribe for new shares ("pre-emption rights") in proportion to their respective shareholdings each time the company undertakes a capital increase. The boards of directors of Turkish companies generally recommend that new shares be issued at prices equal to their nominal value, which entitles the existing shareholders to subscribe for shares at a significant discount from their current market price. However, such shares also may be issued at prices higher than or, subject to the CMB's consent, below their nominal value. Pre-emption rights entitle holders of shares to the same class of share.

Holders must exercise their pre-emption rights within a subscription period announced by the company, which may not be less than 15 days, nor more than 60 days. Any shares not subscribed by the existing shareholders in a publicly traded company are sold on the ISE at the common market price. Any differences between the rights issue price and the price realized for the shares at the market price accrue to the surplus account of the company issuing the shares.

Pre-emption rights of shareholders related to a rights issue may be restricted wholly or in part either (i) by an affirmative vote of the holders of a majority of the outstanding shares at an ordinary or extraordinary general meeting of shareholders or (ii) for companies that have adopted the authorized capital system, by a resolution adopted by the board of directors to such effect, provided that such authority has been conferred upon the board of directors pursuant to the company's articles of association. CMB rules stipulate that such authority may be conferred upon the board of directors of companies that have received permission from the CMB to adopt the authorized capital system. We have adopted the authorized capital system and the pre-emption rights of our current shareholders have been restricted for purposes of the Offering.

Under Turkish law, bonus issues may be undertaken in order to convert all or a portion of a company's revaluation fund and reserves, distributable profits and profits from the sale of equity participations and fixed assets, into share capital. See "Dividends and Dividend Policy." Shareholders' rights to receive bonus shares may not be restricted.

In July 2012, the CMB introduced additional rules applicable to capital increases by public companies, as well as companies that apply to the CMB to become public, which require these companies to primarily use internal equity funds to set-off previous years' losses, if any, and which prevents them, in the event the equity of the company includes revenues from real estate or share sales, from undertaking a cash capital increase unless these funds are first converted into capital.

**Dividends**

Annual dividends, if any, are calculated and distributed in accordance with our articles of association after setting aside certain reserves prescribed by the TCC.

In line with the dividend distribution policy to be determined by the General Assembly and the provisions of Turkish law, the distribution of profits and the payment of any annual dividend in respect of the preceding financial year will be recommended by our board of directors each year for approval by the shareholders at the annual (ordinary) General Assembly, which must be held within three months following the end of the preceding financial year. Dividends are payable on a date and in the form determined at the annual General Assembly. Each share entitles its holder to a pro rata share of any dividends distributed and dividend distributions are made to all of the shares existing as of the distribution date, regardless of their date of issuance. Public companies have the option to distribute dividends in the form of cash or in the form of bonus shares to the shareholders, to distribute a combination of cash and bonus shares, or to keep all or part of the earnings for the relevant financial year as retained earnings, subject to the limitations discussed below. According to the requirements of the CMB, public companies are required to distribute dividends (i) by the end of the fifth month following the end of the preceding financial year if the dividends are distributed in the form of cash; (ii) by the end of the sixth month following the end of the preceding financial year if the dividends are distributed in the form of bonus (shares provided that application for the registration of those bonus shares is made within five months following the end of the preceding financial year); and (iii) within the periods mentioned in (i) and (ii) separately if the distribution is in the form of a combination of cash and bonus shares.

Distributable profits are calculated in accordance with our articles of association after deducting all expenses, depreciation and similar payments and setting aside legally required reserves, taxes and the previous year's losses, if any, from the revenues for the prior fiscal period. The amount of distributable

profits is the lesser of the amounts derived by performing this calculation using (i) our statutory financial statements, which are prepared in accordance with the TCC and Turkish tax legislation and (ii) our accounts prepared in accordance with CMB Accounting Principles, which may differ from our accounts prepared in accordance with IFRS.

Distributable profits are then allocated in the following order:

(a) 5% of the distributable profit is allocated to a first legal reserve until the first legal reserve reaches 20% of our paid-in capital;

(b) the remaining amount after adding the value of any donations made within the relevant annual term is to be distributed to our shareholders as a first dividend in accordance with the TCC and Turkish capital markets regulations;

(c) the remainder of the distributable profit may be (i) distributed in full or in part to our shareholders as a second dividend or distributed to our directors, officers and employees as a share of our profit or (ii) set aside as year-end profits or as part of non-mandatory reserves; and

(d) after deducting an amount equal to 5% of our paid-in capital from the amount to be distributed to shareholders and persons participating in profit as stated above in (b), we allocate 10% of the remaining amount as a second legal reserve and add it to the statutory reserve. If all distributable profits are proposed to be distributed to shareholders under (b) above, then the second legal reserve is required by the CMB and the provisions of the TCC to be set aside prior to such distribution.

Unless and until the statutory funds and other financial obligations required by law are set aside and the dividend determined in accordance with the articles of association is distributed in cash or bonus shares, we cannot resolve (i) to set aside any reserve, (ii) to transfer a dividend to the next year or (iii) to make distributions to the members of our board of directors, managers, employees and foundations or similar institutions established for various purposes.

If the calculated first dividend amount is less than 5% of the paid-in capital, we may not distribute the first dividend. However, the amount retained will be added to the calculation of the first dividend for the following fiscal year.

Pursuant to the Capital Markets Law, public companies may distribute interim dividends provided that the interim dividends do not exceed 50% of the distributable profits of the previous fiscal year. No dividends or additional interim dividends may be distributed until the interim dividends of the previous year are completely set off. Pursuant to the provisions of the CMB's Communiqué Series: IV, No: 27 on the Principles Regarding the Distribution of Dividends and Dividend Advance by Public Companies, public companies may distribute interim dividends in accordance with the following criteria:

(a) any interim dividends previously paid must be deducted from the amount used to calculate any subsequent interim dividend payments within the same fiscal year;

(b) the articles of association of the company must permit the distribution of interim dividends and the General Assembly must authorize the board of directors to declare such distributions, for each year that they wish to have interim dividend distributions;

(c) the board of directors must decide on whether to distribute interim dividends within six weeks following the end of the relevant quarter and such decision is required to be disclosed to public; and

(d) holders of privileged classes of shares and any non-shareholders entitled to receive dividends are not allowed to receive interim dividends.

As of the date of this Offering Circular, our articles of association do not permit us to distribute interim dividends.

Under Turkish law, the statute of limitations in respect of dividend payments, including interim dividends, is five years following the date of the General Assembly that approved the distribution, after which time uncollected dividends are transferred to the Treasury.

Pursuant to the Capital Markets Law, public companies are required to have a dividend distribution policy which must be determined by the General Assembly of the relevant company. Based on the non-mandatory provisions of the Corporate Governance Principles, the dividend distribution policy should

include the minimum information that allows an investor to understand the procedures and the principles that will apply to the distribution of the profits in the upcoming periods. For a discussion of our dividend history and policy, see "Dividends and Dividend Policy."

**Liquidation Rights**

Pursuant to the TCC, shareholders of a joint stock company have the right to receive a pro rata share of any proceeds arising from the liquidation of such company. The articles of association, however, may restrict this right of the shareholders. As of the date of this Offering Circular, no privileged rights with regard to any surplus in case of liquidation have been granted to any of our shareholders.

**General Assembly**

Under the TCC, the General Assembly of a public company shall convene for ordinary and extraordinary meetings. Ordinary General Assembly meetings shall be held within three months of the end of each financial year.

The General Assembly convenes upon at least three weeks' prior notice by our board of directors to our shareholders. Notices, including postponements and re-scheduling of the General Assembly meetings and the agenda of such General Assembly meeting, must be published in the Trade Registry Gazette, the website of the public company and the Public Disclosure Platform at least three weeks before the date of the meeting, excluding the date of publication and the date of the meeting.

Pursuant to our articles of association, the General Assembly of our shareholders is to be held at our head office in İstanbul or in any other convenient location in İstanbul to be determined by our board of directors. Extraordinary General Assembly meetings may be convened by our board of directors or upon the request of shareholders representing at least 5% of our share capital. If the board of directors does not fulfill a request for an extraordinary meeting such shareholders may ask permission from the court to convene the meeting.

The following matters are required by the TCC to be included in the agenda of each of our ordinary General Assembly meetings:

- the review of the annual report of our board of directors and the auditor's report;
- the review of the annual financial statements and the approval, amendment or rejection of the balance sheet and profit and loss account prepared for the preceding financial year;
- the allocation of profit and the distribution of profit pertaining to the preceding financial year as dividends;
- the release of our board of directors from liability in respect of actions taken by them in the preceding financial year;
- the approval of the compensation of the members of our board of directors and the auditors; and
- the appointment or re-election of members of our board of directors and our auditors whose term of office have expired.

Shareholders representing at least 5% of our share capital may, by written notice to be served via the notary public, require any additional matters to be included on the agenda for discussions at any of our General Assembly meetings. If the board of directors does not fulfill such request, such shareholders may ask permission from the court to include additional items on the agenda.

With respect to our shares which are entered in the book-entry system, the Central Registry Agency will prepare a list indicating our shareholders, which will be taken into consideration for the relevant General Assembly meeting. Shareholders whose names are included in the list may attend the General Assembly meeting by presenting their identity cards. Any shareholder not wishing to attend General Assembly meeting in person may appoint another person as a proxy.

Save where otherwise required by the TCC, the Capital Markets Law or our articles of association, the presence in person or by proxy of shareholders representing 25% of the outstanding shares constitutes the meeting quorum at any duly convened ordinary or extraordinary meetings of our General Assembly. If such quorum is not met in the first meeting, no quorum is required for the second meeting, which shall be called in accordance with the procedure applicable to the first meeting. Except as otherwise required by

law, all actions of the shareholders are taken by affirmative vote of the simple majority of shares represented by the shareholders present in General Assembly meetings.

Notwithstanding the foregoing, a General Assembly meeting called to consider any of the following matters requires the indicated supermajority quorum:

- change of the jurisdiction of incorporation and increase in the obligations of the shareholders – attendance and unanimous affirmative decision of shareholders or proxies representing 100% of the share capital is required;
- restriction of preemption rights and authorization of the board of directors for the restriction of pre-emption rights under the authorized capital system – no meeting quorum is required. Decisions are taken by the affirmative vote of 66⅔% of the shares represented by shareholders present in the duly convened meeting. If, however, shareholders representing at least 50% of the share capital are present at the meeting, decisions are taken by the affirmative vote of the simple majority of the shares represented by shareholders that are present in the duly convened meeting;
- capital reduction – no meeting quorum is required. Decisions are taken by the affirmative vote of 66⅔% of the shares represented by shareholders present in the duly convened meeting. If shareholders representing at least 50% of the share capital are present at the meeting, decisions are taken by the affirmative vote of the simple majority of the shares represented by shareholders that are present in the duly convened meeting; and
- material transactions under the Capital Markets Law, which include material changes in the scope of activity, merger, demerger, change in corporate status, dissolution, transfer of or establishment of a right *in rem* on or the rental of material part of assets, creation of any privileges or the change in the scope or subject matter of existing privileges and delisting, no meeting quorum is required. Decisions are taken by the affirmative vote of the 66⅔% of the shareholders that are present in the duly convened meeting. If shareholders representing at least 50% of the share capital are present at the meeting, decisions are taken by the affirmative vote of the simple majority of the shares represented by shareholders that are present in the duly convened meeting.

According to the TCC, resolutions adopted in a duly convened General Assembly meeting shall also be valid and binding on the shareholders who have not attended the meeting.

Prior approval of the CMB and the Ministry of Customs and Trade must be obtained for any amendment to our articles of association.

**Electronic General Assembly**

In accordance with the requirements of the TCC and the Capital Markets Law, following the Offering we will allow our shareholders to participate in the General Assembly through the electronic platform operated by the Central Registry Agency where such General Assembly meetings are streamed real-time. Shareholders who notify their request to participate in the General Assembly meeting via the electronic platform one day prior to the relevant meeting, provided that they obtain electronic signatures in advance, may attend the meeting by using the electronic platform. All announcements and other documents that must be submitted for the review of our shareholders will also be made available through the electronic platform. During the General Assembly meeting, shareholders may electronically vote and submit a maximum of two written opinions for each agenda item, limited to 600 characters each. By using this electronic platform, they also may appoint a proxy to attend the General Assembly physically or via electronic platform on their behalf.

The electronic platform operated by the Central Registry Agency archives all documents provided to the attention of the shareholders, voting information, resolutions, attendee and shareholding information and similar information for 20 years, accessible to the company and its shareholders.

**Voting Rights**

Our shareholders are entitled to one vote per share on all matters submitted to a shareholder vote.

**Transfer of Shares**

Save as otherwise discussed below, the transfer of our shares is permitted under our articles of association and must be made in accordance with the relevant legislation. The transfer of our shares is

effective upon book-entry registration with accounts maintained by the Central Registry Agency and registration of the transfer to our share ledger.

According to the CMB's principle decision numbered 5/145 and published in the CMB bulletin no. 2013/5 dated February 12, 2013, shareholders holding at least 10% of the shares in a company undertaking an initial public offering or, irrespective of their shareholding, shareholders exercising management control over such company, cannot sell their shares on the stock exchange below the applicable offer price within a period of one year after the shares started to be traded on the exchange. Investors that purchase shares of the company from such shareholder in the initial public offering will not be subject to this restriction. However, if an investor purchases shares from such shareholder outside the stock exchange, the shares purchased in the transaction will be subject to the restriction. Further, shares that are acquired by such relevant shareholder after the commencement of trading of the company's shares on the stock exchange will not fall within this restriction.

Due to the foreign ownership restrictions set forth in the Civil Aviation Law and the SHY-6A, pursuant to our articles of association and the relevant provisions of the TCC, share transfers resulting in foreign shareholders owning 50% or more of our share capital will be binding on us only upon the approval of our board of directors. Our board of directors is entitled to refuse to recognize such share transfers and to demand that the transferees dispose of the relevant shares within a period to be determined by the board of directors. In the event the foreign transferee does not comply with such demand, our board of directors is entitled to take any one of the following measures:

- reduction of our share capital by redeeming the shares that result in foreign shareholders owning 50% or more of the Company's share capital;
- dilution of the foreign shareholding ratio below 50% through an increase in our share capital by way of restriction of pre-emptive rights; and
- acquisition by us of the shares that result in foreign shareholders owning 50% or more of our share capital.

Our shareholders have no pre-emption rights in respect of the transfer of shares.

The prior approval of the Civil Aviation Authority is required for the Offering and was obtained on March 8, 2013. See "Regulatory Framework—National and International Aviation Regulations—Sovereignty of Turkish Airspace" and "—Regulation of Turkish Air Carriers," "Foreign Investment and Exchange Controls" and "Risk Factors—Risks Relating to the Airline Industry—We are subject to extensive international and domestic regulations and changes in, or our non-compliance with, these regulations could adversely affect our financial condition and business model" for information on foreign ownership restrictions applicable to our share capital.

Turkish law requires non-resident investors to trade Turkish equity securities through a licensed Turkish bank or a licensed brokerage firm. In addition, the CMB regulations require banks or brokerage firms to trade shares of a company listed on a Turkish stock exchange exclusively on such exchange. Accordingly, following the Offering, non-resident investors may transfer our shares only on the ISE, through a licensed bank or a licensed brokerage firm.

**Mandatory Offer**

If any party or parties acting together acquire management control in a public company, such party or parties are required to make an offer to the other shareholders to buy their shares and apply to the CMB within six business days following the acquisition of the shares and voting rights granting management control and start the actual offer transactions within 45 business days following the acquisition. Acquisition of management control occurs when a person, individually or acting together with others, owns, directly or indirectly, at least 50% of the share capital or voting rights of a company, or, regardless of share capital and voting rights owned directly or indirectly, acquires privileged shares which grant the power to elect directors constituting the simple majority of the board of directors or to nominate such number of directors for election at the General Assembly. Certain share acquisitions are not deemed to result in the acquisition of management control, such as when management control is shared equally between the acquirers and the previous holders of management control, or when shares are transferred within a group of companies controlled by the same person or when the acquisition of at least 50% of share capital is made by persons already having management control by way of their privileged shares. The CMB may grant exemption from mandatory offer obligation under certain specific circumstances. The Capital

Markets Law requires the CMB to determine a deadline following which the voting rights of those who are in violation of their mandatory offer obligations will automatically be suspended and such shareholders will be prevented from voting at the General Assembly.

Pursuant to the Capital Markets Law, the CMB is authorized to determine a shareholding threshold above which (either reached as a result of a mandatory or a voluntary offer or in any other way) the majority shareholders may squeeze out the remaining shareholders within a period of time to be determined by the CMB. Opposite to this, whenever the squeeze-out right becomes exercisable, the remaining shareholders will also enjoy the right to request majority shareholders to buy out their shares in the public company. However, the applicable threshold and the principles applicable to such squeeze-out and exit rights have not, as of the date of this Offering Circular, been determined by the CMB.

**Protection of Minority Shareholders**

Under Turkish law, a minority shareholder in a public company that holds, either as a single shareholder or together as a group with other shareholders, 5% or more of the company's outstanding share capital has certain rights, including, among others, to require the board of directors:

- to call an extraordinary General Assembly meeting;
- to include a particular matter on the agenda for an ordinary or extraordinary General Assembly;
- to request the appointment of special auditors to investigate a particular matter;
- to request that a court replace the company's independent auditor for just cause; and
- to request a court decision to dissolve a company for just cause (in which case the court may also resolve, instead of dissolution, on the acquisition of the plaintiffs' shares by the remaining shareholders or another equitable remedy).

Pursuant to the Capital Markets Law, material transactions, including but not limited to the following (the scope of which remains, as of the date of this Offering Circular, to be determined by the CMB) can be adopted only in accordance with the principles that remain to be determined by the CMB:

- merger, de-merger, change in corporate status or dissolution;
- disposal or lease of, or the creation of a right *in rem* on, all or a material part of assets the public company's assets;
- material change in the public company's scope of activity;
- creation of new privileges or a change in the scope of existing privileges; and
- de-listing.

The Capital Markets Law allows shareholders attending the discussion of any such material transactions at the General Assembly meeting of a public company and voting against such transactions (other than those who are unfairly prevented from attending the meeting or in the event where the relevant General Assembly meeting is not duly called for) to request the acquisition of their shares by the public company based on the weighted average stock price for the 30-day period preceding the public disclosure of the relevant material transaction.

**Board of Directors**

Pursuant to our articles of association and the TCC, our board of directors is responsible for our management. The Corporate Governance Principles require that a listed company's board of directors be composed of at least five members, and that at least two and in any event at least one-third of the members of the board of directors be independent members. See "Management—Corporate Governance—Corporate Governance Principles." Our articles of association require our board to comprise a minimum of five and a maximum of eight members appointed by our shareholders, including the minimum number of independent board members required by the Corporate Governance Principles.

The CMB requires independent directors to have the ability to execute their duties without being influenced under any circumstances. According to the Corporate Governance Principles, to qualify as an independent board member:

- no direct or indirect employment in a management position undertaking important duties and responsibilities, equity or an important commercial relationship should have taken place between the independent board member, his/her spouse or his/her relatives up to and including second degree on one side and the public company, a related party of the public company or a legal entity in relation with, in terms of equity or management, a shareholder of the company with direct or indirect shareholding equal to or above 10% on the other, at any time during the past five years;
- the independent board member should not have worked for or acted as a member of the board of directors in any entity conducting all or a specific part of the activities and the organization of the public company within the framework of an agreement, most notably companies providing audit, rating and consultancy services, at any time during the past five years;
- the independent board member should not have been a shareholder, employee or a member of the board of directors in any entity providing a significant level of goods and services to the public company at any time during the past five years;
- even if the independent director is a shareholder of the company due to the requirements of his position as a director, such shareholding must not exceed 1% of the capital and should not be represented by any privileged shares;
- the independent board member must have acquired the vocational education, knowledge and experience necessary to duly perform the duties he/she is to undertake in this position;
- the independent board member should not be working full time in a governmental entity or institution after his/her appointment, unless he/she is a professor at a university who is allowed to act as an independent board member according to the applicable legislation;
- the independent board member should have strong ethical standards, professional reputation and experience allowing him/her to make positive contributions to the public company's activities, maintain his/her independence regarding any conflict of interest between the public company's shareholders, and make decisions taking the rights of stakeholders into consideration;
- the independent board member should be in a position to spend sufficient time for the public company matters to be able to follow-up on the activities of the public company and fully perform his/her duties as an independent board member; and
- the independent board member should not have served in the company's board of directors for more than six years within any given consecutive 10-year period.

The Corporate Governance Principles further require that at least half of all independent board members of a company should be resident in Turkey. Residency is determined in accordance with the Income Tax Law No. 193. For more information on resident persons under Turkish income tax laws, see "Taxation—Turkish Taxation."

Under Turkish law, directors can be appointed from among real persons and legal entities and they are not required to own shares in order to serve on the board of directors. In order for a legal entity to serve as a director, it must appoint an individual to exercise the director's rights and duties on behalf of the legal entity.

Under Turkish law, directors cannot attend negotiations or vote on matters in which the directors themselves, their spouses or their relatives (up to and including their cousins) have an interest or if their attendance would otherwise be contrary to objective principles of good faith. According to the TCC, members of our board of directors cannot enter into commercial relationships with us or engage in any competing activities, unless permitted by the General Assembly. The Corporate Governance Principles further require the board of directors to provide information to the General Assembly regarding any transaction that is entered into by members of the board of directors, their spouses or relatives up to and including second degree, which may result in a conflict of interest for or compete with us or our subsidiaries. See "Management—Corporate Governance—Corporate Governance Principles."

**Reports to Shareholders**

As a public company, we will produce an activity report in Turkish, including audited accounts prepared in accordance with the rules and regulations of the CMB. Copies of this report may be obtained on request within three weeks preceding the date of each annual General Assembly meeting as required by Turkish law.

Pursuant to the provisions of the TCC, the balance sheet, the profit and loss account, the annual report and proposals regarding the distribution of profits, as well as the auditors' report, are made available to the shareholders at our head office at least three weeks in advance of a General Assembly meeting. The balance sheet, the profit and loss account and the annual report are to be kept at the disposal of the shareholders at the company's head office for a period of one year from the date of such General Assembly meeting.

We will also prepare unaudited quarterly profit and loss accounts and balance sheets for the first and third quarters and reviewed semi-annual profit and loss accounts and balance sheets for the first six months of each financial year, which will be available to our shareholders in accordance with CMB regulations.

**Disclosure of Material Events**

Disclosure of material events for public companies with shares traded on the ISE is primarily regulated by the CMB Communiqué Series: VIII, No: 54 on the Principles Regarding the Public Disclosure of Material Events (the "Disclosure Communiqué"). With the Disclosure Communiqué, the CMB makes a distinction between "inside information" and "continuous information." Rather than identifying each material event requiring disclosure in the Disclosure Communiqué, the CMB leaves specific disclosure decisions regarding inside information to the companies' individual discretion on a case-by-case basis. To aid publicly traded companies in applying these disclosure requirements, the CMB published a supplementary guideline (the "Guideline"), which defines and discusses the disclosure requirements in detail and provides various illustrative examples.

***Inside Information***

The Disclosure Communiqué requires publicly traded companies to disclose inside information, which is defined in the Guideline as information that (i) is related to a specific event; (ii) may be considered significant or important by an investor in making an investment decision; (iii) is related to events not disclosed to the public; (iv) would provide holders of such information an advantage over others in the sale and purchase of the company's capital markets instruments; and (v) may influence the value of the relevant capital markets instrument or the investment decisions of the company's investors. Examples of inside information provided by the Guideline include, among others:

- material administrative or legal proceedings;
- extraordinary income and profit;
- mergers and acquisitions;
- material changes in the company's financial position;
- material changes related to financial assets such as acquisition or disposal of 10% or more of another company's shares or total voting rights, or addition of profits to the share capital of the company following sale of financial assets;
- acquisition of shares by non-shareholders or shareholders without management control over the company in a manner which would give them management control; and
- change of independent auditors and senior management.

Publicly traded companies may suspend the disclosure of inside information by taking full responsibility for any non-disclosure in order to protect its legitimate interests, provided that (i) such suspension is not misleading; (ii) the company is able to keep any related inside information confidential; and (iii) such suspension has been approved in writing by the board of directors, or an officer authorized by the board of directors. Inside information must be publicly disclosed if its confidentiality cannot be preserved.

*Continuous Information*

The following changes in share ownership or management control in a company must be publicly disclosed under the Disclosure Communiqué by persons conducting the relevant transactions:

- any direct or indirect acquisition of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of the company by a person or persons acting together, and thereafter of their transactions in the shares or voting rights of the company when their total number of shares or voting rights of the company falls below such thresholds;
- any direct or indirect acquisition of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of the company by investment funds belonging to a founding shareholder, and thereafter of those transactions in the shares or voting rights of the company that cause their total number of shares or voting rights of the company to fall below such thresholds; and
- persons with managerial responsibility in a publicly traded company or persons with close relations to any such persons must publicly disclose their transactions relating to the shares or other capital markets instruments of such company as of the date when the aggregate value of the transactions performed by such persons reach TL10,000 over a 12-month period.

In addition, companies must publicly disclose the changes in their total number of voting rights or their amount of share capital on the first business day of the month following the change.

*Timing of Disclosures*

Disclosures regarding (i) changes related to ownership structure and management control; (ii) capital markets instruments attached to shares; and (iii) a company's acquisition of its own shares must be made no later than 9:00 a.m. İstanbul time on the third business day following the occurrence of the event triggering the disclosure requirement. Disclosures regarding other events (including the disclosure of inside information) must be made immediately upon the occurrence or discovery of the relevant event.

**Registration and Announcement of Changes in Shareholding**

In addition to the disclosure requirements under the Disclosure Communiqué, pursuant to the provisions of the TCC, persons becoming direct or indirect holders of 5%, 10%, 20%, 25%, 33%, 50%, 67% or 100% of the issued share capital of a Turkish company are required to notify the company of such acquisition and, thereafter, to notify the company of their transactions in the shares of such company when the total number of the shares they hold falls below or exceeds such thresholds. Information notified to the company has to be registered with the relevant Trade Registry and publicly announced in the Trade Registry Gazette. Failure to comply with this requirement may lead to the suspension of voting rights attached to the relevant shares.

**Auditors**

Pursuant to our articles of association, we are required to comply with the requirements of the TCC and the Capital Markets Law and the relevant secondary legislation in relation to audit, which include, among other things, the audit of our financial statements and the activity report of our board of directors. In this respect, as an issuer that is subject to the provisions of the Capital Markets Law, we are required to have our accounts audited by an independent audit firm authorized by the Public Oversight, Accounting and Audit Standards Authority and recognized by the CMB, to be appointed by our shareholders at the General Assembly for each fiscal year.

The IFRS Financial Statements included in this Offering Circular have been audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Deloitte Touche Tohmatsu, independent auditor, as stated in their report appearing in this Offering Circular. At our ordinary General Assembly meeting held on March 27, 2013, our shareholders appointed DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Deloitte Touche Tohmatsu, as our external auditor pursuant to the TCC and the relevant secondary legislation.

## THE TURKISH SECURITIES MARKET

*The following information has been derived from publicly available information and has not been independently verified by us or the Managers.*

### Introduction

There has been an organized securities market in Turkey since 1866, although until the late 1970s the markets had been substantially dormant for many years. In 1981, the first Capital Markets Law (Law No. 2499) was enacted, which established the CMB as the main regulatory body with responsibility for supervision and regulation of the Turkish securities markets. The İstanbul Stock Exchange was re-established in 1985 and recommenced operations in early 1986. The new Capital Markets Law that became effective on December 31, 2012 introduced significant changes to the Turkish capital markets with respect to the regulation and the issuance of capital markets instruments, corporate governance of public companies, market participants and the Turkish capital markets infrastructure.

The Capital Markets Law established Borsa İstanbul A.Ş., a joint stock company in which the Treasury owns 49% with the remainder held by market participants, including the members of the former İstanbul Stock Exchange and the İstanbul Gold Exchange. On April 3, 2013, upon registration of its articles of association with the İstanbul Trade Registry, Borsa İstanbul A.Ş. automatically took over all of the assets, rights and obligations of the former İstanbul Stock Exchange and the İstanbul Gold Exchange.

### The Capital Markets Board

The principal function of the CMB is to foster the development of the securities markets in Turkey and to ensure adequate protection for investors. The CMB supervises and regulates, among others, public companies and issuers of capital markets instruments, market infrastructure institutions including stock exchanges and central custody and settlement institutions, banks and other financial intermediaries, mutual funds, investment companies, real estate appraisal companies and rating agencies that offer their services to institutions operating in the capital markets.

As the capital markets regulator, the CMB promulgates regulations relating to Turkish capital markets and the rules which participants in such markets are required to observe. CMB regulations require the CMB's approval for all securities to be publicly offered in Turkey, as well as certain private placements and the issuance of new securities by Turkish companies. A Turkish language prospectus filed with the CMB for approval must include all information reasonably necessary to enable a prospective investor to assess the merits of the issuer and the proposed investment. The CMB may refrain from granting its approval in the event that it is not satisfied with the level of disclosure in the prospectus. The type and scope of information required to be disclosed to the public under CMB regulations may be less detailed than disclosure requirements in more developed markets such as the United States or the United Kingdom. In connection with its supervisory role, the CMB requires companies subject to its jurisdiction to prepare and publish independently audited financial statements and annual reports in accordance with the accounting principles and standards adopted by the CMB. In addition, unaudited quarterly reports must be filed in respect of each financial period ending in March and September, and a semi-annual report, subject to limited review by the independent auditors, must be filed with the CMB in respect of the first six months of each year. In the event of any special circumstances, such as a merger or acquisition or the disposal of or establishment of an encumbrance on a material part of the public company's assets, the CMB may require that additional information be disclosed by the company or by its directors or major shareholders in order to protect the interests of minority investors. Furthermore, each situation which may have a material effect on the operations and the financial condition of a company participating in the capital markets must be immediately disclosed to the CMB.

The board of the CMB is composed of seven members, one of which is the chairman and one of which is the acting chairman of the CMB. The term of office of the members of the CMB is five years. The members whose terms have expired can be re-appointed for a second term.

The quorum for the meetings of the CMB is five and resolutions can be adopted in such meetings with the affirmative votes of at least four members present at the meeting. The chairman, and in the absence of the chairman, the acting chairman has the casting vote in the event of a tie. Currently, the headquarters of the CMB is located in Ankara, the capital of Turkey, although the CMB is eventually set to move its headquarters to İstanbul under the Capital Markets Law.

**Borsa İstanbul (ISE)**

***Governance***

The ISE is currently the only active stock exchange in Turkey and its premises are located in İstanbul. The ISE is governed by an Executive Council composed of seven members. After nomination by the Minister of State responsible for the Economy, the chairman, who also acts as the chief executive officer of the Executive Council and three other members are appointed by the Government. The remaining three members of the Executive Council are elected by the ISE members, which are the intermediary institutions licensed by the CMB. The term of office of the members of the Executive Council is three years with the exception of the President who serves for a term of four years. The quorum for the meetings of the ISE is four, provided that the chairman is present, and resolutions can be adopted in such meetings with the affirmative votes of the majority of the attendees. The chairman has the casting vote in the event of a tie.

***Trading and Settlement***

In December 1993, the ISE launched a computerized trading system known as Electronic Purchase and Sale System. The ISE operates two computer dealing rooms at its premises and approximately 150 brokers are eligible to trade through the auspices of the ISE. The brokers, after receiving orders by telephone, enter positions and transact sales by computer, just as would be done in the treasury departments of most investment banks. Since December 2001, ISE members have also been able to route their orders directly to the ISE automated trading system through interface software, called Ex-API. Through Ex-API, members route the orders (either collected or derived by their own back office systems) directly to the ISE automated trading system and instantaneously receive order and trade confirmations. The electronic communication acts as a sales contract. At the end of each trading session, the ISE gives all brokers a breakdown of all the transactions that they have completed.

Updated trading prices for stocks traded on the ISE are conveyed in real time to data vendors such as Bloomberg and Reuters for international dissemination. Immediately after each trading session, the ISE publishes on its website a bulletin, which sets out for each security, amongst other information, the high and low sales price, the closing sales price, trading volume and weighted average sales price. All transactions are on a cash basis and settlement must take place on the second business day after the execution of a trade.

Trading on the ISE is conducted on each business day in Turkey, with the morning session taking place from 9:30 a.m. to 12:30 p.m., and the afternoon session taking place from 2:00 p.m. to 5:40 p.m. İstanbul time, including the "opening sessions" at the beginning of each session where the single price system is implemented. The ISE currently operates four main markets, namely the stock market, emerging companies market (a second stock market established for small and medium-sized enterprises with growth potential), debt instruments market and foreign securities market covering securities traded in currencies other than Turkish Lira. The futures and options market was introduced in November 2012 as a fifth market.

The stock market currently consists of the following eight market segments:

- the National Market, which includes all the companies that comply with the listing requirements set by the ISE. Shares of 100 companies chosen from this market and the Collective Products Market form the ISE National 100 index;
- the Collective Products Market, where the shares of securities investment companies, real estate investment companies, venture capital investment companies, warrants issued by intermediary institutions and exchange-traded funds are traded;
- the Second National Market, which has been formed to provide capital to companies that cannot meet the listing conditions set by the ISE and to small and medium sized companies;
- the Funds Market, where stock exchange investment funds and Type-A investment fund participation certificates are traded;
- the Free Trade Platform, where the stock of certain companies determined by the CMB, pursuant to its decision dated June 3, 2011 and numbered 17/519, have been admitted and continue to trade;
- the Watch List Companies Market, which is for the stock of companies under special surveillance and investigation due to extraordinary situations with respect to stock transactions on the ISE,

insufficient compliance with disclosure requirements or other events that may necessitate a temporary or permanent suspension of the trading of the stock;

- the Primary Market which includes the shares of companies being publicly offered and trading for the first time on the ISE and the additional shares offered following rights offerings of companies trading on the ISE; and
- the Wholesale Market, permitting the block sale of stocks which are traded on the National Market and the Second National Market, as well as those which are not traded on the ISE, through capital increase or sale of shares held by existing shareholders to predetermined or unidentified buyers. In the Wholesale Market, the session takes place on each business day between 10:30 a.m. and 12:00 p.m.

The minimum transaction amount on the ISE Stock Market is one lot which is equal to TL1.00 in nominal value.

Turkish capital markets legislation requires shares of a company listed on a Turkish securities exchange to be traded exclusively on that exchange. The CMB has announced that this requirement applies only to brokerage firms licensed to trade on the stock exchange and to orders placed with them by investors. Transfers between principals that do not involve a public offering may be transacted outside a stock exchange. However, as Turkish foreign exchange legislation requires non-resident investors to execute their trades in listed securities through a duly licensed brokerage firm or a bank, the exemption may be limited in scope as a practical matter.

***Dematerialization of Shares and the Central Registry Agency***

Since November 2005, shares traded on the ISE and physically held by İMKB Takas ve Saklama Bankası A.Ş., the central securities depositary of Turkey, have been dematerialized in their entirety and are now held through the Central Registry Agency, a private entity owned by various market participants and regulated by the CMB. Newly issued shares are no longer printed but entered into the book-entry system of the Central Registry Agency.

***Trading Prices and Fluctuations***

Trading prices for securities listed on the ISE are generally limited to a daily range established by the ISE. Accordingly, traders are not permitted to place orders at prices which are 10% higher or 10% lower than the base price of the relevant security for the preceding trading session. The base price is the price, which is taken as the basis for determining the highest and lowest price limits within which the stock may be traded in one trading session. The base price is determined by rounding to the nearest price step the average weighted price at which trades were realized and recorded in the immediately preceding trading session. The stock market director, however, may double, and the Chairman of the ISE may lift, the limits for a particular trading session either *ex officio* or upon application by a certain number of exchange members. In the absence of such actions by ISE officials, price fluctuations of stocks traded on the ISE must be within the range established for each session. If required by extraordinary adverse circumstances, the Chairman of the ISE may suspend trading in any listed security for up to five business days and suspend operations of the ISE entirely for a period of up to three days. The Executive Council is authorized to suspend trading in any listed security for more than five business days. The CMB may suspend the operations of the ISE for a period of up to 15 days upon the request of the Executive Council, and the relevant Minister of State may order a suspension of up to one month upon the request of the CMB. Only the Council of Ministers of Turkey may suspend the operations of the ISE for a period exceeding one month. Since the ISE recommenced operations in 1986, its operations have been suspended four times: first, due to the 1999 earthquake for six working days (August 17, 1999 to August 24, 1999); second, after the terrorist attacks of September 11, 2001, for one day; third, following the terrorist attacks in İstanbul on November 11, 2003, for two days; and fourth, for preparations relating to the introduction of the Turkish Lira on December 30, 2004, for two days.

***Listing Requirements***

The ISE requires that a company meet certain criteria involving profitability, market value of the shares offered to the public, amount of shares offered to the public as a percentage of the share capital of

the company, and shareholders' equity. Accordingly, a company must satisfy the conditions of one of the groups set forth below.

| | Group 1 | Group 2 | Group 3 |
|---|---|---|---|
| Minimum market value of the shares offered to public | TL129 million | TL65 million | TL32 million |
| Realization of profit before tax | Minimum of one year within the previous two years | Minimum of one year within the previous two years | Last two years |
| Minimum ratio of the shares offered to public as a percentage of the share capital | — | 5% | 25% |
| Minimum shareholders' equity | TL32 million | TL21 million | TL13 million |

The following conditions also apply to companies seeking to list on the ISE:

- the last three calendar years' annual and the latest quarterly financial statements must have been independently audited and, for group companies, consolidated financial statements must have been prepared.
- a minimum of three calendar years must have elapsed since the company's incorporation and the financial statements for the last three calendar years must be available.
- the ISE Executive Council must have had the company's financial situation examined and accepted its ability to continue as a going concern.
- the articles of association should not include any provision limiting the transfer and trading of the stock or any provision preventing a shareholder from exercising his or her rights.
- there should not be any material legal dispute which will affect the operation and activities of the company.
- the company should not have ceased operations for more than three months within the last year for reasons other than those that are acceptable by the ISE Executive Council and there should not be any requests or proceedings for the liquidation or arrangements in bankruptcy of the corporation or any other related process identified by the ISE.
- the securities must comply with the ISE Executive Council's criteria of current and possible trading volume in the market.
- it must be documented that the establishment and activities of the corporation and the legal status of the share certificates comply with the legislation to which they are subject.

***Disclosure Requirements***

Public companies whose shares are traded on the ISE are required to comply with the information and disclosure requirements of the CMB and the ISE. There are two types of disclosure requirements, one relating to financial statements and the other relating to material events.

*Disclosure of Financial Statements*

Pursuant to the CMB Communiqué Series: XI, No: 29 on the Principles Regarding Financial Reporting in Capital Markets and the CMB Communiqué Series: VIII, No: 61 on the Principles Regarding the Transmission of Electronically Signed Information, Documents and Disclosures to the Public Disclosure Platform, financial statements must be presented on a quarterly basis in accordance with the CMB standards:

- audited year-end financial statements and reports prepared in accordance with CMB Accounting Principles must be published on the Public Disclosure Platform within a period of 10 weeks following the end of the accounting period (if companies are required to submit consolidated financial statements, the period extends to 14 weeks following the end of the accounting period);
- reviewed six-month results must be published on the Public Disclosure Platform within six weeks following the end of the accounting period (if companies are required to submit consolidated financial statements, the period is extended to eight weeks following the end of the accounting period); and

- unaudited first quarter and third quarter financial statements must be published on the Public Disclosure Platform within four weeks (six weeks for banks and for companies preparing consolidated financial statements) following the end of the accounting period. If the first and third quarter financial statements are independently audited, then such financial statements must be submitted within six weeks and eight weeks, respectively, for companies preparing unconsolidated and consolidated financial statements.

*Disclosure of Material Events*

See "Description of Our Share Capital—Disclosure of Material Events."

*Disclosure of Beneficial Interests in Shares*

Persons becoming direct or indirect holders of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of a public company in Turkey are required to notify the ISE of the acquisition and, thereafter, to notify the ISE and of their transactions in the shares or voting rights of the public company when the total number of the shares or voting rights they hold falls below or exceeds these thresholds. The names and the numbers of shares or voting rights purchased by such persons should be included in a notice sent to the ISE, among other information relating to the transaction required to be disclosed. ISE publicly discloses the information on the Public Disclosure Platform with the identity of the person subject to disclosure.

***Insider Trading and Market Disruption***

Insider trading is defined in the Capital Markets Law as benefiting from, or permitting others to benefit from, non-public information which may affect the value and price of securities or the investment decisions of investors. Benefiting from non-public information is the essential component of insider trading. For an act to constitute an insider trading violation, the information must be used in a manner which provides an unfair advantage over other investors. The violation may be committed by the management of the issuer, its subsidiaries or controlling shareholders, the shareholders of the issuer or their controlling shareholders, persons who are informed of inside information in connection with the execution of their work, profession or duties, persons acquiring inside information with the intention to commit crime and persons who are or who should be aware of the fact that the information they have access to constitutes inside information. Insider trading violations are punishable by prison terms of two to five years or the equivalent monetary fines ranging from TL14,600 to TL182,500. However, the minimum monetary fine imposed may not be less than twice the monetary benefit obtained through such actions. In addition, administrative fines ranging from TL21,560 to TL269,500 may be prescribed by the CMB. The Capital Markets Law exempts from the scope of the crime of insider trading certain transactions, including those that are undertaken within the framework of share buyback or employee stock option programs in accordance with the CMB regulations.

Other crimes such as market manipulation, unauthorized public offering and engaging in activities unauthorized by the CMB are also punishable by prison terms and monetary fines. The CMB is further authorized by the Capital Markets Law to fine any non-criminal market disrupting actions harming the reliable, transparent and consistent operation of organized markets by imposing administrative monetary fines ranging from TL21,560 to TL539,500, which in any event, cannot be lower than twice the monetary benefit obtained through such actions. Notwithstanding these sanctions, the effectiveness of the legislation depends largely on the extent to which its provisions are observed by intermediaries and investors and enforced by the CMB. To the extent these provisions are not observed or enforced, prices of securities traded on the ISE may be affected by trading based on material non-public information or by other actions which disrupt the market.

***Market Volatility***

The ISE can be a highly volatile market, and the value of the ISE-100 index has fluctuated between 21,228 and 78,579 from January 1, 2005 to December 31, 2012. Trading on the ISE has traditionally been characterized by a high degree of short-term speculative trading by retail investors, which is at least partially attributable to the relatively underdeveloped institutional investor base in Turkey. The average daily trading volume in the shares of the 10 most traded companies on the ISE was TL0.99 billion in 2010, TL1.17 billion in 2011 and TL1.18 billion in 2012.

As of December 31, 2012, the shares of 382 companies were traded on the ISE (242 on the National Market, 77 on the Second National Market, 47 on the Corporate Products Market and 16 on the Free Trade Platform) (none of these companies have been suspended from trading) were traded on the ISE. As of December 31, 2012, the total market capitalization of all companies with equity securities regularly traded on the ISE was approximately TL546 billion. The average daily trading value of the stocks of all companies whose shares were listed on the ISE was approximately TL2.6 billion in 2010, TL2.8 billion in 2011 and TL2.6 billion in 2012. The free float of shares listed on the ISE as of December 31, 2012 was approximately TL157 billion, with approximately 65.8% of this amount held by foreigners. A disproportionately large percentage of the market capitalization and trading value of the ISE is represented by a small number of listed companies that are mainly listed on the ISE-30 index. The total market capitalization of the companies trading on the ISE-30 as of December 31, 2012 was TL359 billion, representing approximately 66% of the market capitalization of all companies regularly trading on the ISE as of such date. As of December 31, 2012, the combined market capitalization of the 10 companies with the greatest market capitalizations whose shares trade on the ISE was approximately TL255 billion, which represented approximately 47% of the market capitalization of all companies trading on the ISE as of such date.

The 12 major indices of the ISE are listed below:

- the National-All Shares index, which is composed of all National Market companies except securities investment companies;
- the ISE National-30, which is composed of the 30 largest National Market companies and real estate and venture capital investment companies from the Collective Products Market based, in part, on market and trading values;
- the ISE National-50, which is composed of the 50 largest National Market companies and real estate and venture capital investment companies from the Collective Products Market based, in part, on market and trading values except investment trusts;
- the ISE National-100, which has been calculated since the inception of the ISE and is composed of the 100 largest National Market companies and real estate and venture capital investment companies from the Collective Products Market in terms of market and trading values;
- the ISE National-Industrials Index, which is a sectorial index composed of food, beverage, textile, leather, wood, paper, printing, chemical, petroleum, plastic, non-metal mineral products, basic metals, metal products and machinery manufacturers;
- the ISE National-Services Index, which is a sectorial index composed of electricity, transportation, tourism, wholesale and retail trade, telecommunications and sports companies;
- the ISE National-Financials Index, which is a sectorial index composed of banks, insurance, leasing, factoring, holding and investment, and real estate investment trust companies;
- the ISE National-Technology Index, which is a sectorial index composed of information technology and defense companies;
- the ISE Investment Companies Index, which is a sectorial index composed of investment companies;
- the ISE Second National Index, which comprises companies trading on the Second National Market;
- the ISE Dividend Index, which is which is composed of the ISE companies that have distributed dividends for the past three years; and
- the Corporate Governance Index, which is composed of the ISE companies with a corporate governance compliance rating of at least 7.00 over 10.00, assigned by rating institutions authorized by the CMB.

All of the indices are weighted by the publicly-held portion of each constituent company and, for the convenience of foreign investors, are also computed and maintained in U.S. dollar terms. The composition of the ISE National-30 and the ISE National-100 are adjusted quarterly, on the first trading day of January, April, July and October. In order to be included in the ISE National-30, at the end of the evaluation period, the market value of a stock must be greater than the median market value of all stocks traded on the National Market (among the top 75% in the case of the ISE National-100), and the daily average

traded value of the stock, excluding primary, special and block sales, must be greater than the median daily average traded value of the National Market (among the top 75% in the case of the ISE National-100). The ISE indices are displayed on the screens of various domestic and international data vendors.

The total trading value of the ISE between 2010 and 2012 was an average of US$406,897 million per year and ranged from US$428,503 million in 2011 to US$360,832 million in 2012. The average daily trading value between 2010 and 2012 was an average of US$1,614 million per quarter and ranged from US$1,333 million in 2010 to US$1,646 million in 2012.

The following table sets out, for each period indicated, the number of trading days on the ISE during such period, the total trading value during such period in U.S. dollars and the average daily trading value during such period, in both nominal Turkish Lira and U.S. dollars.

| | **Total trading value** | | **Average daily trading value** | |
|---|---|---|---|---|
| | **Number of trading days** | **US$ million** | **TL million** | **US$ million** |
| 2007 | | | | |
| 1st quarter | 62 | 62,427 | 1,415 | 1,009 |
| 2nd quarter | 64 | 63,610 | 1,328 | 995 |
| 3rd quarter | 64 | 90,040 | 1,794 | 1,405 |
| 4th quarter | 62 | 84,765 | 1,604 | 1,354 |
| 2008 | | | | |
| 1st quarter | 64 | 80,737 | 1,509 | 1,260 |
| 2nd quarter | 63 | 63,266 | 1,262 | 1,004 |
| 3rd quarter | 64 | 69,400 | 1,283 | 1,066 |
| 4th quarter | 59 | 47,871 | 1,230 | 808 |
| 2009 | | | | |
| 1st quarter | 63 | 42,501 | 1,107 | 673 |
| 2nd quarter | 62 | 86,286 | 2,181 | 1,400 |
| 3rd quarter | 64 | 91,552 | 2,134 | 1,434 |
| 4th quarter | 63 | 95,988 | 2,253 | 1,525 |
| 2010 | | | | |
| 1st quarter | 63 | 118,704 | 2,825 | 1,884 |
| 2nd quarter | 63 | 101,694 | 2,463 | 1,614 |
| 3rd quarter | 63 | 83,958 | 2,004 | 1,333 |
| 4th quarter | 61 | 127,000 | 3,034 | 2,082 |
| 2011 | | | | |
| 1st quarter | 64 | 147,702 | 3,624 | 2,308 |
| 2nd quarter | 64 | 122,335 | 2,968 | 1,911 |
| 3rd quarter | 63 | 88,252 | 2,432 | 1,401 |
| 4th quarter | 62 | 70,214 | 2,071 | 1,132 |
| 2012 | | | | |
| 1st quarter | 65 | 94,238 | 2,585 | 1,450 |
| 2nd quarter | 63 | 89,588 | 2,554 | 1,422 |
| 3rd quarter | 62 | 73,296 | 2,122 | 1,182 |
| 4th quarter | 63 | 103,709 | 2,939 | 1,646 |
| 2013 | | | | |
| 1st quarter | 63 | 121,984 | 3,442 | 1,936 |

*Source: ISE.*

## FOREIGN INVESTMENT AND EXCHANGE CONTROLS

*The following is a summary of the relevant Turkish laws in force as of the date of this Offering Circular. This summary does not purport to be a comprehensive description of all the foreign investment and exchange control considerations that may be relevant to your decision to subscribe for or purchase the Shares.*

Until the promulgation of Decrees 28 and 30 on the Protection of the Value of the Turkish Currency in 1983, which granted Turkish citizens limited rights to hold and trade foreign currencies, Turkish exchange regulations strictly controlled exchange movements. After the establishment of a foreign exchange market in 1988, the exchange rate of the Turkish Lira began to be determined by market forces, and, today, banks in Turkey set their own foreign exchange rates independently of those announced by the Central Bank. Pursuant to Decree 32, issued in 1989 and amended several times since then, the Government abolished restrictions on the convertibility of the Turkish Lira by facilitating exchange of the proceeds of transactions in Turkish securities by foreign investors, enabling Turkish citizens to purchase securities on foreign securities exchanges, permitting residents and non-residents to buy foreign exchange without limitation and to transfer such foreign exchange abroad, and permitting Turkish companies to invest abroad, without ministerial approval.

Decree 32 provides that persons not resident in Turkey may purchase and sell shares of Turkish companies provided that such transactions are effected through a bank or broker authorized under Turkish capital markets legislation and the relevant gains and the purchase price are transferred via a bank licensed in Turkey. Decree 32 further provides that a non-resident person may freely repatriate dividends received and proceeds of their sale in respect of such shares. Decree 32 requires that the dividends received and the proceeds of sale of the shares be transferred through Turkish banks.

Law No. 4875 on Direct Foreign Investments, which replaced the Law No. 6224 in 2003, defines foreign direct investment as, among other things, share acquisitions outside a stock exchange or through a stock exchange where the foreign investor owns 10% or more of the shares or voting power. Pursuant to law No. 4875 foreign investment in Turkey is no longer subject to prior approval. As a result of the adoption of Law No. 4875, and subject to the provisions of Decree 32, foreign investors are now subject to the same requirements as a domestic investor when investing in a Turkish company, except for the acquisitions of real property. Pursuant to a ruling of the Turkish Constitutional Court, foreign investors are not allowed to freely acquire real property where Turkish investors may, by way of becoming a shareholder or owner of a Turkish company and are subject to certain restrictions regarding such transactions.

Law No. 4875 requires a public Turkish company to notify the Foreign Investment Directorate in the event non-resident holders acquire 10% or more of the share capital or voting rights of such public company. Also, the CMB's Disclosure Communiqué requires persons that become direct or indirect holders of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of a public company in Turkey to notify the ISE of such acquisition and, thereafter, to notify the ISE of their transactions in the shares or voting rights of such company when the total number of shares or voting rights owned falls below such thresholds. The name of the investor, date of the transaction, the nominal value of the shares subject to the transaction and the value of the transaction, the ratio of the shares in the capital of the public company prior to and following the transaction should be included in the notice sent to the ISE. The notices sent to the ISE are made public through the Public Disclosure Platform.

In addition to the disclosure requirements under the Disclosure Communiqué, pursuant to the provisions of the TCC, persons becoming direct or indirect holders of 5%, 10%, 20%, 25%, 33%, 50%, 67% or 100% of the issued share capital of a Turkish company are required to notify the company of such acquisition and, thereafter, to notify the company of their transactions in the shares of such company when the total number of the shares they hold falls below or exceeds such thresholds. Information notified to the company has to be registered with the relevant Trade Registry and publicly announced in the Trade Registry Gazette. Failure to comply with this requirement may lead to the suspension of voting rights attached to the relevant shares.

The SHY-6A, issued by the Ministry of Transportation requires that the majority of the shares issued by licensed carrier entities must be owned by Turkish shareholders. The Civil Aviation Authority is entitled to suspend the aircraft operation license of the relevant entity for a period of at least two months, in the event such obligation is violated. Pursuant to the Civil Aviation Law, the same Turkish shareholding requirement is mandatory for the air carrier to be able to conduct flights between any two destinations within Turkey.

## TAXATION

*The following discussion is a summary of certain Turkish and United States tax considerations relating to an investment in the Shares. The discussion is based on current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of our shares. You should consult your own tax advisors concerning the tax consequences of your particular situation. The discussion is based upon laws and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, possibly with retroactive effect.*

### Turkish Taxation

#### *Tax Status of Shareholders*

Under Turkish income tax laws, there are two types of tax status in determination of income tax liabilities of taxpayers. Those who are residents in Turkey ("Residents") are subject to Turkish income taxation on their worldwide income. Those who are not residents in Turkey ("Non-Residents") are subject to Turkish income taxation on their Turkish source income only.

Real persons are considered Residents in Turkey, if (i) they are domiciled in Turkey in accordance with the Turkish Civil Code, or (ii) they stay in Turkey for more than six months in a calendar year. If neither of the given two conditions is satisfied, real persons are considered Non-Residents for Turkish tax purposes.

Legal entities are treated as Residents in Turkey if they are incorporated in Turkey under relevant Turkish laws, or if their effective places of management are in Turkey despite the fact that they are incorporated outside of Turkey. If neither of the given two conditions is satisfied, legal entities are considered Non-Residents for Turkish tax purposes.

Dividend income is considered "Turkish source income" if the capital is invested in Turkey. As for capital gains, they are treated as Turkish source income if the transaction leading to the gains is concluded in Turkey, or the payment for consideration is made in Turkey, or the payment is accounted for in Turkey even if the payment is made outside of Turkey.

Dividends to be paid under the Shares and capital gains to arise upon disposal of the Shares at the ISE will be considered to be Turkish source income.

#### *Distributions on the Shares*

Dividends distributed by Turkish resident companies are subject to an income withholding tax of 15% if they are paid to Resident or Non-Resident individuals or Non-Resident entities which do not hold the relevant shares through a fixed place of business or a permanent representative which constitutes a "permanent establishment" in Turkey. Under Turkish income tax laws, distributions in the form of bonus shares are not subject to withholding tax.

If a double taxation treaty is in effect between Turkey and the country where the beneficial owner of the dividend is resident and if that treaty provides a lower rate, then a treaty-reduced withholding tax rate set forth in the double taxation treaty may apply under certain conditions.

Within the framework of the taxation regime, withholding tax is the final tax for dividend income earned from Turkey by Non-Residents. Non-Residents without any permanent establishment in Turkey are not required to file an annual or special tax return for dividends taxed through withholding.

Dividend income distributed by a Turkish Resident company and received by Resident entities and Non-Resident entities with a permanent establishment in Turkey is not subject to withholding tax and is also exempted from corporate tax in Turkey. However, Non-Resident entities holding shares through their permanent establishments in Turkey will be required to apply a branch profits repatriation withholding tax at a rate of 15%, upon remittance of such profits to their headquarters unless a lower tax rate in the relevant treaty is available.

Resident individuals are required to file an annual tax return for their dividend income. One-half of the gross amount of cash dividends received by Resident individuals from Turkish companies is exempt from income tax. If the remaining amount exceeds the threshold amount (TL26,000 for the year 2013) together with other income subject to declaration, this remaining amount should be declared in the annual tax return. Withholding tax charged on total gross dividend will be credited against income tax calculated on the tax return. Distributions in the form of bonus shares are not subject to declaration.

***Sale, Exchange or Other Disposition of Shares***

For the period between 2006 and 2015, taxation of capital gains upon disposal of shares traded on the ISE is governed by the Temporary Article 67 of the Income Tax Law, under which capital gains are taxed through a withholding mechanism carried out by the Turkish banks or brokerage houses acting as intermediaries.

The statutory rate of withholding is 15%. However, the applicable withholding tax on capital gains arising from the disposal of shares traded on the ISE, other than shares of securities investment companies, is currently 0% for all Resident and Non-Resident investors, in accordance with the Government Decree 2006/10731, as amended by the Government Decree 2010/926 and by the Government Decree 2012/3141. Furthermore, withholding tax on capital gains is not triggered at all if the relevant shares are held for more than one year.

The withholding tax applied, albeit currently at 0%, is the final Turkish tax on the capital gains, as far as the Non-Residents are concerned, unless the shares are held through a permanent establishment in Turkey, in which case the capital gains will be a part of the income of the permanent establishment and subject to taxation in Turkey as such. The withholding tax is also the final Turkish tax for Resident individuals, unless capital gains are classified as commercial income as a result of which such income will be subject to taxation through the submission of annual income tax return. As for the Resident entities, capital gains are treated as a part of their corporate income and are subject to corporate income taxation in the usual manner.

Investors should note that the Government is authorized to regulate and amend the applicable rates at any time. Therefore, there can be no guarantee that the 0% withholding tax will be maintained in the future.

Where the withholding tax rate is re-determined at a rate higher than the 0%, Resident and Non-Resident individuals may voluntarily file a special annual tax return for the purpose of offsetting losses arising from a transaction against the capital gains of another transaction, provided that the securities traded on the ISE are in the same category of securities as classified by the Ministry of Finance (e.g., fixed income securities and current variable income securities).

Withholding tax liability is a liability of custodians, banks and brokerage houses that serve as intermediaries responsible for collection of taxes on income derived by investors from the sale or purchase of shares. Declarations with respect to withholding tax liability are filed quarterly by custodians, banks or brokerage houses. For Non-Residents, application of withholding tax is primarily the responsibility of the Turkish custodian banks. In the event that an investor uses a custodian bank, other banks and brokerage firms will have no liability for the application of withholding tax.

If a holder of Shares transfers Shares from one custodian, bank or brokerage house to another, the receiving entity must be informed by the transferring entity of the purchase date and the purchase value of such Shares in order to be able to take such information into account in the calculation of withholding tax. However, notification regarding purchase date and value may also be filed with the Ministry of Finance if Shares are transferred from one holder to another or physical delivery is made.

***Taxation of Investment and Mutual Funds***

As from January 1, 2006, non-resident investment funds have been subject to the same taxation principles as other Non-Resident entities.

***Turkish Tax Treaties***

Turkey has double taxation treaties in effect with certain countries. Many of these treaties provide for non-taxation in Turkey of capital gains on the Shares, usually subject to a one-year holding period. Additionally, some of these treaties provide an exemption regardless of the length of the holding period for capital gains derived by residents of the relevant countries as a result of sale of the shares of a Turkish company. Investors are advised to consult their tax advisers with respect to the tax treatment of the Shares

under these treaties. The following table sets forth the countries that Turkey had relevant double taxation treaties in effect as of January 1, 2013.

| | | |
|---|---|---|
| Albania | Indonesia | Qatar |
| Algeria | Iran | Romania |
| Austria | Ireland | Russian Federation |
| Azerbaijan | Israel | Saudi Arabia |
| Bahrain | Italy | Serbia |
| Bangladesh | Japan | Singapore |
| Belarus | Jordan | Slovakia |
| Belgium | Kazakhstan | Slovenia |
| Bosnia and Herzegovina | Kuwait | South Africa |
| Brazil | Kyrgyzstan | Spain |
| Bulgaria | Latvia | South Korea |
| Canada | Lebanon | Sudan |
| China | Lithuania | Sweden |
| Croatia | Luxembourg | Switzerland |
| Czech Republic | Macedonia | Syria |
| Denmark | Malaysia | Tajikistan |
| Estonia | Moldova | Thailand |
| Ethiopia | Mongolia | Tunisia |
| Egypt | Morocco | Turkmenistan |
| Finland | Netherlands | Turkish Republic of North Cyprus |
| France | New Zealand | Ukraine |
| Germany | Norway | United Arab Emirates |
| Greece | Oman | United Kingdom |
| Georgia | Pakistan | United States of America |
| Hungary | Poland | Uzbekistan |
| India | Portugal | Yemen |

*Source: Presidency of Revenues Administration.*

***Tax Treaty with the United States***

A generally applicable tax treaty for the prevention of double taxation of income between Turkey and the United States (the "Turkey-U.S. Treaty") applies to all types of income.

Under Article 10 of the Turkey-U.S. Treaty, withholding tax on dividends paid to a company resident in the United States which beneficially owns at least 10% of the voting stock of a Turkish company paying the dividend is limited to 15% of gross dividends paid. In all other cases, the withholding tax rate is limited to 20% of the gross dividend paid. However, as there is no reduced rate under the Turkey-U.S. Treaty, the local withholding tax rate will be applicable. See "—Turkish Taxation—Distributions on the Shares."

According to Article 13 of the Turkey-U.S. Treaty, for so long as the Shares are quoted on the ISE, capital gains derived by residents of the United States from the disposition of the Shares to a Turkish Resident are not taxable in Turkey. As stated above under "—Turkish Taxation—Sale, Exchange or Other Disposition of Shares," the current withholding tax imposed by Turkey on the disposition of shares by Non-Residents is 0% and such 0% withholding tax is the final tax in Turkey.

**United States Federal Income Taxation**

The following is a description of the principal U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of the Shares. This description addresses only the U.S. federal income tax considerations of holders that are initial purchasers of the Shares pursuant to the international offering and that will hold such Shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

(i) banks, financial institutions or insurance companies;

(ii) real estate investment trusts, regulated investment companies or grantor trusts;

(iii) dealers or traders in securities, commodities or currencies;

(iv) tax-exempt entities;

(v) persons that received the Shares as compensation for the performance of services;

(vi) persons that will hold the Shares as part of a "hedging," "conversion" or constructive sale transaction or as a position in a "straddle" for United States federal income tax purposes;

(vii) certain former citizens or residents of the United States;

(viii) persons that have a "functional currency" other than the United States dollar; or

(ix) holders that own or are deemed to own 10% or more, by voting power or value, of the Shares.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of the Shares.

This description is based on the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations and judicial and administrative interpretations thereof, as well as on the tax treaty between the United States and Turkey (the Turkey-U.S. Treaty), in each case as in effect and available on the date of this Offering Circular.

All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a "U.S. holder" is a beneficial owner of the Shares that for U.S. federal income tax purposes is:

(i) an individual citizen or resident of the United States;

(ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including, the District of Columbia;

(iii) an estate, the income of which is subject to U.S. federal income taxation, regardless of its source; or

(iv) a trust if (1)(a) a court within the United States is able to exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of the substantial decisions of such trust or (2) such trust had a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

A "Non-U.S. holder" is a beneficial owner of the Shares that is neither a U.S. holder nor a partnership.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the U.S. federal income tax consequences of acquiring, holding, retiring or otherwise disposing of the Shares.

Investors should consult their own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Shares.

**TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN TO SUPPORT THE PROMOTION OR MARKETING OF THE SHARES; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

***Distributions***

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," the gross amount of any distribution of cash or property (other than certain distributions, if any, of the Shares distributed pro rata to all our shareholders), with respect to the Shares, before reduction for any Turkish taxes withheld therefrom, will be included in a U.S. holder's income as dividend income to the extent such

distributions are paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. So long as we are eligible for benefits under the Turkey-U.S. Treaty, non-corporate U.S. holders, generally, will be taxed on such dividends at the lower rates applicable to long-term capital gains. However, non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as "investment income" pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Further, the reduced rate will not apply if we are classified as a passive foreign investment company ("PFIC") for the taxable year in which the dividend was paid, or the preceding tax year. See "—Passive Foreign Investment Company Considerations." Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. Subject to the discussion below under "—Passive Foreign Investment Company Considerations," to the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in your Shares and thereafter as capital gain. We do not maintain calculations of earnings and profits under U.S. federal income tax principles. Accordingly, U.S. holders should assume that any distribution made by us (other than, as discussed above, a distribution of Shares) will be treated as a dividend for U.S. federal income tax purposes.

If you are a U.S. holder, the amount of any cash dividend paid in Turkish Lira to you will be included in your gross income in an amount equal to the U.S. dollar value of the Turkish Lira received, calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by you, regardless of whether the payment in Turkish Lira is in fact converted into U.S. dollars at that time. If the Turkish Lira received as a dividend is converted into U.S. dollars on the date of receipt, you generally should not recognize foreign currency gain or loss with respect to such dividend. If the Turkish Lira received as a dividend is not converted into U.S. dollars on the date of receipt, you will have a tax basis in the Turkish Lira equal to the U.S. dollar value on the date of receipt. Any foreign currency gain or loss realized on a subsequent conversion or other disposition of the Turkish Lira will be treated as U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

A U.S. holder will be entitled, subject to a number of complex limitations and conditions (including a minimum holding period requirement), to claim a U.S. foreign tax credit in respect of any Turkish income taxes withheld on dividends received on the Shares. U.S. holders that do not elect to claim a credit for any foreign income taxes paid during the taxable year may instead claim a deduction in respect of such Turkish income taxes, provided that the U.S. holder elects to deduct (rather than credit) all foreign taxes paid or accrued for the taxable year. Dividends received with respect to the Shares generally will be treated as foreign source income. For purposes of the U.S. foreign tax credit limitation, dividends received with respect to the Shares should generally constitute "passive category income." The rules governing foreign tax credits are complex and investors are urged to consult their independent tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Subject to the discussion below under "—Backup Withholding Tax and Information Reporting Requirements," a Non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on the Shares, unless such holder conducts a trade or business in the United States and such income is effectively connected with that trade or business.

***Sale or Exchange of Shares***

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," a U.S. holder generally will recognize gain or loss on the sale or exchange of the Shares equal to the difference between the amount realized on such sale or exchange and the U.S. holder's adjusted tax basis in such Shares. Such gain or loss will generally be capital gain or loss. Such capital gain or loss will be long-term capital gain or loss if the U.S. holder's holding period for the Shares exceeds one year. For non-corporate U.S. holders, the U.S. income tax rate applicable to net long-term capital gain currently will not exceed 20%, although this rate could be amended by future legislation. The deductibility of capital losses is subject to significant limitations. As described above under "—Turkish Taxation—Sale, Exchange or Other Disposition of Shares" under current law a holder of the Shares may be subject to Turkish tax upon the disposition of such Shares under certain circumstances. Although gain or loss, if any, generally

will be treated as U.S. source income or loss for U.S. foreign tax credit purposes, U.S. shareholders who are eligible for benefits under the Turkey-U.S. Treaty may treat such gain or loss as foreign source (subject to certain limitations under the U.S. rules regarding foreign tax credits applicable to foreign source capital gains). If an investor is not eligible for Turkey-U.S. Treaty benefits, the investor may have insufficient foreign source income to utilize a foreign tax credit attributable to any such Turkish tax imposed on a sale or disposition of the Shares.

For U.S. holders, the initial tax basis of the Shares will be the U.S. dollar value of the Turkish Lira denominated purchase price determined on the date of purchase. If the Shares are treated as traded on an "established securities market," a cash basis U.S. holder or, if it elects, an accrual basis U.S. holder, will determine the U.S. dollar value of the cost of such Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. If an investor converts U.S. dollars into Turkish Lira and then immediately uses that currency to purchase the Shares, such conversion generally will not result in taxable gain or loss to the investor.

With respect to the sale or exchange of Shares, the amount realized generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis U.S. holder and (ii) the date of disposition in the case of an accrual basis U.S. holder. If the Shares are treated as traded on an established securities market, a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under "—Backup Withholding Tax and Information Reporting Requirements," a Non-U.S. holder, generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of the Shares, unless:

(i) such gain is effectively connected with the conduct of a trade or business in the United States; or

(ii) the Non-U.S. holder is an individual and has been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

***Passive Foreign Investment Company Considerations***

In general, a non-U.S. corporation will be a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income, or (ii) 50% or more of the average quarterly value of its assets (which may be determined in part by the market value of the Shares, which is subject to change) consists of assets that produce, or are held for the production of, passive income. For this purpose, passive income generally includes, among other things, dividends, rents, royalties and gains from the disposition of investment assets (subject to various exceptions).

Based upon the composition of our gross income and gross assets and the nature of our business, we do not believe that we were classified as a PFIC for U.S. federal income tax purposes for the taxable year ending December 31, 2012. Our status in 2013 and future years will depend on our assets and activities in those years. We have no reason to believe that our assets or activities will change in a manner that would cause us to be classified as a PFIC, but there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. holder held the Shares, gain recognized by a U.S. holder on a sale or other taxable disposition (including certain pledges) of the Shares would generally be allocated ratably over the U.S. holder's holding period for the Shares. The amounts allocated to the taxable year of the sale or other taxable disposition and to any year before we became a PFIC would be taxed as ordinary income.

The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations for that year, as appropriate, and an interest charge would be imposed. Further, to the extent that any distribution received by a U.S. holder on its Shares exceeds 125% of the average of the annual distributions on the Shares received during the preceding three years or the U.S. holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, as described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to market treatment) of the Shares. U.S. holders should are encouraged to consult their own independent tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

### *Backup Withholding Tax and Information Reporting Requirements*

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Shares made within the United States, or by a U.S. payor or U.S. middleman, to a holder of Shares, other than an exempt recipient. A payor will be required to backup withhold from any payments of dividends on, or the proceeds from the sale or redemption of, Shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding requirements. The backup withholding rate is currently 28%.

Backup withholding is not an additional tax. An investor generally will be entitled to credit any amounts withheld under the backup withholding rules against the investor's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

In the case of payments to certain trusts or certain partnerships, the persons treated as the owners of the trust or the partners of the partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding and information reporting requirements.

### *Foreign Asset Reporting*

Certain U.S. holders who are individuals (and certain specified entities) are required to report information with respect to investments in Shares not held through an account with a domestic financial institution. U.S. holders that fail to report required information could become subject to substantial penalties. Investors are encouraged to consult with their own independent tax advisors about these and any other reporting obligations arising from their investment in Shares.

### *Medicare Tax On "Net Investment Income"*

Certain U.S. holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends and capital gains from the sale or other disposition of the Shares.

## PLAN OF DISTRIBUTION

### The Offering

We are offering 27,272,000 New Shares and Esas Holding is offering 4,813,000 Existing Shares in the Offering, which consists of (i) the International Offering of 22,459,500 Shares outside the United States and Turkey to institutional investors in offshore transactions in reliance on Regulation S under the Securities Act and in the United States only to QIBs in reliance on Rule 144A and (ii) the Domestic Offering of 9,625,500 Shares to retail and institutional investors in Turkey in reliance on Regulation S, in each case subject to the approval of the CMB. The allocation of Shares between the International Offering and the Domestic Offering is subject to change in accordance with applicable Turkish regulations.

In addition, 3,209,000 Additional Shares will be sold by Esas Holding on the Closing Date for the purpose of covering over-allotments.

İş Yatırım as the Stabilization Manager may, after consultation with Barclays, effect transactions with a view to supporting the market price of the Shares on the ISE.

We have applied for listing of the Shares on the ISE under the symbol "PGSUS."

Subject to the terms and conditions set out in the international underwriting agreement dated April 19, 2013 (the "Underwriting Agreement") among Pegasus, Esas Holding and Barclays, (i) we have agreed to sell to Barclays, and Barclays has agreed to procure purchasers for, or failing which, to itself purchase from us, the New Shares to be sold pursuant to the International Offering and (ii) Esas Holding has agreed to sell to Barclays, and Barclays has agreed to procure purchasers for, or failing which, to itself purchase from Esas Holding, the Existing Shares to be sold pursuant to the International Offering. In addition, subject to the terms and conditions set out in the Underwriting Agreement, Barclays has agreed to procure purchasers for, or failing which, to purchase Additional Shares to be sold by Esas Holding to cover over-allotments, if any, in the International Offering.

Concurrently with the International Offering, we and Esas Holding are offering Shares in the Domestic Offering pursuant to the Domestic Prospectus. The Domestic Offering is being made pursuant to an intermediary and consortium agreement with a syndicate of Turkish financial institutions (the "Domestic Syndicate") led by İş Yatırım.

The following table sets forth the number of Shares (including Additional Shares) that Barclays and the Domestic Syndicate have agreed to severally, and not jointly, procure purchasers for (or, in the case of Barclays, pursuant to the International Underwriting Agreement, failing which to purchase itself) in the Offering pursuant to the agreements described above.

| Manager | Number of Shares |
|---|---|
| Barclays Bank PLC | 24,705,800 |
| Domestic Syndicate (led by İş Yatırım, as Domestic Coordinator and Joint Bookrunner) | 10,588,200 |
| Total | 35,294,000 |

The Offer Price was determined by us and Esas Holding following recommendations from the Managers on the basis of the order book prepared during the bookbuilding process.

The commission to be paid by us and Esas Holding to the Managers will be 1.75% of the gross proceeds of the Offering. We and Esas Holding may, in our and Esas Holding's sole discretion, also pay the Managers a further fee of up to 1.25% of the gross proceeds of the Offering.

Prior to the Offering, there has been no public market for our securities. No assurance can be given as to the liquidity of the trading market for our shares. See "Risk Factors—Risks Related to an Investment in the Shares—There has been no prior public market for our shares and the Shares may experience price and volume fluctuations" and "—The ISE is smaller and less liquid than other major exchanges and may be more volatile, which may adversely affect investors' ability to trade the Shares purchased in the Offering."

Barclays has the right to terminate the Underwriting Agreement in certain circumstances on or prior to the Closing Date. The Underwriting Agreement provides that Barclays' obligations are subject to certain conditions precedent.

We and Esas Holding have agreed to indemnify Barclays against certain liabilities in connection with the offer and sale of the Shares in the International Offering, or to contribute to payments that Barclays may be required to make because of any of those liabilities.

Barclays may resell Shares in the United States to QIBs in reliance on Rule 144A. Any offer or sale of the Shares in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act.

**Lock-up Arrangements**

We have agreed that, subject to certain exceptions, for a period of 365 days from the date of the Underwriting Agreement, neither we nor any of our subsidiaries or other affiliates over which we exercise management or voting control, nor any person on our behalf, will, without prior written consent of Barclays (such consent not to be unreasonably withheld or delayed), (i) issue, offer, sell, contract to sell, pledge, or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) any of our shares (or any interest therein or in respect thereof) or any securities convertible into, or exchangeable into or representing the right to receive our shares or exercisable for our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary shares representing the right to receive any such securities; (ii) otherwise enter into any transaction (including any derivative transaction) directly or indirectly, permanently or temporarily, to dispose of any of our shares, or undertake any other transaction with the same economic effect as any of the foregoing or announce an offering of any of our shares or any interest therein; or (iii) announce publicly any intention to enter into any transaction described above.

In addition, Esas Holding and our other shareholders have agreed that, subject to certain exceptions, for a period of 365 days from the date of the Underwriting Agreement, neither they nor any of their subsidiaries or other affiliates over which they exercise management or voting control, nor any person on their behalf, will, without the prior written consent of Barclays (such consent not to be unreasonably withheld or delayed), (i) issue, offer, sell, contract to sell, pledge, or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) any of our shares (or any interest therein or in respect thereof) or any securities convertible into, or exchangeable into or representing the right to receive our shares or exercisable for, any of our shares or warrants or other rights to purchase any of our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary shares representing the right to receive any such securities; (ii) otherwise enter into any transaction (including any derivative transaction) directly or indirectly, permanently or temporarily, to dispose of any of our shares, or undertake any other transaction with the same economic effect as any of the foregoing or announce an offering of any of our shares or any interest therein; or (iii) announce publicly any intention to enter into any transaction described above.

For a discussion of certain restrictions on sales by shareholders holding at least 10% of the shares in a company undertaking an initial public offering or, irrespective of their shareholding, by shareholders exercising management control over such company, see "Description of Share Capital—Transfer of Shares."

**Over-allotment and Stabilization**

Esas Holding has agreed to allocate proceeds (calculated to be an amount equal to 15% of the gross proceeds of the Offering) from the sale of 4,813,000 Existing Shares and Additional Shares (the Stabilization Funds) to İş Yatırım as the Stabilization Manager to conduct price stabilization activities. On or prior to the Closing Date, Esas Holding will deposit the Stabilization Funds in a special investment account at the Stabilization Manager and grant to the Stabilization Manager exclusive discretionary authority to undertake stabilization activities with the Stabilization Funds.

The Stabilization Manager may, after consultation with Barclays, use the Stabilization Funds to effect transactions with a view to supporting the market price of the Shares on the ISE at levels higher than those which might otherwise prevail for a limited period after the Offer Price is announced. In accordance with the regulations of the CMB, stabilizing activities may be carried on for the Stabilization Period (i.e., a maximum period of 30 days following the commencement of trading of the Shares on the ISE) and may be effected only on the ISE. Orders can be given only to stop a decline in the share price, may not be given at prices above the Offer Price and must otherwise comply with the regulations of the CMB and the ISE.

Such transactions must be brought to an end at the expiry of the Stabilization Period or, if earlier, once the Stabilization Funds have been fully utilized. No representation is made as to the magnitude or effect of any such stabilizing or other transactions and any such activities or transactions would not constitute a guarantee of any share price. The Stabilization Manager is not obliged to engage in stabilization activities and may discontinue any of these activities at any time upon notice of this on the Public Disclosure Platform.

Following the Stabilization Period, the Stabilization Manager will transfer to Esas Holding (i) if no stabilization activities were conducted, the total amount of Stabilization Funds, or (ii) if stabilization activities were conducted, the Shares purchased through stabilization activities together with the remaining amount of Stabilization Funds.

**Subscription, Settlement and Trading**

Payment for the Shares is expected to be in Turkish Lira in same-day funds. Prospective purchasers of the Shares who do not maintain a custody account in Turkey, must open a custody account with a recognized Turkish depositary in order to make payments of Turkish Lira and receive Shares. Prospective purchasers must provide details of such custody accounts to the Managers no later than April 19, 2013. The Shares will be delivered to a purchaser's Turkish custody account on or about the Closing Date by means of book-entry registration, subject to timely and satisfactory provision of account details.

A subscription form required by Turkish capital markets regulations must be completed in order to subscribe for Shares. The subscription form provided by the Managers must be returned in electronic form at the time the order is placed and in no event later than 4:00 p.m. London time on April 19, 2013.

**Selling Restrictions**

No action has been or will be taken in any jurisdiction other than Turkey that would permit a public offering of our Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to us or our Shares in any jurisdiction where action for that purpose is required.

Each purchaser of Shares will be deemed to have made certain acknowledgements, representations and agreements as described under "Transfer Restrictions."

***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Sole Global Coordinator for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement to publish a prospectus pursuant to Article 3 of the Prospectus Directive and each person who initially acquires any Shares or to whom any offer is made will be deemed to have represented, warranted and agreed that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

In the case of any Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares acquired by it in the offering contemplated by this Offering Circular have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Sole Global Coordinator has been obtained to each such proposed offer or resale.

The Company, Esas Holding, the Sole Global Coordinator and their affiliates and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Sole Global Coordinator of such fact in writing may, with the consent of the Sole Global Coordinator, be permitted to purchase Shares in the offering contemplated by this Offering Circular.

***Turkey***

The Offering and the Domestic Prospectus relating to the Domestic Offering has been approved by the CMB on April 11, 2013 pursuant to the provisions of the Capital Markets Law. Such approval does not constitute a guarantee or a recommendation by the CMB or any other public authority with respect to the Shares or us. Neither this Offering Circular nor any other offering material related to the International Offering may be used in connection with the general offering to the public in Turkey for the purpose of the sale of Shares without the prior approval of the CMB.

***United Kingdom***

This Offering Circular and any other material in relation to the Shares described herein is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospective Directive ("qualified investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); (ii) high net worth entities or other persons falling within Article 49(2)(a) to (d) of the Order; or (iii) persons to whom distributions may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). The Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Shares will be engaged in only with, relevant persons. This Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this Offering Circular or any of its contents.

***United States***

The Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Shares are proposed to be sold within the United States only to QIBs in reliance on Rule 144A and outside the United States in reliance on Regulation S.

***Dubai International Financial Centre***

This Offering Circular relates to an Exempt Offer, as defined by the Dubai Financial Services Authority ("DFSA"), in accordance with the Offered Securities Rules of the DFSA. This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular.

The Shares to which this Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Shares offered should conduct their own due diligence on the Shares. If you do not understand the contents of this Offering Circular you should consult an authorized financial advisor.

***Israel***

No action has been or will be taken in Israel that would permit a public offering of the Shares, or distribution of this Offering Circular, to the public in Israel. This Offering Circular has not been approved by the Israel Securities Authority. Accordingly, this Offering Circular is only made available to, and the Shares may only be offered to, investors that fall within the First Schedule to Israel's Securities Law of 1968 (the "Securities Law Schedule"). A prospective purchaser in Israel will be required to confirm in writing prior to any purchase of the Shares that it is one of the types of investors listed in the Securities Law Schedule and that it understands the implications of, and consents to, such classification.

***Japan***

The Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "FIEL"). Accordingly, the Shares may not be offered or sold in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to others for offering or resale except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan. As used in this paragraph, "resident of Japan" means any natural person having his place of domicile or residence in Japan, including any corporation or other entity organized under the laws of Japan, or having its main office in Japan.

This offering of the Shares in Japan satisfies the requirements of the qualified institutional investors ("QIIs") solicitation set out in Article 23-13 of the FIEL. Therefore, no securities registration statement (as set out in Article 4, Paragraph 1 of the FIEL) has been filed with respect to this offering in Japan. This offering in Japan is made on a condition that any purchaser in Japan shall enter into an agreement to the effect that the purchaser will not transfer the Shares to any person other than a QII.

***Singapore***

The offer or invitation which is the subject of this Offering Circular is only allowed to certain persons and institutions and not to the retail public. Moreover, this Offering Circular or any written materials issued in connection with the offer is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, statutory liability under the SFA in relation to the contents of prospectuses would not apply. Prospective purchasers should consider carefully whether the investment is suitable for them.

This Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Share may not be circulated or distributed, nor may any Share be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than:

(i) to an institutional investor (as defined in Section 4A of the SFA) in accordance with the conditions specified in Section 274 of the SFA;

(ii) to a relevant person (as defined in Section 275(2) of the SFA) in accordance with the conditions specified in Section 275(1) of the SFA;

(iii) to any person in accordance with the conditions specified in Section 275(1A) of the SFA; or

(iv) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where any Share is acquired pursuant to an offer made in reliance on an exemption under Section 274 or Section 275 of the SFA, it is a condition of the offer that each person who agrees to acquire any Share is acquiring such Shares for investment purposes only and not with a view to distribute or resell such Shares and that it will not offer for sale, resell or otherwise distribute or agree to distribute such Shares within six months of such acquisition to any person other than to:

(i) an institutional investor;

(ii) a relevant person; or

(iii) any person pursuant to an offer referred to in Section 275(1A) of the SFA.

Where any Share is acquired pursuant to an offer made in reliance on an exemption under Section 275 of the SFA by a relevant person which is a corporation (other than a corporation which is an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments

and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, securities of that corporation shall not be transferred within six months after that corporation has acquired the Shares unless such transfer is made in accordance with the conditions specified in Section 276(3) of the SFA.

Where any Share is acquired pursuant to an offer made in reliance on an exemption under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that trust has acquired the Shares unless such transfer is made in accordance with the conditions specified in Section 276(4) of the SFA.

Prospective purchasers should therefore ensure that their own transfer arrangements comply with the above restrictions.

***Switzerland***

The Shares may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Shares constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd., and neither this Offering Circular nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland.

***United Arab Emirates***

This Offering Circular is not intended to constitute an offer or sale of any securities under the laws of the United Arab Emirates ("UAE") and it has not been reviewed, approved or authorized by the Central Bank of the UAE, the Securities and Commodities Authority of the UAE, or any other relevant authority in the UAE (together, the "Authorities"). The Shares may not be offered or sold directly or indirectly in the UAE.

None of the Company, Esas Holding or the Sole Global Coordinator has received any authorization or license from any of the Authorities to market, offer or sell the Shares within the UAE and no marketing, offering or sale of the Shares will take place in the UAE. None of the Company, Esas Holding or the Sole Global Coordinator is a licensed broker, dealer, investment advisor or financial adviser under the laws of the UAE or provides any brokerage, dealer, investment advisory or financial advisory services in the UAE.

This Offering Circular is strictly private and confidential and is being distributed to a limited number of sophisticated and/or professional investors upon their request. This Offering Circular and any other offering material do not constitute a public offer or advertisement or solicitation to the public, are intended only for the individual recipients thereof to whom the Offering Circular is personally provided and may not be reproduced or used for any other purpose.

## TRANSFER RESTRICTIONS

*As a result of the following restrictions, we advise you to contact legal counsel prior to making any resale, pledge or transfer of the Shares.*

*The Offering is being made in reliance on Rule 144A and Regulation S. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered or sold within the United States, except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and outside the United States in accordance with Regulation S. Terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as so defined.*

### Regulation S

Each purchaser of the Shares outside the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows:

(1) It (a) is aware that the sale of the Shares to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S; (b) is, or at the time such Shares are purchased will be, the beneficial owner of those Shares; and (c) is located outside the United States (within the meaning of Regulation S) and it is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S.

(2) It is not our or Esas Holding's affiliate or a person acting on behalf of such an affiliate.

(3) It understands that the Shares have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (a) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; or (b) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, in each case in accordance with any applicable securities laws of any state of the United States.

(4) It acknowledges that we, Esas Holding, the Managers and our respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

We will not recognize any resale or other transfer, or attempted resale or other transfer, in respect of the Shares made other than in compliance with the above-stated restrictions.

### Rule 144A

Each purchaser of the Shares within the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows:

(1) It acknowledges that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer.

(2) It is:

(i) a QIB;

(ii) aware, and each beneficial owner of such Shares has been advised, that the sale to it is being made in reliance on Rule 144A; and

(iii) acquiring such Shares for its own account or for the account of a QIB.

(3) It agrees (or if it is acting for the account of another person, such person, has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer those Shares except (a) to a person whom it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A; (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; or (c) in accordance with Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Shares of the resale restrictions referred to in (a), (b) and

(c) above. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of the Shares.

(4) Notwithstanding anything to the contrary in the foregoing paragraphs, the Shares may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank, unless and until such time as those shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

(5) If it is acquiring Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(6) It acknowledges that we, Esas Holding, the Managers and our respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

We will not recognize any resale or other transfer, or attempted resale or other transfer, in respect of the Shares made other than in compliance with the above-stated restrictions.

**Prospective purchasers are hereby notified that sellers of our shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

**Transferability of Shares**

Subject to the limitations described herein, the Shares may be sold and transferred by means of book-entry registration with accounts maintained with the Central Registry Agency.

Due to the foreign ownership restrictions set forth in the Civil Aviation Law and the SHY-6A, pursuant to our articles of association and the relevant provisions of the TCC, share transfers resulting in foreign shareholders owning 50% or more of our share capital will be binding on us only upon the approval of our board of directors. See "Description of Our Share Capital—Transfer of Shares."

Turkish law requires non-resident investors to trade Turkish equity securities through a licensed Turkish bank or a brokerage firm. In addition, the CMB regulations require banks or brokerage firms to trade shares of a company quoted on a Turkish stock exchange exclusively on such exchange. The CMB has indicated that this requirement applies only to intermediary institutions (banks or brokers) licensed for trading on the stock exchange and to trade orders placed with them by investors. Accordingly, following the Offering, our shareholders that are not resident in Turkey may transfer the Shares only on the ISE, through a bank or a brokerage firm.

## LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for the Company by White & Case LLP as to English law and United States federal law. Certain legal matters relating to Turkish law will be passed upon for the Company by Akol Avukatlık Bürosu. Certain legal matters with respect to the Offering will be passed upon for the Managers by Herbert Smith Freehills LLP as to English law and United States federal law. Certain legal matters relating to Turkish law will be passed upon for the Managers by Paksoy Ortak Avukat Bürosu.

## INDEPENDENT AUDITOR

The IFRS Financial Statements of Pegasus Hava Taşımacılığı A.Ş. as of and for the years ended December 31, 2012, 2011 and 2010 included in the Offering Circular have been audited by our independent auditor, DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Deloitte Touche Tohmatsu, whose report thereon is included in this Offering Circular.

## IFRS FINANCIAL STATEMENTS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**PEGASUS HAVA TAŞIMACILIĞI**
**ANONİM ŞİRKETİ**

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012, 2011 AND 2010
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pegasus Hava Taşımacılığı Anonim Şirketi
İstanbul

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pegasus Hava Taşımacılığı Anonim Şirketi (the "Company") and its subsidiaries (together "the Group"), which comprise of the consolidated balance sheets as of 31 December 2012, 2011 and 2010 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2012, 2011 and 2010 and of their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

İstanbul, 15 February 2013

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

**PEGASUS HAVA TAŞIMACILIĞI A.Ş.**

**CONSOLIDATED BALANCE SHEETS**

**AS AT 31 DECEMBER 2012, 2011 AND 2010**

**(Amounts are expressed in TL unless otherwise stated.)**

| | Notes | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | 4 | 210,150,238 | 19,549,364 | 49,284,469 |
| Trade receivables | 5 | 41,871,360 | 78,693,508 | 18,511,639 |
| Inventories | 7 | 1,882,592 | 580,183 | 208,889 |
| Other receivables and assets | 8 | 85,424,957 | 99,314,260 | 41,011,332 |
| **Total current assets** | | **339,329,147** | **198,137,315** | **109,016,329** |
| **Non-current assets:** | | | | |
| Investments | 9 | 1,512,211 | 662,186 | 286,360 |
| Tangible assets | 10 | 1,730,317,522 | 1,412,703,602 | 854,170,057 |
| Intangible assets | 11 | 5,013,650 | 5,632,441 | 3,231,665 |
| Other receivables and non-current assets | 8 | 132,838,505 | 202,706,762 | 263,790,567 |
| Deferred tax assets | 17 | — | 12,346,542 | 5,550,596 |
| **Total non-current assets** | | **1,869,681,888** | **1,634,051,533** | **1,127,029,245** |
| **Total Assets** | | **2,209,011,035** | **1,832,188,848** | **1,236,045,574** |

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

**PEGASUS HAVA TAŞIMACILIĞI A.Ş.**

**CONSOLIDATED BALANCE SHEETS**

**AS AT 31 DECEMBER 2012, 2011 AND 2010 (Continued)**

**(Amounts are expressed in TL unless otherwise stated.)**

| | Notes | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities:** | | | | |
| Financial liabilities | 12 | 50,722,463 | 189,002,830 | 152,183,020 |
| Obligations under finance leases | 13 | 135,232,251 | 103,033,355 | 57,999,800 |
| Trade payables | 14 | 88,538,575 | 100,683,084 | 54,390,220 |
| Other payables and current liabilities | 15 | 239,537,994 | 159,974,957 | 115,778,624 |
| Provision for employee benefits | 16 | 24,044,479 | 4,831,192 | 10,381,839 |
| **Total current liabilities** | | **538,075,762** | **557,525,418** | **390,733,503** |
| **Non-current liabilities:** | | | | |
| Financial liabilities | 12 | — | — | 11,307,245 |
| Obligations under finance leases | 13 | 1,240,919,331 | 1,030,040,742 | 621,239,241 |
| Other non-current liabilities | 15 | 26,333,376 | 18,302,176 | 14,255,429 |
| Provision for employee benefits | 16 | 4,149,445 | 625,339 | 546,745 |
| Deferred tax liabilities | 17 | 72,180,973 | 36,998,098 | 28,982,991 |
| **Total non-current liabilities** | | **1,343,583,125** | **1,085,966,355** | **676,331,651** |
| **Total liabilities** | | **1,881,658,887** | **1,643,491,773** | **1,067,065,154** |
| **Equity** | | | | |
| Share capital | 20 | 75,000,000 | 75,000,000 | 75,000,000 |
| Effects of the acquisition of IHY İzmir Havayolları A.Ş. ("İzair") | | 29,504,957 | 29,504,957 | 29,504,957 |
| Translation reserve | | 72,735,810 | 69,180,672 | 37,563,243 |
| Cash flow hedging reserve | | 11,918,586 | 3,191,351 | (126,249) |
| Retained earnings before net profit/(loss) for the year | | 11,889,279 | 27,212,283 | 6,916,412 |
| Net profit/ (loss) for the year | | 126,303,516 | (15,323,004) | 25,536,874 |
| **Equity attributable to equity holders of the parent** | | **327,352,148** | **188,766,259** | **174,395,237** |
| Non-controlling interest | | — | (69,184) | (5,414,817) |
| **Total equity** | | **327,352,148** | **188,697,075** | **168,980,420** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,209,011,035** | **1,832,188,848** | **1,236,045,574** |

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

**PEGASUS HAVA TAŞIMACILIĞI A.Ş.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

**(Amounts are expressed in TL unless otherwise stated.)**

| | Notes | 1 January - 31 December 2012 | 1 January - 31 December 2011(*) | 1 January - 31 December 2010 |
|---|---|---|---|---|
| Revenue | 21 | 1,919,892,223 | 1,484,079,753 | 977,863,116 |
| Cost of sales | 22 | (1,600,787,909) | (1,376,748,406) | (867,782,511) |
| **Gross profit** | | **319,104,314** | **107,331,347** | **110,080,605** |
| Selling and marketing expenses | 24 | (80,353,989) | (67,845,635) | (38,823,562) |
| General administrative expenses | 23 | (50,250,429) | (44,887,428) | (35,077,321) |
| Share of profit / (loss) of associates and joint ventures | 9 | (1,513,990) | 409,670 | (109,663) |
| Finance costs | 27 | (49,133,836) | (31,522,079) | (17,175,753) |
| Finance income | 26 | 13,278,513 | 13,984,584 | 4,856,873 |
| Other income (net) | 25 | 4,189,016 | 9,850,948 | 7,199,355 |
| **Net profit/(loss) before tax** | | **155,319,599** | **(12,678,593)** | **30,950,534** |
| Income tax | 17 | — | — | — |
| Deferred tax (expense) | 17 | (29,016,083) | (1,407,307) | (10,713,224) |
| **Net profit/(loss)** | | **126,303,516** | **(14,085,900)** | **20,237,310** |
| Cumulative translation adjustment | | 3,555,138 | 30,247,314 | 1,177,467 |
| Cash flow hedge | | 8,727,235 | 3,317,598 | (126,249) |
| *Gains / (Losses) on derivative contracts* | | *14,898,232* | *3,989,186* | *(49,610)* |
| *(Gains) / losses included in net profit/(loss)* | | *(3,191,351)* | *126,249* | *(86,561)* |
| *Deferred tax* | | *(2,979,646)* | *(797,837)* | *9,922* |
| **Total comprehensive income** | | **138,585,889** | **19,479,012** | **21,288,528** |
| **Net profit/(loss) attributable to:** | | | | |
| Equity holders of the parent | | 126,303,516 | (15,323,004) | 25,536,874 |
| Non-controlling interests | | — | 1,237,104 | (5,299,564) |
| | | **126,303,516** | **(14,085,900)** | **20,237,310** |
| Earnings/(loss) per share | 30 | 1.68 | (0.20) | 1.07 |
| **Total comprehensive income / (loss) attributable to:** | | | | |
| Equity holders of the parent | | 138,585,889 | 19,612,025 | 26,703,345 |
| Non-controlling interests | | — | (133,013) | (5,414,817) |
| | | **138,585,889** | **19,479,012** | **21,288,528** |

(*) The Group has revised certain previously reported amounts in order to conform to current year accounting treatment and presentation. (See Note 3.32 for further information)

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

**PEGASUS HAVA TAŞIMACILIĞI A.Ş.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

**(Amounts are expressed in TL unless otherwise stated.)**

| | Share capital | Effects of the acquisition of İzair | Translation reserve | Cash flow hedging reserve | Retained earnings | Equity attributable to equity holders of the parent | Non-controlling Interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2010** | **17,075,000** | **32,673,026** | **36,270,523** | **—** | **6,916,412** | **92,934,961** | **—** | **92,934,961** |
| Capital contribution in İzair | — | 15,500,000 | — | — | — | 15,500,000 | — | 15,500,000 |
| Increase in share capital of the Company | 57,925,000 | — | — | — | — | 57,925,000 | — | 57,925,000 |
| Payment to Esas Holding A.Ş. to acquire İzair | — | (18,668,069) | — | — | — | (18,668,069) | — | (18,668,069) |
| Total comprehensive (loss) / income for the year | — | — | 1,292,720 | (126,249) | 25,536,874 | 26,703,345 | (5,414,817) | 21,288,528 |
| **Balances at 31 December 2010** | **75,000,000** | **29,504,957** | **37,563,243** | **(126,249)** | **32,453,286** | **174,395,237** | **(5,414,817)** | **168,980,420** |
| Capital contribution in İzair by non-controlling interests | — | — | — | — | — | — | 237,643 | 237,643 |
| Effect of acquisition of additional shares in a subsidiary | — | — | — | — | (5,241,003) | (5,241,003) | 5,241,003 | — |
| Transfers to the prior year's profit/(loss) | — | — | — | 126,249 | (126,249) | — | — | — |
| Total comprehensive (loss) / income for the year | — | — | 31,617,429 | 3,191,351 | (15,196,755) | 19,612,025 | (133,013) | 19,479,012 |
| **Balances at 31 December 2011** | **75,000,000** | **29,504,957** | **69,180,672** | **3,191,351** | **11,889,279** | **188,766,259** | **(69,184)** | **188,697,075** |
| Effect of sale of interest in İzair (Note 1) | — | — | — | — | — | — | 69,184 | 69,184 |
| Transfers to the prior year's profit/(loss) | — | — | — | (3,191,351) | 3,191,351 | — | — | — |
| Total comprehensive (loss) / income for the year | — | — | 3,555,138 | 11,918,586 | 123,112,165 | 138,585,889 | — | 138,585,889 |
| **Balances at 31 December 2012** | **75,000,000** | **29,504,957** | **72,735,810** | **11,918,586** | **138,192,795** | **327,352,148** | **—** | **327,352,148** |

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

**PEGASUS HAVA TAŞIMACILIĞI A.Ş.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

**(Amounts are expressed in TL unless otherwise stated.)**

| | Notes | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Net Profit/(Loss)** | | **126,303,516** | **(14,085,900)** | **20,237,310** |
| Adjustments to reconcile net profit/(loss) before tax to net cash provided by operating activities | | | | |
| Depreciation and amortization expenses | 10 - 11 | 104,401,778 | 75,870,148 | 39,548,159 |
| Provision for employee termination benefits | 16 | 1,394,961 | 406,727 | 180,301 |
| Increase in income sharing plan, vacation accrual and executive bonus plan | | 23,496,108 | 1,030,849 | 7,167,339 |
| Provision for doubtful receivables | 5 | 131,937 | 47,826 | 1,148,521 |
| Income tax expense | 17 | 29,016,083 | 1,407,307 | 10,713,224 |
| Share of (profit) / loss of associates | 9 | 1,513,990 | (409,670) | 109,663 |
| (Gain) / loss for the sale of tangible and intangible assets | | (126,988) | (255,652) | 1,592,949 |
| Change in maintenance reserves and redelivery provision | 15 | 12,739,780 | 24,708,159 | 5,545,800 |
| Interest and commission expense | 27 | 35,096,398 | 28,462,893 | 16,835,102 |
| Investment revenue | 26 | (3,574,571) | (1,351,413) | (256,762) |
| Reversal of impairment of tangible and intangible asset | 25 | — | — | (6,661,798) |
| Unrealized gain on derivative contracts | | (2,457,436) | (7,666,673) | (2,035,162) |
| Impairment of financial assets | 25 | — | — | 69,141 |
| Legal provision | 15 | 527,771 | 207,758 | 440,997 |
| Translation loss | | 10,937,545 | (4,353,508) | 3,932,985 |
| **Cash generated from operations before changes in working capital** | | **339,400,871** | **104,018,851** | **98,567,769** |
| Decrease / (increase) in trade receivables | | 28,952,710 | (56,950,451) | 8,125,563 |
| Increase in inventories | | (1,303,613) | (371,294) | (95,361) |
| Increase in other receivables and other current assets | | (4,436,483) | (60,961,681) | (8,388,197) |
| Increase in trade payables | | 42,232,097 | 46,958,917 | 3,639,302 |
| Increase in other liabilities | | 58,871,748 | 21,682,335 | 28,387,617 |
| **Changes in working capital** | | **124,316,459** | **(49,642,174)** | **31,668,924** |
| **Cash generated from operations** | | **463,717,330** | **54,376,677** | **130,236,693** |
| Retirement benefits and income sharing provision paid | 16 | (1,269,663) | (6,909,628) | (3,614,600) |
| **Net cash from operating activities** | | **462,447,667** | **47,467,049** | **126,622,093** |
| **Cash flows from investing activities** | | | | |
| Purchase of tangible and intangible assets(*) | | (20,058,058) | (14,918,929) | (7,699,987) |
| Changes in advances on aircraft | | 13,918,856 | 47,576,258 | (94,259,452) |
| Cash proceeds from sales of tangible and intangible assets | | 2,557,434 | 952,892 | 160,623 |
| Cash proceeds from sale of subsidiary shares | | 10,784,892 | — | — |
| Payment for acquisition of subsidiary | | (232,661) | — | — |
| Interest received | | 3,574,571 | — | — |
| **Net cash (used in) / generated from investing activities** | | **10,545,034** | **33,610,221** | **(101,798,816)** |
| **Cash flows from financing activities** | | | | |
| Increase in share capital | | — | — | 2,539,380 |
| Effect of İzair acquisition | | | | |
| Capital contribution to İzair | | — | 237,643 | 15,500,000 |
| Cash paid to Esas Holding A.S. to acquire İzair | | — | — | (18,668,069) |
| Repayment of finance lease obligations | | (117,378,591) | (78,665,344) | (44,595,041) |
| Interest paid | | (36,526,904) | (26,402,099) | (16,664,901) |
| Increase in borrowings | | 318,010,468 | 195,318,313 | 163,490,265 |
| Repayment of borrowings | | (446,496,800) | (201,300,888) | (83,458,628) |
| **Net cash generated by / (used in) financing activities** | | **(282,391,827)** | **(110,812,375)** | **18,143,006** |
| **Net increase / (decrease) in cash and cash equivalents** | | 190,600,874 | (29,735,105) | 42,966,283 |
| **Cash and cash equivalents at the beginning of year** | 4 | 19,549,364 | 49,284,469 | 6,318,186 |
| **Cash and cash equivalents at the end of year** | **4** | **210,150,238** | **19,549,364** | **49,284,469** |

(*) TL 402,560,217 of tangible and intangible assets acquisitions in total of TL 473,131,582 for the year ended 31 December 2012 was financed through finance leases (31 December 2011: TL 378,367,965 of tangible and intangible assets acquisitions in total of TL 452,913,411 was financed through finance leases, 31 December 2010: TL 373,705,354 of tangible and intangible assets acquisitions in total of TL 519,653,809 was financed through finance leases).

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

## 1. GENERAL INFORMATION

Pegasus Hava Taşımacılığı A.Ş. (the "Company", "Pegasus") and its subsidiaries (together "the Group") is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service. Group management focuses on providing high-frequency services on short- and medium-haul, point-to-point routes on its domestic and international transit network primarily from its main hub, Sabiha Gökçen airport in İstanbul. The Group also operates scheduled flights from three other domestic hubs in Adana, Antalya and İzmir. The Group operates with 40 aircraft (31 December 2011: 41, 31 December 2010: 32) including one owned, 26 under finance lease and 13 under operating lease as at 31 December 2012.

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

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

The Group's subsidiaries include IHY İzmir Havayolları A.Ş. ("İzair") and Air Manas Limited Liability Company ("Air Manas").

İzair, commenced its operations in 2006, operates domestic and international flights from İzmir Adnan Menderes Airport. İzair operates as a capacity provider to Pegasus. Pegasus acquired a 72.57% interest in İzair from its primary shareholder Esas Holding A.Ş. ("Esas Holding") on 28 September 2010 for TL 18,668,069. The Group increased its ownership to 96.79% in June 2011 via capital increase, and in March 2012, further increased its ownership to 97.82%. During September 2012, Pegasus sold 46.82% of its interest in İzair to Air Berlin Finance GmbH ("AirBerlin") as part of the AirBerlin Turkey agreement described below. As of that date, the Izair was deconsolidated and the remaining 51% interest is treated as a joint venture (see Note 3.6).

Air Manas is a limited liability company established in Kyrgyz Republic on 27 October 2006. The Group acquired 49% of Air Manas in August 2012 and has the ability to control Air Manas. Air Manas had no operations at the time of the investment but currently has an Air Operator's Certificate issued by Civil Aviation Agency of the Kyrgyz Republic. The remaining shares in Air Manas are held by individuals in the Kyrgyz Republic. The Group plans to start operating flights to and from Bishkek under Air Manas in 2013.

The Group also has investments in certain joint ventures and associates, which include the following:

*Pegasus Uçuş Eğitim Merkezi A.Ş.*

The Group incorporated Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM") in October 2010 in Turkey, a joint venture flight training company, with SIM-Industries B.V., a Dutch simulator manufacturing and marketing company. PUEM has a 737-800 "next generation" flight simulator and commenced its operations in İstanbul in January 2011. The Group owns 49.40% of the outstanding shares of PUEM.

*KPA Limited Liability Company ("KPA LLC")*

KPA LLC was formed in 2009 as a joint venture held 51% by Open Joint Stock Kyrgyzstan Air Company ("Kyrgyzstan Air") and 49% by the Group. KPA LLC was formed to become the first low cost airline of Kyrgyzstan and the neighbouring countries. In 2011, based on the lack of progress towards commencing operations, the Group determined that the carrying value of the investment was impaired and recorded a provision of TL 69,141 against the investment.

## 1. GENERAL INFORMATION (Continued)

*İzmirliler Otelcilik Yatırım Turizm ve Ticaret A.Ş. ("İzmirliler Otelcilik")*

The Group, through Izair, held a 49.99% of the shares of İzmirliler Otelcilik until May 2012. In May 2012, İzair has sold its interest in İzmirliler Otelcilik to Pegasus. The Group's share increased to 59% in 2012 when one of the shareholders decided not to exercise its right of purchase in the statutory capital increase of İzmirliler Otelcilik. The remaining shares are held by Turkish nationals. The Group while owning greater than 50% of the entity does not have the ability to control it, including the fact it does not have any representation in İzmirliler Otelcilik's board of directors at 31 December 2012, and as a result does not consolidate this entity.

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

*AirBerlin Turkey Agreement*

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

In March 2012, Pegasus agreed to sell 46.82% of İzair shares to Air Berlin and agreed to jointly control the entity. The sale of the shares was finalized on 4 September 2012 following the receipt of all regulatory approvals. This sale in September 2012 resulted in the deconsolidation of Izair and the recognition of an investment in Izair joint venture.

The agreement for the sale of shares provides Air Berlin two options under which it can require Pegasus to repurchase the shares in Izair. The first option allows Air Berlin to put the shares back to Pegasus if İzair does not have a valid scheduled AOC by 1 March 2013. As of the reporting date, İzair have not yet applied for an AOC from the Turkish Civil Aviation Authority ("CAA") since it has not yet managed to meet the five aircraft requirement of CAA. The second option allows Air Berlin to put the shares back to Pegasus if Air Berlin's shareholding in İzair falls below the initially acquired level due to the result of non-controlling interest shareholder lawsuits against capital increases performed in 2010 and 2011 in İzair. (See Note 18) Under these put options, the Group would be required to repurchase the shares at Air Berlin's initial consideration plus the change in the net assets of İzair.

The shareholders and their respective holdings in the Company are as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Esas Holding A.Ş. | 96.50% | 96.50% | 96.50% |
| Sabancı Family Members | 3.50% | 3.50% | 3.50% |
| **Total** | **100.00%** | **100.00%** | **100.00%** |

The Group's total number of full time employees as of 31 December 2012 is 2,045 (31 December 2011: 2,050, 31 December 2010: 1,691). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11 Kurtkoy-Pendik İstanbul.

Approval of financial statements

The accompanying financial statements were approved by the Board of Directors of the Company for issue as at 15 February 2013.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

**New and Revised International Financial Reporting Standards**

a. **There are no new and revised IFRSs affecting presentation and disclosure only**

b. **There are no new and revised IFRSs affecting the reported financial performance and / or financial position**

c. **New and revised IFRSs applied with no material effect on the consolidated financial statements**

**Amendments to IFRS 7 *Disclosures—Transfers of Financial Assets***

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. These amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

**Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets***

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Group does not have investment property. The amendment did not have any effect on the consolidated financial statements.

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)**

**d. New and revised IFRSs in issue but not yet effective**

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

| | |
|---|---|
| Amendments to IAS 1 | *Presentation of Items of Other Comprehensive Income*(1) |
| Amendments to IAS 1 | *Clarification of the Requirements for Comparative Information*(2) |
| IFRS 9 | *Financial Instruments*(5) |
| IFRS 10 | *Consolidated Financial Statements*(3) |
| IFRS 11 | *Joint Arrangements*(3) |
| IFRS 12 | *Disclosure of Interests in Other Entities*(3) |
| IFRS 13 | *Fair Value Measurement*(3) |
| Amendments to IFRS 7 | *Disclosures—Offsetting Financial Assets and Financial Liabilities*(3) |
| Amendments to IFRS 9 and IFRS 7 | *Mandatory Effective Date of IFRS 9 and Transition Disclosures*(5) |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | *Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide*(3) |
| IAS 19 (as revised in 2011) | *Employee Benefits*(3) |
| IAS 27 (as revised in 2011) | *Separate Financial Statements*(3) |
| IAS 28 (as revised in 2011) | *Investments in Associates and Joint Ventures*(3) |
| Amendments to IAS 32 | *Offsetting Financial Assets and Financial Liabilities*(4) |
| Amendments to IFRSs | *Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1*(3) |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine*(3) |

(1) Effective for annual periods beginning on or after 1 July 2012.

(2) Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012.

(3) Effective for annual periods beginning on or after 1 January 2013.

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

(5) Effective for annual periods beginning on or after 1 January 2015.

**Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income***

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* are effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)**

subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis—the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**Amendments to IAS 1 *Presentation of Financial Statements***
**(As part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012)**

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

**IFRS 9 *Financial Instruments***

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

**New and revised Standards on consolidation, joint arrangements, associates and disclosures**

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return.

IFRS 11 addresses the classification of a joint arrangement of which two or more parties have joint control. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management anticipates that the application of these five standards will not have a significant impact on amounts reported in the consolidated financial statements.

**IFRS 13 *Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)**

**Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures***

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

**IAS 19 *Employee Benefits***

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. The Group management does not believe that the impact of the application of the amendment will be significant.

***Annual Improvements to IFRSs 2009 - 2011 Cycle* issued in May 2012**

*The Annual Improvements to IFRSs 2009 - 2011 Cycle* include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation*.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

3.1 *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3.2 *Basis of presentation of consolidated financial statements*

The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

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

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. However, the Company has elected to present the Group financial statements in Turkish Lira ("TL") as the Company plans to perform a public offering and a listing at Istanbul Stock Exchange.

The Group has translated its financial statements from Euro to TL as follows;

- Assets and liabilities are translated using the Central Bank of the Turkish Republic ("TCMB") Euro buying rate prevailing at the balance sheet date; 31 December 2012: 1 Euro (€) = 2.3517 TL (31 December 2011: 1 Euro (€) = 2.4438 TL , 31 December 2010: 1 Euro (€) = 2. 0491 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.

3.3 *Consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

3.4 *Business combinations*

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3.5 *Acquisitions from entities under common control*

IFRS does not provide specific guidance for the accounting for acquisitions from entities under common control. The Group, in the absence of specific literature under IFRS, applied the requirements of paragraph 10-12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and has elected to apply the guidance set out under generally accepted accounting principles in the United States for transfer of net assets between entities under common control. Under this policy, the Group records assets and liabilities acquired at the historical cost and restates its historical financial statements to reflect the acquisition as it occurred at the date from which the entities were under common control.

The acquisition of the controlling interest in Izair (see Note 1) on 28 September 2010 is an acquisition from entities under common control since the Company and Izair are both controlled by Esas Holding A.Ş. before and after such acquisition. Based on the Group's accounting policy, the Group measured the assets and liabilities of Izair at the historical cost of Esas Holding.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Esas Holding acquired controlling interest in Izair on 31 March 2007. The Group's consolidated financial statements reflect the acquisition as if it occurred at 31 March 2007. The net effect of the above stated transfer of net assets between entities under common control including the TL 18,668,069 payment to Esas in 28 September 2010 has been recognized as "Effects of the acquisition of IHY İzmir Havayolları A.Ş." within equity. The Group has reflected the cash payment to Esas Holding as financing cash flow as it is similar to a cash distribution to the parent company.

3.6 *Investment in joint ventures and joint operations*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. The Group recognizes its interest in joint ventures using the equity method as permitted by "IAS 31 Interest in Joint Ventures".

3.7 *Investments in associates*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3.8 *Impairment of investments in associates*

The Group's investment in associates are tested for impairment when any indication that those assets have suffered an impairment loss. If an indication exists, the Group assesses impairment by comparing the carrying amount to the recoverable amount (higher of value in use and fair value less costs to sell). Impairment is recognized to the extent the carrying amount exceeds the recoverable amount. The impairment may reverse in the future to the extent that the recoverable amount of the investment subsequently increases

3.9 *Revenue recognition*

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3.10 *Pegasus Card and Pegasus Plus loyalty program*

Pegasus Card

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

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

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

Pegasus Plus loyalty program

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

3.11 *Inventories*

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

3.12 *Tangible assets*

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

3.13 *Intangible assets*

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

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

3.14 *Provisions*

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

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

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

3.15 *Impairment of tangible and intangible assets*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.16 *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There are no qualifying assets during the years ended 31 December 2012, 2011 and 2010, therefore no borrowing costs were capitalized during the years ended 31 December 2012, 2011 and 2010. All other borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

### 3.17 *Maintenance and repair costs and maintenance reserve contribution receivables*

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned and financial leased aircraft is described in the accounting policy for tangible assets (Note 3.12).

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

### 3.18 *Redelivery provision*

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

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

### 3.19 *Taxation and deferred income taxes*

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

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

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the comprehensive income because of items of income or expense that are

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred tax*

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

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

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

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

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

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

*Current and deferred tax for the period*

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

3.20 *Government Grants*

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

*Investment Incentives*

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

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

The Company obtained an incentive certificate in 21 March 2011 from the Turkish Treasury. The certificate is for 11 aircraft purchased in 2011and 2012. According to the incentive certificate the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of these aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 10% instead of 20%) taxable income attributable to the operation of these aircraft. As the Company did not have any taxable profits during the year ended 31 December 2012 (2011: None, 2010: None) it has not recognized any benefit associated with the Incentive Program. When recognized, the Company management considers that the accounting for the related investment assistance will be classified as deferred income which is recognized as income on a consistent basis over the useful life of the related assets

3.21 *Employee benefits*

*Termination and retirement benefits*

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

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation. All actuarial gains and losses are recognized in comprehensive income.

*Personnel income sharing plan*

The Group recognizes a liability and an expense for income sharing, based on a formula that takes into consideration the profit before tax. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

*Executive bonus plan*

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

3.22 *Foreign currency transactions*

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

3.23 *Leasing—the Company as Lessee*

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

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

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

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

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

3.24 *Financial assets*

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

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

3.25 *Financial assets (cont'd)*

*Effective interest method*

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

*Loans and receivables*

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

Impairment of financial assets

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

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

Cash and cash equivalents

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

3.26 *Financial liabilities*

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

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Group does not have any financial liabilities at FVTPL.

*Other financial liabilities*

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

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

3.27 *Derivative financial instruments and hedge accounting*

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

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

The Group also had a number of forward contracts that hedges of foreign exchange risk on firm commitments which qualify for hedge accounting under the specific provisions of IAS 39 as at 31 December 2011 and 2010 and they are accounted for as cash flow hedges. The effective portion of changes in the fair value of forward contracts that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Fuel costs which are predominantly determined in US Dollars constitute a substantial portion of the Group's cost base. The Group enters into forward transactions with financial institutions based on acquisition of jet fuel or Brent oil on specified prices. These commodity forward transactions qualify for hedge accounting and they are accounted as cash flow hedges under equity as at 31 December 2012 and 2011 (31 December 2010: None).

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.28 *Subsequent Events*

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

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

### 3.29 *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.

### 3.30 *Contingent liabilities and contingent assets*

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

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

### 3.31 *Earnings per Share*

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

### 3.32 *Changes in accounting policies, accounting estimates and errors*

The detected accounting errors are applied retrospectively and the financial statements of the previous year are restated.

If changes in accounting estimates are for only one period, changes are applied on the current year but if the changes in accounting estimates are for the following periods, changes are applied both on the current and the following years prospectively.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Group had revised certain amounts in its previously reported consolidated statement of comprehensive income. The nature, amount and reasons for each of the reclassifications are described below:

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Reported in the previous period | AirBerlin Turkey reclassification(**) | Commission expense reclassification(*) | Reported in the current period |
| Revenue | 1,475,071,556 | 9,008,197 | — | 1,484,079,753 |
| Cost of sales | (1,373,449,993) | (9,351,411) | 6,052,998 | (1,376,748,406) |
| Selling and marketing expenses | (61,792,637) | — | (6,052,998) | (67,845,635) |
| General administrative expenses | (45,176,773) | 289,345 | — | (44,887,428) |
| Finance costs | (31,575,948) | 53,869 | — | (31,522,079) |

(*) The Group has reclassified TL 6,052,998 of commission expenses to sales and marketing expenses which were previously recognized as other cost of sales.

(**) The Group revised the treatment of the revenue and costs associated with the AirBerlin Turkey agreement during 2012 in order to present the amounts based on the nature of the contract and the associated risks/rewards to each party.

3.33 *Critical accounting estimates and assumptions*

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

*Useful lives and residual values of tangible assets and aircraft*

The Group has allocated depreciation over tangible assets by taking into consideration the useful lives and residual values which were explained in Note 3.12 and Note 10. The determination of the estimated useful lives requires management to make assumptions and judgements, which it bases on its historical experience and its business plans.

*Income taxes*

The Group recognizes deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. Based on the available evidence, it is the Group's belief that sufficient taxable profit will be available to utilize these deferred tax assets as at 31 December 2012.

*Redelivery provision*

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year. The provision also incorporates management expectation on the cost of the maintenance and component compensation at the time of the redelivery.

*Litigation provision*

The Group is party to various lawsuits, legal claims and fines as part of the normal course of business. The Group management with the assistance from their legal experts analyse these claims and lawsuits, assess their potential financial impact and if necessary recognise a provision based on the result of this assessment. The Group has provided TL 995,188 as at 31 December 2012 (Note 15).

*Tax penalty*

During 2012 The Inspection Officers of Ministry of Finance has audited the accounts and transactions of the Company for 2009, 2010, 2011 and until January 2012. The tax inspector has challenged the applied VAT tax rates remitted on behalf of the non-resident aircraft lessor company that is party the Company's finance lease structure and has penalised Pegasus for a liability of TL 30,872,430 and an additional tax penalty of TL 46,308,645. In order to mitigate any risk associated with future periods and the fact that the change in rate does not create any cash outflow; the Group has begun to apply the 18% VAT rate "with objection" from December 2012 instead of the previous 1%. The assessment of the tax inspector did not include the period between 1 February 2012 and 30 November 2012 and no liability has been calculated for this period.

The Group has obtained opinions from legal advisers and tax experts. The Group also evaluated the private rulings issued by the Revenue Administration of Republic of Turkey which confirms the rates promulgated by Cabinet Decrees that the Group has applied. Based on the opinions of the tax experts and the evaluation of the rulings, the Group concluded that the payment is not probabale including the period which is not inspected and has not provided for this contingent liability. (see Note 18)

*Fair value of derivatives and other financial instruments*

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

## 4. CASH AND CASH EQUIVALENTS

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Cash on hand | 75,657 | 410,659 | 238,503 |
| Cash at banks | 210,074,581 | 19,125,477 | 49,012,170 |
| —Demand deposits | 24,779,531 | 10,395,510 | 8,415,430 |
| —Time deposits | 185,295,050 | 8,729,967 | 40,596,740 |
| Other | — | 13,228 | 33,796 |
| | **210,150,238** | **19,549,364** | **49,284,469** |

## 4. CASH AND CASH EQUIVALENTS (Continued)

The effective interest rates of TL, USD and Euro denominated time deposits are as presented below. All of the time deposits mature within one month.

| 31 December 2012 | Effective interest rates | TL Amount |
|---|---|---|
| TL deposits | 7.68% | 140,210,693 |
| USD deposits | 3.96% | 31,914,189 |
| EUR deposits | 1.80% | 13,170,168 |
| | | **185,295,050** |

| 31 December 2011 | Effective interest rates | TL Amount |
|---|---|---|
| TL deposits | 9.56% | 3,516,603 |
| USD deposits | 3.40% | 5,213,364 |
| | | **8,729,967** |

| 31 December 2010 | Effective interest rates | TL Amount |
|---|---|---|
| TL deposits | 6.36% | 29,326,431 |
| Euro deposits | 1.25% | 11,270,309 |
| | | **40,596,740** |

## 5. TRADE RECEIVABLES

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Trade receivables (other than credit cards and related parties) | 39,090,468 | 27,825,364 | 22,861,965 |
| Trade receivables—credit cards | 5,678,335 | 54,060,156 | 4,441,453 |
| Trade receivables—credit cards (factored) | — | — | 6,370,883 |
| Allowance for doubtful receivables | (2,897,443) | (3,192,012) | (15,162,662) |
| | **41,871,360** | **78,693,508** | **18,511,639** |

The average credit period on sales of services is approximately 30 days. No interest is charged on trade receivables.

As of 31 December 2012, trade receivables and credit card receivables of TL 40,510,242 were neither past due nor impaired (2011: TL 77,885,387; 2010: TL 15,889,423).

The collaterals received (mostly in the form of letters of credit) in relation to trade receivables that are neither past due nor impaired is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Guarantees received | 6,744,433 | 4,292,435 | 2,126,668 |
| | **6,744,433** | **4,292,435** | **2,126,668** |

## 5. TRADE RECEIVABLES (Continued)

As of 31 December 2012, trade receivables of TL 1,361,118 were past due but not impaired (2011: TL 808,121; 2010: TL 2,622,216). These receivable relate to a number of unrelated customers that did not have history of default. The aging analysis of these receivables is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Up to 2 months | 401,075 | 283,283 | 2,133,064 |
| 2 to 4 months | 834,682 | 173,380 | 202,250 |
| 4 to 12 months | 125,361 | 351,458 | 286,902 |
| | **1,361,118** | **808,121** | **2,622,216** |

As of 31 December 2012, trade receivables of TL 2,897,443 were impaired and provided for (2011: TL 3,192,012; 2010: TL 15,162,662). The aging of these receivables is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| 2 to 4 months | — | — | — |
| 4 to 12 months | — | — | 26,993 |
| Over 1 year | 2,897,443 | 3,192,012 | 15,135,669 |
| | **2,897,443** | **3,192,012** | **15,162,662** |

The collaterals held for the trade receivables that are past due as at the balance sheet date but not impaired and trade receivables that are impaired are as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Letter of guarantees received | 40,953 | — | 99,998 |
| | **40,953** | **—** | **99,998** |

The movement of provision for doubtful receivables is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| 1 January | 3,192,012 | 15,162,662 | 15,255,010 |
| Disposal of subsidiary | (26,992) | — | — |
| Charge for the year | 131,937 | 47,826 | 1,148,521 |
| Collections during the year | — | (37,171) | (491,512) |
| Receivables written off during the year as uncollectable | (282,924) | (15,210,749) | — |
| Currency translation differences | (116,590) | 3,229,444 | (749,357) |
| | **2,897,443** | **3,192,012** | **15,162,662** |

## 6. RELATED PARTY TRANSACTIONS

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

**6. RELATED PARTY TRANSACTIONS (Continued)**

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

**(a) Due from related parties:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **Balances with joint ventures:** | | | |
| PUEM | 181,718 | — | — |
| İzair | 16,358 | — | — |
| | **198,076** | **—** | **—** |

**(b) Due to related parties:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **Balances with parent company** | | | |
| Esas Holding | 2,434,041 | 811,799 | |
| **Balances with joint ventures:** | | | |
| İzmirliler Otelcilik | — | 21,007 | — |
| PUEM | — | 453,863 | — |
| İzair | 825,016 | — | — |
| **Balances with other related parties:** | | | |
| Esas Havacılık Turizm ve Ticaret A.Ş. | — | — | 2,179 |
| RM Arşiv Yönetim Hizmetleri A.Ş. | 3,756 | 508 | — |
| EAG Turizm ve İnşaat Sanayi Ticaret A.Ş. | 216,535 | — | |
| | **3,479,348** | **1,287,177** | **2,179** |

**(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. In addition, in 2010 the Group received loans from Esas Holding to fund some of Group's aircraft pre-delivery payments. During 2010, these loans were offset against Esas Holding's contribution to the Group's share capital.

The Group also leases its head office building from Esas Holding and EAG Turizm ve İnşaat Sanayi Ticaret A.Ş., another Esas Holding subsidiary, and records rent expense as disclosed below.

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

The Group provides maintenance services to İzair. As described in Note 1, İzair was consolidated in the accompanying financial statements until Pegasus's sale of 46.82% of its interest in İzair to Air Berlin on 4 September 2012. The Group also receives simulator training services from PUEM for its pilots.

**6. RELATED PARTY TRANSACTIONS (Continued)**

**(a) Sales of services:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Sales to parent company** | | | |
| Esas Holding | 116,858 | — | — |
| **Sales to joint ventures** | | | |
| İzair | 4,923,631 | — | — |
| PUEM | 347,541 | — | — |
| İzmirliler Otelcilik | — | — | 6,132 |
| | **5,388,030** | **—** | **6,132** |

**(b) Purchases of goods or services:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Purchases from joint ventures** | | | |
| PUEM | 3,187,075 | 3,797,245 | — |
| İzmirliler Otelcilik | 109,981 | 76,319 | 141,029 |
| Izair | 957,444 | — | — |
| **Purchases from other related parties** | | | |
| Callpex | 6,841,288 | 5,940,943 | 3,949,552 |
| Alarm Sağlık Hizmetleri A.Ş. | — | — | 102,000 |
| Medline Johanniter Acil Yardım Akademisi | — | — | 508 |
| Esas Havacılık Turizm ve Ticaret A.Ş. | — | 6,939 | 5,008 |
| RM Arşiv Yönetim Hizmetleri A.Ş. | 26,137 | 6,934 | 3,754 |
| Peyman Kuruyemiş Gıda A.Ş. | — | — | 1,307 |
| EAG Turizm ve İnşaat Sanayi Ticaret A.Ş. | 206,833 | — | — |
| Other | 3,729 | — | — |
| | **11,332,487** | **9,828,380** | **4,203,158** |

**(c) Interest expenses:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Esas Holding | — | — | 3,454,936 |
| | **—** | **—** | **3,454,936** |

**(d) Rent expenses:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Esas Holding | 359,633 | 501,261 | 439,242 |
| EAG Turizm ve inşaat Sanayi Ticaret A.Ş. | 759,616 | — | — |
| İzmirliler Otelcilik A.Ş. | 141,816 | 254,465 | 283,936 |
| | **1,261,065** | **755,726** | **723,178** |

## 6. RELATED PARTY TRANSACTIONS (Continued)

**(e) Financial expenses:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Esas Holding | 11,692,202 | 6,973,686 | 3,672,656 |
| | **11,692,202** | **6,973,686** | **3,672,656** |

**(f) Other Income:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| İzmirliler Otelcilik | 1,077 | — | — |
| | **1,077** | **—** | **—** |

Finance expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0.575% for 31 December 2012 (2011: 0.5%; 2010: 0.5%) of the 115% of the amount guaranteed.

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

Key management personnel include General Manager and Assistant General Managers. The remuneration of directors and other members of key management during the years are as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Salaries and short-term benefits | 2,976,500 | 2,639,769 | 1,944,669 |
| Long-term benefits | 1,234,643 | — | — |
| | **4,211,143** | **2,639,769** | **1,944,669** |

The Group has recognised TL 411,548 short term and TL 1,234,643 long term executive bonus plan liability to its key management personnel as at 31 December 2012.

## 7. INVENTORIES

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Catering inventory | 188,773 | 503,503 | 204,154 |
| Consumables, spare parts and other inventory | 1,693,819 | 76,680 | 4,735 |
| | **1,882,592** | **580,183** | **208,889** |

## 8. OTHER RECEIVABLES AND ASSETS

**Current:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Incentive receivables from suppliers(*) | 18,681,961 | 4,727,915 | — |
| Advances to suppliers | 16,789,339 | 11,804,691 | 8,111,720 |
| Derivative financial assets | 14,898,234 | 11,782,110 | 2,035,162 |
| Maintenance reserve contribution receivables | 9,406,798 | 32,522,531 | 15,024,649 |
| Prepaid aircraft operating lease expense | 6,679,399 | 12,167,998 | 4,125,251 |
| Prepaid insurance expense | 6,258,255 | 6,501,166 | 4,537,181 |
| Prepaid advertising expense | 2,053,827 | 2,233,435 | 1,676,468 |
| Other prepaid expenses | 1,862,817 | 1,973,901 | 1,615,570 |
| Receivable from personnel | 715,984 | 280,688 | 239,160 |
| Prepaid taxes and funds | 466,241 | 93,158 | 36,179 |
| Due from related parties (Note 6) | 198,076 | — | — |
| Ancillary income accruals | 37,724 | 426,617 | 794,164 |
| VAT receivable | — | 2,037,499 | — |
| Deposits given for operational leases | — | 6,837,818 | — |
| Other receivables and current assets | 7,376,302 | 5,924,733 | 2,815,828 |
| | **85,424,957** | **99,314,260** | **41,011,332** |

**Non-current:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Advances on aircraft purchases | 89,263,443 | 180,104,579 | 256,719,254 |
| Incentive receivables from suppliers(*) | 40,109,509 | 15,478,228 | — |
| Deposits and advances on operating leases | 3,070,749 | 5,768,255 | 7,071,313 |
| Other | 394,804 | 1,355,700 | — |
| | **132,838,505** | **202,706,762** | **263,790,567** |

(*) These incentives have been received from handling and maintenance suppliers. The incentives have been recognized in comprehensive income in line with the recognition of related costs.

## 9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| *Joint ventures* | | | |
| İzair(*) | — | — | — |
| PUEM(***) | 379,771 | 496,756 | — |
| *Associates* | | | |
| İzmirliler Otelcilik | 1,132,440 | 165,430 | 286,360 |
| KPA LLC(**) | 69,141 | 69,141 | 69,141 |
| Impairment provision for KPA LLC (Note 25) | (69,141) | (69,141) | (69,141) |
| | **1,512,211** | **662,186** | **286,360** |

(*) The Group has recognised a liability (Note 15) in respect of its share in the net deficit position of Izair since it has constructive obligations in 2012.

## 9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(**) The Group management has reviewed the carrying value of KPA LLC in 2010 and decided to provide an impairment provision as described in Note 1.

(***) The Group has recognised a liability (Note 15) in respect of its share in the net deficit position of PUEM since it has constructive obligations in 2010.

### İzair

The summary financial information of İzair is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Total assets | 33,160,142 | — | — |
| Total liabilities | (41,591,838) | — | — |
| Net assets(*) | (8,431,696) | — | — |

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Joint venture' net income (loss) | (2,551,487) | — | — |
| The Group's share in net profit (loss)(**) | (2,628,508) | — | — |

(*) The sale of 46,82% of İzair shares to AirBerlin was finalized on 4 September 2012. This sale resulted in the deconsolidation of Izair and the recognition of an investment in Izair joint venture. The Group has recognised a liability of TL 7,086,037 as allowance for the loss from associates and joint ventures (Note 15).

(**) The Group's share in net profit (loss) includes the effect of transactions between the Group and İzair.

### PUEM

The summary financial information of PUEM is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Total assets | 13,998,733 | 15,789,788 | 13,407,880 |
| Total liabilities | (13,229,965) | (14,784,210) | (13,512,209) |
| Net assets | 768,768 | 1,005,578 | (104,329) |
| Ownership interest | 49.40% | 49.40% | 49.40% |
| | **379,771** | **496,756** | **(51,539)** |

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Revenue | 3,219,545 | 3,979,801 | — |
| **Associates' net income (loss)** | **(194,931)** | **1,074,091** | **(303,066)** |
| **The Group's share in net profit (loss)** | **(96,296)** | **530,601** | **(149,715)** |

## 9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

**İzmirliler Otelcilik**

The summary financial information of İzmirliler Otelcilik is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Total assets | 3,000,508 | 3,194,145 | 1,865,591 |
| Total liabilities | (1,095,647) | (2,863,219) | (1,292,755) |
| Net assets | 1,904,861 | 330,926 | 572,836 |
| Ownership interest | 59.45% | 49.99% | 49.99% |
| | **1,132,440** | **165,430** | **286,360** |

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Revenue | 14,447,316 | 12,928,780 | 9,698,543 |
| **Net Profit (Loss)** | **2,036,693** | **(241,910)** | **80,120** |
| **The Group's share in net profit/(loss)** | **1,210,814** | **(120,931)** | **40,052** |

**Total profit/(loss) from investments in associates for the year is as follows:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| PUEM | (96,296) | 530,601 | (149,715) |
| İzmirliler Otelcilik | 1,210,814 | (120,931) | 40,052 |
| İzair | (2,628,508) | — | — |
| **Net profit/(loss) from investment in associates** | **(1,513,990)** | **409,670** | **(109,663)** |

## 10. TANGIBLE ASSETS

| 31 December 2012 | Machinery and equipment | Motor vehicles | Furniture and fixtures | Leasehold improvements | Components and repairables | Owned and leased aircraft | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Opening | 1,500,241 | 3,471,523 | 17,184,579 | 6,990,104 | 25,312,410 | 1,578,680,920 | 1,633,139,777 |
| Disposal of subsidiary | (151,723) | (72,031) | (1,090,311) | (1,031,265) | (2,397,791) | — | (4,743,121) |
| Additions | 10,897 | 1,617,260 | 5,705,853 | 6,559,451 | 2,832,191 | 453,073,524 | 469,799,176 |
| Disposals | — | (348,916) | (4,644) | — | (2,889,689) | — | (3,243,249) |
| Currency translation differences | (50,600) | (102,250) | (467,505) | (90,781) | (864,759) | (50,254,771) | (51,830,666) |
| **Closing** | **1, 308,815** | **4,565,586** | **21,327,972** | **12,427,509** | **21,992,362** | **1,981,499,673** | **2,043,121,917** |
| **Accumulated depreciation:** | | | | | | | |
| Opening | (928,238) | (1,212,677) | (9,822,133) | (4,778,477) | (15,659,411) | (188,035,239) | (220,436,175) |
| Disposal of subsidiary | 123,062 | 33,966 | 695,547 | 996,447 | 2,073,677 | — | 3,922,699 |
| Depreciation for the year | (118,799) | (493,819) | (2,135,216) | (1,060,994) | (1,889,953) | (97,476,845) | (103,175,626) |
| Disposals | — | 167,976 | 58 | — | 644,772 | — | 812,806 |
| Currency translation differences | 27,922 | 37,777 | 300,405 | 120,893 | 486,610 | 5,098,294 | 6,071,901 |
| **Closing** | **(896,053)** | **(1,466,777)** | **(10,961,339)** | **(4,722,131)** | **(14,344,305)** | **(280,413,790)** | **(312,804,395)** |
| **Net book value** | **412,762** | **3,098,809** | **10,366,633** | **7,705,378** | **7,648,057** | **1,701,085,883** | **1,730,317,522** |

## 10. TANGIBLE ASSETS (Continued)

| 31 December 2011 | Machinery and equipment | Motor vehicles | Furniture and fixtures | Leasehold improvements | Components and repairables | Owned and leased aircraft | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Opening | 1,257,939 | 1,891,625 | 11,556,321 | 5,152,535 | 16,550,507 | 937,335,639 | 973,744,566 |
| Additions | — | 1,797,341 | 3,235,106 | 803,266 | 6,049,683 | 437,994,482 | 449,879,878 |
| Disposals | — | (641,958) | (1,182) | — | (751,556) | — | (1,394,696) |
| Currency translation differences | 242,302 | 424,515 | 2,394,334 | 1,034,303 | 3,463,776 | 203,350,799 | 210,910,029 |
| **Closing** | **1,500,241** | **3,471,523** | **17,184,579** | **6,990,104** | **25,312,410** | **1,578,680,920** | **1,633,139,777** |
| **Accumulated depreciation:** | | | | | | | |
| Opening | (653,619) | (1,217,979) | (6,559,443) | (3,077,209) | (10,320,667) | (97,745,592) | (119,574,509) |
| Depreciation for the year | (141,359) | (324,395) | (1,900,595) | (1,053,682) | (3,359,201) | (67,925,847) | (74,705,079) |
| Disposals | — | 552,434 | 311 | — | 174,232 | — | 726,977 |
| Currency translation differences | (133,260) | (222,737) | (1,362,406) | (647,586) | (2,153,775) | (22,363,800) | (26,883,564) |
| **Closing** | **(928,238)** | **(1,212,677)** | **(9,822,133)** | **(4,778,477)** | **(15,659,411)** | **(188,035,239)** | **(220,436,175)** |
| **Net book value** | **572,003** | **2,258,846** | **7,362,446** | **2,211,627** | **9,652,999** | **1,390,645,681** | **1,412,703,602** |

## 10. TANGIBLE ASSETS (Continued)

| 31 December 2010 | Machinery and equipment | Motor vehicles | Furniture and fixtures | Leasehold improvements | Components and repairables | Owned and leased aircraft | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Opening | 835,453 | 1,735,403 | 11,049,303 | 4,322,171 | 15,405,627 | 438,457,349 | 471,805,306 |
| Additions | 451,917 | 300,709 | 1,451,028 | 1,088,894 | 3,787,858 | 506,243,439 | 513,323,845 |
| Disposals | — | (62,316) | (407,222) | (66,679) | (1,905,715) | — | (2,441,932) |
| Currency translation differences | (29,431) | (82,171) | (536,788) | (191,851) | (737,263) | (7,365,149) | (8,942,653) |
| **Closing** | **1,257,939** | **1,891,625** | **11,556,321** | **5,152,535** | **16,550,507** | **937,335,639** | **973,744,566** |
| **Accumulated depreciation:** | | | | | | | |
| Opening | 618,009 | 1,067,910 | 5,773,139 | 2,464,496 | 9,562,439 | 65,387,667 | 84,873,660 |
| Depreciation for the year | 65,430 | 249,792 | 1,428,826 | 742,269 | 1,449,720 | 34,682,095 | 38,618,132 |
| Disposals | — | (50,748) | (377,098) | (24,529) | (235,985) | — | (688,360) |
| Currency translation differences | (29,820) | (48,975) | (265,424) | (105,027) | (455,507) | (2,324,170) | (3,228,923) |
| **Closing** | **653,619** | **1,217,979** | **6,559,443** | **3,077,209** | **10,320,667** | **97,745,592** | **119,574,509** |
| **Net book value** | **604,320** | **673,646** | **4,996,878** | **2,075,326** | **6,229,840** | **839,590,047** | **854,170,057** |

The Group performs a detailed value in use analysis every year for the tangible asset impairment provision that has been recognised for one aircraft in the previous periods. As a result of the analysis, due to higher level of cash flows generated and projected in 2010 for this aircraft the impairment provision of TL 6,661,798 was reversed in 2010 (Note 25).

## 10. TANGIBLE ASSETS (Continued)

The useful lives of the depreciable assets are as follows:

| | Useful life | Residual value |
|---|---|---|
| Aircraft | 23 years | 15% |
| Engine and Engine LLP's | 11 - 14 years | |
| Airframe and maintenance checks | 7 - 8 years | |
| Repairables and components | 3 - 7 years | |
| Machinery and equipment | 7 years | |
| Furniture and fixtures | 7 years | |
| Motor vehicles | 5 years | |
| Leasehold improvements | 5 years or | lease term |

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

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Current year depreciation | 103,175,626 | 74,705,079 | 38,618,132 |
| Current year amortization | 1,226,152 | 1,165,069 | 930,027 |
| | **104,401,778** | **75,870,148** | **39,548,159** |

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Cost of sales (Note 22) | 99,366,795 | 71,308,016 | 36,398,060 |
| General administrative expenses (Note 23) | 4,027,991 | 3,720,752 | 2,505,740 |
| Selling and marketing expenses (Note 24) | 1,006,992 | 841,380 | 644,359 |
| | **104,401,778** | **75,870,148** | **39,548,159** |

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

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Net carrying amounts of leased assets: | | | |
| Aircraft | 1,679,346,757 | 1,363,717,257 | 813,383,474 |

## 11. INTANGIBLE ASSETS

Intangible assets pertain to the Izair brand name and computer software.

| | Izair brand | | |
|---|---|---|---|
| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
| **Cost:** | | | |
| Opening | 1,722,879 | 1,444,616 | 1,523,011 |
| Disposal of subsidiary | (1,722,879) | — | — |
| Currency translation differences | — | 278,263 | (78,395) |
| **Closing** | **—** | **1,722,879** | **1,444,616** |
| **Accumulated amortisation:** | | | |
| Opening | (409,183) | (270,864) | (209,414) |
| Disposal of subsidiary | 409,183 | — | — |
| Amortisation for the year | — | (81,882) | (56,019) |
| Currency translation differences | — | (56,437) | (5,431) |
| **Closing** | **—** | **(409,183)** | **(270,864)** |
| **Net book value** | **—** | **1,313,696** | **1,173,752** |

| | Software | | |
|---|---|---|---|
| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
| **Cost:** | | | |
| Opening | 9,186,839 | 5,185,059 | 4,806,953 |
| Disposal of subsidiary | (1,640,693) | — | — |
| Additions | 3,332,406 | 3,033,533 | 619,581 |
| Disposals | — | (30,504) | — |
| Currency translation differences | (290,332) | 998,751 | (241,475) |
| **Closing** | **10,588,220** | **9,186,839** | **5,185,059** |
| **Accumulated amortisation:** | | | |
| Opening | (4,868,094) | (3,127,146) | (2,347,338) |
| Disposal of subsidiary | 369,192 | — | — |
| Amortisation for the year | (1,226,152) | (1,083,187) | (874,008) |
| Disposals | — | 982 | — |
| Currency translation differences | 150,484 | (658,743) | 94,200 |
| **Closing** | **(5,574,570)** | **(4,868,094)** | **(3,127,146)** |
| **Net book value** | **5,013,650** | **4,318,745** | **2,057,913** |
| **Total net book value** | **5,013,650** | **5,632,441** | **3,231,665** |

## 12. FINANCIAL LIABILITIES

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Bank borrowings—current | 50,722,463 | 189,002,830 | 145,777,982 |
| Factoring payables | — | — | 6,405,038 |
| **Total current** | **50,722,463** | **189,002,830** | **152,183,020** |
| Bank borrowings—non current | — | — | 11,307,245 |
| **Total non-current** | **—** | **—** | **11,307,245** |
| | **50,722,463** | **189,002,830** | **163,490,265** |

The Group's bank borrowings represents borrowings under a number of short term credit lines with various Turkish and foreign banks. The bank borrowings bear interest at fixed rates. The Group has available borrowing capacity of TL 395,013,764 under these credit lines at 31 December 2012. These bank borrowings are unsecured and are not subject to any restrictive covenants. The credit lines generally have a term between 12 to 18 months.

The effective interest rates of the borrowings are as follows:

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Weighted average interest rate (%) | Currency | Original amount | TL amount |
| Current | 5,00% | Euro | 20,400,000 | 47,974,680 |
| | 0,00%(*) | TL | 2,747,783 | 2,747,783 |
| | | | | **50,722,463** |

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

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Weighted average interest rate (%) | Currency | Original amount | TL amount |
| Current | 6.08% | Euro | 46,151,187 | 112,784,270 |
| | 6.00% | USD | 40,350,765 | 76,218,560 |
| | | | | **189,002,830** |
| Non-Current | | | | — |
| | | | | **189,002,830** |

| | 31 December 2010 | | | |
|---|---|---|---|---|
| | Weighted average interest rate (%) | Currency | Original amount | TL amount |
| Current | 6.71% | TL | 8,358,158 | 8,358,158 |
| | 2.84% | Euro | 41,636,759 | 85,317,883 |
| | 3.18% | USD | 37,844,100 | 58,506,979 |
| | | | | **152,183,020** |
| Non Current | 3.25% | Euro | 5,518,152 | 11,307,245 |
| | | | | **163,490,265** |

## 12. FINANCIAL LIABILITIES (Continued)

The maturity of the current and non-current borrowings are as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Up to 12 months | 50,722,463 | 189,002,830 | 152,183,020 |
| 1 to 2 years | — | — | 11,307,245 |
| | **50,722,463** | **189,002,830** | **163,490,265** |

## 13. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | |
|---|---|---|---|
| Finance leases payables | 31 December 2012 | 31 December 2011 | 31 December 2010 |
| 0 - 1 years | 141,385,690 | 115,964,793 | 63,130,166 |
| 1 - 5 years | 582,282,296 | 483,804,890 | 323,597,815 |
| 5+ years | 705,874,234 | 607,759,253 | 322,560,079 |
| | **1,429,542,220** | **1,207,528,936** | **709,288,060** |
| Less: future finance charges | (53,390,638) | (74,454,839) | (30,049,019) |
| **Present value of lease obligations** | **1,376,151,582** | **1,133,074,097** | **679,239,041** |

| | Present value of minimum lease payments | | |
|---|---|---|---|
| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
| 0 - 1 years | 135,232,251 | 103,033,355 | 57,999,800 |
| 1 - 5 years | 552,291,771 | 443,199,066 | 305,120,865 |
| 5+ years | 688,627,560 | 586,841,676 | 316,118,376 |
| | **1,376,151,582** | **1,133,074,097** | **679,239,041** |

The Group purchases certain of its aircraft through finance lease arrangements. The average lease term is 12 years. For the year ended 31 December 2012, the floating interest rate applicable to Euro-denominated lease obligations is 0.58% (2011:1.38%; 2010: 0.92%). The total amount of Euro denominated lease obligations is TL 1,134,107,628 as of 31 December 2012 (2011: TL 849,337,541; 2010: TL 424,793,108).

The floating rate applicable to US Dollar-denominated lease obligations is 0.82% (2011:0.72%; 2010: 0.54%). The total amount of US Dollar denominated lease obligations is TL 242,043,954 as of 31 December 2012 (2011: TL 283,736,556; 2010: TL 254,445,933).

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

## 13. OBLIGATIONS UNDER FINANCE LEASES (Continued)

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

## 14. TRADE PAYABLES

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Trade payables | 85,059,227 | 99,395,907 | 54,388,041 |
| Trade payables—related parties (Note 6) | 3,479,348 | 1,287,177 | 2,179 |
| | **88,538,575** | **100,683,084** | **54,390,220** |

The average credit period on purchases of certain goods is 1 month. The Company has financial risk management policies to ensure the payment of the obligations within the due dates.

## 15. OTHER PAYABLES, ACCRUALS AND PROVISIONS

**Current—other payables and current liabilities:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Passenger flight liabilities(*) | 125,507,762 | 76,591,116 | 57,951,165 |
| Accrued direct operational costs | 32,092,227 | 24,217,762 | 12,415,174 |
| Passenger airport fees received from customers | 25,689,738 | 16,544,138 | 14,267,607 |
| Deferred income from sale of subsidiary interest(**) | 11,881,653 | — | — |
| Advances received from customers | 8,091,932 | 6,366,223 | 4,436,881 |
| Allowance for the loss from associates and joint ventures(***) | 7,086,037 | — | 51,539 |
| Taxes payable | 6,210,329 | 6,018,205 | 2,138,799 |
| Commission expense accruals | 6,088,344 | 6,389,870 | 4,163,531 |
| Redelivery provision—short term | 3,510,519 | 12,204,499 | 12,017,978 |
| Derivative financial liabilities | 3,006,145 | — | 49,160 |
| Social security premiums payable | 2,728,085 | 5,076,806 | 1,963,540 |
| Payable to personnel | 2,165,949 | 1,795,895 | 1,111,801 |
| Provision for litigation claims | 995,188 | 1,652,389 | 1,447,351 |
| Deposits received | 616,762 | 949,776 | 2,024,490 |
| Other payables and expense accruals | 3,867,324 | 2,168,278 | 1,739,608 |
| | **239,537,994** | **159,974,957** | **115,778,624** |

(*) The details of the passenger flight liabilities are as presented below.

## 15. OTHER PAYABLES, ACCRUALS AND PROVISIONS (Continued)

(**) Deferred income from sale of subsidiary interest is composed of consideration received from AirBerlin with regard to the sale of İzair shares. The Group management has not recognized the consideration as income due to the put option liability to AirBerlin.

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

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Flight liability from ticket sales | 98,399,265 | 59,546,860 | 43,646,773 |
| Pegasus Card program flight provision | | | |
| Flight liability from flight points sold | 24,268,079 | 15,711,698 | 13,283,184 |
| Flight liability from flight points granted | 2,840,418 | 1,332,558 | 1,021,208 |
| | **125,507,762** | **76,591,116** | **57,951,165** |

**Non-current—other noncurrent liabilities:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Redelivery provision | 24,786,593 | 16,813,078 | 11,072,158 |
| Other long term liabilities | 1,139,380 | 248,356 | 2,755,208 |
| Deferred income | 407,403 | 1,240,742 | 428,063 |
| | **26,333,376** | **18,302,176** | **14,255,429** |

The composition of redelivery provision is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Current | 3.510.519 | 12,204,499 | 12,017,978 |
| Non-Current | 24,786,593 | 16,813,078 | 11,072,158 |
| | **28,297,112** | **29,017,577** | **23,090,136** |

The movement of redelivery provision is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| 1 January | 29,017,577 | 23,090,136 | 15,810,529 |
| Disposal of subsidiary | (10,778,764) | — | — |
| Charge for the year | 12,739,780 | 24,708,159 | 5,545,800 |
| Reversals / Utilisation | (2,024,248) | (23,941,952) | — |
| Currency translation differences | (657,235) | 5,161,234 | 1,733,807 |
| **31 December** | **28,297,110** | **29,017,577** | **23,090,136** |

## 15. OTHER PAYABLES, ACCRUALS AND PROVISIONS (Continued)

The movement of provision for litigation claims during the years is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| 1 January | 1,652,389 | 1,447,351 | 775,948 |
| Disposal of subsidiary | (127,453) | — | — |
| Charge for the year | 527,771 | 207,758 | 440,997 |
| Payments | (437,306) | (9,026) | |
| Currency translation differences | — | 6,306 | 230,406 |
| Reversal of provision | (620,213) | — | — |
| **31 December** | **995,188** | **1,652,389** | **1,447,351** |

## 16. PROVISION FOR EMPLOYEE BENEFITS

**Current:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Personnel income sharing plan provision | 18,513,234 | — | 6,581,496 |
| Unused vacation accrual | 4,355,395 | 4,831,192 | 3,800,343 |
| Executive bonus plan | 1,175,850 | — | — |
| | **24,044,479** | **4,831,192** | **10,381,839** |

Personnel income sharing plan provision is calculated using 10% of the expected profit before tax of the Company determined in accordance with IFRS.

The movement of personnel income sharing plan provision during the years is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| 1 January | — | 6,581,496 | 3,104,628 |
| Current period provision | 18,513,234 | — | 6,581,496 |
| Payment during the year | — | (7,460,851) | (3,104,628) |
| Currency translation differences | — | 879,355 | — |
| **31 December** | **18,513,234** | **—** | **6,581,496** |

**Non-current benefits:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Employment termination benefits | 621,895 | 625,339 | 546,745 |
| Executive bonus plan | 3,527,550 | — | — |
| | **4,149,445** | **625,339** | **546,745** |

Under Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 3,033.98 for each period of service at 31 December 2012 (2011: TL 2,731.85; 2010: TL 2,517.01).

## 16. PROVISION FOR EMPLOYEE BENEFITS (Continued)

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement. The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5.00% (2011: 5.10%; 2010: 5.10%), a discount rate of 7.38% (2011: 10%; 2010: 10%), resulting in a real discount rate of approximately 2.27% (2011: 4.66%; 2010: 4.66%) and anticipated turnover rate of 89.5% (2011: 84.5%; 2010: 78.44%). As the maximum liability is revised semi—annually, the maximum amount of TL 3,129.25 effective from 1 January 2013 has been taken into consideration in calculation of provision from employment termination benefits.

The movement of employment termination benefits for the years is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| 1 January | 625,339 | 546,746 | 876,416 |
| Disposal of subsidiary | (128,742) | — | — |
| Service cost and actuarial gains | 1,365,502 | 376,218 | 138,162 |
| Interest cost | 29,459 | 30,509 | 42,139 |
| Retirement benefits paid | (1,269,663) | (328,134) | (509,972) |
| **31 December** | **621,895** | **625,339** | **546,745** |

Service cost, actuarial and interest expenses are recognized in payroll expenses.

## 17. TAXATION ON INCOME

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Income tax expense | | | |
| —Current tax | — | — | — |
| —Deferred tax | (29,016,083) | (1,407,307) | (10,713,224) |
| **Taxation on income** | **(29,016,083)** | **(1,407,307)** | **(10,713,224)** |

***Corporate tax:***

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

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

The effective tax rate in 2012 is 20% (2011: 20%, 2010, 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2012 is 20%. (2011:20%; 2010: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

**17. TAXATION ON INCOME (Continued)**

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

***Income withholding tax***

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

***Inflation Adjusted Statutory Tax Calculation:***

The Group has adjusted its statutory financial statements as of 31 December 2004 in accordance with Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 which requires the application of inflation accounting in Turkey in 2005 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29. Inflation adjusted balances as at 31 December 2004 were taken as opening balances as of 1 January 2005. However, as inflation did not meet the required thresholds as at 31 December 2005, no further inflation adjustment made to the Company's statutory financial statements in 2005-2012.

***Deferred Tax:***

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

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

In Turkey, companies cannot declare a consolidated tax return, therefore their deferred tax balances are not netted off against subsidiaries that have deferred tax liability position and are disclosed separately.

Izair has a deferred income tax asset position and temporary differences are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Difference between tax base and carrying value of tangible assets and intangible assets | (580,955) | (103,780) |
| Provision for employee benefits | 25,748 | 29,294 |
| Unused vacation and bonus accruals | 151,054 | — |
| Carry forward tax losses | 10,367,988 | 3,224,669 |
| Redelivery provisions for the leased aircraft | 2,155,752 | 2,113,948 |
| Provision for doubtful receivables | 5,398 | — |
| Provision for lawsuits | 25,491 | — |
| Other | 196,066 | 286,465 |
| **Deferred income tax asset (net)** | **12,346,542** | **5,550,596** |

**17. TAXATION ON INCOME (Continued)**

The movement of the deferred tax asset of İzair is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Opening balance | 12,346,542 | 5,550,596 | 4,028,798 |
| Benefit for the period | 4,662,333 | 5,443,422 | 1,662,343 |
| Effect of deconsolidation of İzair | (17,008,875) | — | — |
| Currency translation difference | — | 1,352,524 | (140,545) |
| **Deferred income tax asset (net)** | **—** | **12,346,542** | **5,550,596** |

İzair had unused tax losses of TL 63,776,730 as at 31 December 2011 (2010: TL 79,125,178) available for offset against future profits. A deferred tax asset has been recognized in respect of TL 51,839,940 (2010: TL 16,123,345) of such losses. No deferred tax asset has been recognized in respect of the remaining TL 11,936,790 (2010: TL 63,001,833).

The amount of the carry forward tax losses of Izair as at 31 December 2011 and 2010 is presented below:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| 2011 | — | 26,340,000 |
| 2012 | 11,936,774 | 11,962,000 |
| 2013 and after | 51,839,956 | 40,823,178 |
| **Total** | **63,776,730** | **79,125,178** |

Pegasus has a deferred tax liability position and temporary differences are as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Difference between tax base and carrying value of tangible assets and intangible assets | 142,633,996 | 109,377,120 | 38,123,583 |
| Provision for employee benefits | (124,379) | (99,318) | (80,054) |
| Provision for litigation claims | (199,038) | (304,986) | (289,470) |
| Unused vacation and other employee benefits accrual | (4,573,725) | (815,183) | (1,908,382) |
| Carry forward tax losses | (55,522,708) | (65,533,190) | (1,308,351) |
| Deferred revenue from customer loyalty programs | (5,421,699) | (3,408,852) | (2,860,878) |
| Redelivery provisions for the leased aircraft | (5,659,422) | (3,647,763) | (2,504,080) |
| Derivative contract fair value | (601,229) | 1,558,585 | 407,033 |
| Other | 1,649,177 | (128,315) | (596,410) |
| **Deferred income tax liability (net)** | **72,180,973** | **36,998,098** | **28,982,991** |

Movement of the deferred tax liability of Pegasus is as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Opening balance | 36,998,098 | 28,982,991 | 16,225,823 |
| Charge for the period | 33,678,416 | 6,850,729 | 12,375,567 |
| Deferred tax recognized in other reserves—hedge accounting | 2,211,877 | 797,837 | (9,922) |
| Currency translation difference | (707,418) | 366,541 | 391,523 |
| **Deferred income tax liability (net)** | **72,180,973** | **36,998,098** | **28,982,991** |

## 17. TAXATION ON INCOME (Continued)

The amount of the carry forward tax losses of Pegasus and the last fiscal years that they can be utilized as of 31 December 2012 is presented below:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| 2014 | — | 1,675,995 | 3,351,990 |
| 2015 | 387,725 | 48,210,375 | 3,189,765 |
| 2016 | 277,225,815 | 277,779,573 | — |
| | **277,613,540** | **327,665,943** | **6,541,755** |

Total taxation charge for the year can be reconciled to the profit before tax as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **Profit/(loss) before tax** | **155,319,599** | **(12,678,593)** | **30,950,534** |
| Enacted local tax rate | 20% | 20% | 20% |
| Tax calculated at the enacted tax rate | 31,063,920 | (2,535,719) | 6,190,107 |
| Disallowable expenses and incentives (net) | (118,090) | (352,049) | (536,877) |
| Tax losses over which deferred tax asset was not recognised | — | 6,522,182 | 2,520,073 |
| Translation effect and non-taxable adjustments | (1,929,747) | (2,227,107) | 2,539,921 |
| **Taxation expense** | **29,016,083** | **1,407,307** | **10,713,224** |

## 18. COMMITMENTS AND CONTINGENCIES

**Purchase commitments:**

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Commitments to purchase aircraft | 16,291,577,121 | 2,263,327,203 | 3,358,266,034 |
| | **16,291,577,121** | **2,263,327,203** | **3,358,266,034** |

As of 31 December 2012 the Group holds firm orders for eighty one aircraft. The expected deliveries are: (i) two aircraft in 2013, (ii) two aircraft in 2014, (iii) four aircraft in 2015, (iv) five aircraft in 2016, (v) five aircraft in 2017, (vi) ten aircraft in 2018, (vii) fourteen aircraft in 2019, (viii) thirteen aircraft in 2020, (ix) thirteen aircraft in 2021, (x) thirteen 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 for orders amounting TL 89,263,443 (Note 8). (2011: TL 180,104,579 ; 2010: 256,719,254).

**Contingent liabilities:**

Guarantee Letters

The Group provides guarantee letters as collateral to airports, air traffic authorities and service suppliers. The total of such guarantees is TL 98,531,069 as of 31 December 2012 (2011: TL 100,449,442, 2010: TL 94,595,520).

**18. COMMITMENTS AND CONTINGENCIES (Continued)**

As of 31 December 2012, the Group provided guarantees amounting to TL 44,814,564 (31 December 2011: TL 27,735,402 31 December 2010: TL 9,096,037) for the aircraft leased under operating leases, which represents the payments through the remainder of the lease term.

Litigation

The Group is party to various lawsuits and claims that have been filed against it, which total TL 3,211,251 as of 31 December 2012 (2011: TL 2,971,172 ; 2010: TL 2,909,757). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 995,188 (2011: TL 1,652,389 ; 2010: TL 1,447,351) (see note 15) 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.

In addition, a series of lawsuits have been filed by certain of the non-controlling interest shareholders of İzair in relation to 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. The Group management believes that cash outflow is not probable and has not provided any provision for these lawsuits.

Fines charged to the Group

The İstanbul Atatürk Airport customs office has fined the Group a total of TL 931,212 in relation to a breach of temporary import regime regulations. The Group refused to pay and a has filed a challenge with the administrative court citing the new law passed amending the temporary import regime and the relief the new law provides under these circumstances. The Group has provided a letter of credit for the amount of the fine. The customs authority has entered a motion to liquidate the letter of credit but the administrative court ruled against the customs authority and the case is under Court of Appeal review. 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. 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)

The tax inspector has asserted that the VAT rate should have been 18% for periods after 31 Dcember 2007 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.

## 18. COMMITMENTS AND CONTINGENCIES (Continued)

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. The application 18% VAT on behalf of the non-resident aircraft lessors are deductible from the Group's VAT liablity, hence does not create any additional cash outflow. This allows the Group to avoid any future penalties in the very unlikely event, that the Company does not prevail in court. The assessment of the tax inspector did not include the period between 1 February 2012 and 30 November 2012 and no liability has been calculated for this period.

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

## 19. OPERATING LEASE ARRANGEMENTS

**Payments recognised as expense:**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Minimum lease payments | 84,761,760 | 111,642,385 | 78,389,206 |
| | **84,761,760** | **111,642,385** | **78,389,206** |

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.

| Non-cancellable lease agreements of the Group | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| 0 - 1 year | 68,153,772 | 94,022,578 | 54,569,178 |
| 1 - 5 years | 247,059,444 | 263,668,536 | 54,608,543 |
| 5 + years | 90,856,996 | 105,692,699 | — |
| | **406,070,212** | **463,383,813** | **109,177,721** |

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

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| 0 - 1 year | 185,143 | 188,186 | 307,378 |
| 1 - 5 years | 709,713 | 909,565 | 1,793,038 |
| | **894,856** | **1,097,751** | **2,100,416** |

## 20. SHARE CAPITAL

The Company's shareholding structure as of 31 December 2012, 2011 and 2010 is as follows:

| | 31 December 2012 | | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|---|---|
| **Shareholders** | (%) | TL | (%) | TL | (%) | TL |
| Esas Holding A.Ş. | 96.50% | 72,375,570 | 96.50% | 72,375,570 | 96.50% | 72,375,570 |
| Emine Kamışlı | 1.17% | 874,810 | 1.17% | 874,810 | 1.17% | 874,810 |
| Ali İsmail Sabancı | 1.17% | 874,810 | 1.17% | 874,810 | 1.17% | 874,810 |
| Kazım Köseoğlu | 0.58% | 437,405 | 0.58% | 437,405 | 0.58% | 437,405 |
| Can Köseoğlu | 0.58% | 437,405 | 0.58% | 437,405 | 0.58% | 437,405 |
| **TL historic capital** | **100%** | **75,000,000** | **100%** | **75,000,000** | **100%** | **75,000,000** |

The Company's share capital consists of 75,000,000 shares of par value TL 1 each.

In 2010, in connection with the increase in the Company's share capital, the Group offset its debt to Esas Holding in the amount of TL 55,385,620 against Esas Holding's subscription in the increase by the same amount.

### Dividend distribution

The Company plans to perform a public offering and a listing at Istanbul Stock Exchange ("ISE"). Companies whose shares are traded at Istanbul Stock Exchange are subject to the following dividend rules determined by Capital Markets Board:

The listed companies are to distribute their profits for the current and following years based on the scope of CMB Communiqué No. IV-27, their articles of association and their previously publicly declared profit distribution policies. The distribution can be made as cash or as bonus shares or as a combination of a certain percentage of cash and bonus shares. Companies can distribute dividends to the extent they have distributable reserves in their statutory records. CMB requires the disclosure of the total amount of reserves which may be subject to distribution in the statutory records. At the end of all periods presented the Company has an accumulated loss in its statutory records and has no available funds for distribution.

## 21. REVENUE

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Scheduled flights | 1,429,924,400 | 1,124,368,319 | 743,790,613 |
| *International scheduled flights* | *807,313,588* | *649,932,264* | *430,341,334* |
| *Domestic scheduled flights* | *622,610,812* | *474,436,055* | *313,449,279* |
| Charter flights | 106,689,046 | 179,199,270 | 128,272,152 |
| Ancillary revenue | 230,155,947 | 146,042,024 | 94,061,719 |
| Other revenue | 24,989,432 | 18,980,950 | 11,738,632 |
| AirBerlin Turkey operation revenue (See note 1) | 128,133,398 | 15,489,190 | — |
| | **1,919,892,223** | **1,484,079,753** | **977,863,116** |

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Domestic | 622,610,812 | 474,436,055 | 313,449,279 |
| Europe | 680,485,177 | 600,706,797 | 419,562,636 |
| Other | 126,828,411 | 49,225,467 | 10,778,698 |
| | **1,429,924,400** | **1,124,368,319** | **743,790,613** |

## 22. COST OF SALES

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Jet fuel expenses | 702,382,938 | 610,625,954 | 337,889,180 |
| Personnel expenses | 168,809,612 | 139,033,439 | 104,155,482 |
| Handling fees | 111,189,844 | 99,838,059 | 75,363,763 |
| Navigation expenses | 103,234,544 | 101,818,882 | 71,643,851 |
| Depreciation and amortisation expenses | 99,366,795 | 71,308,016 | 36,398,060 |
| Operating lease expenses | 84,761,760 | 111,642,385 | 78,389,206 |
| Maintenance expenses | 69,973,272 | 109,102,231 | 78,541,791 |
| Landing expenses | 39,721,507 | 35,574,062 | 24,212,361 |
| Passenger service and catering expenses | 20,061,038 | 18,926,326 | 15,389,762 |
| Other expenses | 63,376,899 | 57,018,971 | 45,799,055 |
| AirBerlin Turkey operation cost of sales (See note 1) | 137,909,700 | 21,860,081 | — |
| | **1,600,787,909** | **1,376,748,406** | **867,782,511** |

## 23. GENERAL ADMINISTRATIVE EXPENSES

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Personnel expenses | 21,195,796 | 17,082,608 | 13,059,572 |
| Rent expenses | 4,589,543 | 3,923,772 | 3,015,286 |
| Depreciation and amortisation expense | 4,027,991 | 3,720,752 | 2,505,740 |
| Travel expenses | 3,733,317 | 4,068,724 | 2,206,986 |
| Consultancy expenses | 3,216,613 | 4,243,602 | 3,236,921 |
| IT expenses | 2,973,074 | 2,589,551 | 2,224,503 |
| Legal and notary expenses | 1,756,710 | 1,367,515 | 1,093,401 |
| Communication expenses | 1,534,744 | 1,650,539 | 1,290,337 |
| Office utility expenses | 958,986 | 929,521 | 872,866 |
| Insurance expenses | 670,951 | 517,553 | 777,496 |
| Training expenses | 469,503 | 491,891 | 679,692 |
| Subscription expenses | 428,102 | 412,170 | 583,985 |
| Office repair expenses | 308,067 | 194,370 | 539,146 |
| Other expenses | 4,387,032 | 3,694,860 | 2,991,390 |
| | **50,250,429** | **44,887,428** | **35,077,321** |

## 24. SELLING AND MARKETING EXPENSES

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Advertising expenses | 36,845,431 | 34,501,845 | 20,818,268 |
| Commission expenses | 25,299,061 | 18,396,822 | 8,789,735 |
| Personnel expenses | 7,608,744 | 6,111,042 | 3,853,971 |
| Call center expenses | 7,383,975 | 6,514,636 | 4,416,565 |
| Depreciation and amortisation expenses | 1,006,992 | 841,380 | 644,359 |
| Other expenses | 2,209,786 | 1,479,910 | 300,664 |
| | **80,353,989** | **67,845,635** | **38,823,562** |

## 25. OTHER INCOME / (EXPENSE)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Income from sale and leaseback transactions | 4,124,992 | 9,998,815 | — |
| Reversal of impairment on tangible assets | — | — | 6,661,798 |
| Impairment of KPA LLC (Note 9) | — | — | (69,141) |
| Other income/(expense) | 64,024 | (147,867) | 606,698 |
| **Other income/(expenses) (net)** | **4,189,016** | **9,850,948** | **7,199,355** |

## 26. FINANCE INCOME

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Foreign exchange gain (realized and unrealized) on derivative contracts | 9,703,942 | — | — |
| Interest on bank deposits | 3,574,571 | 1,351,413 | 256,762 |
| Foreign exchange gain | — | 12,633,171 | 4,600,111 |
| | **13,278,513** | **13,984,584** | **4,856,873** |

## 27. FINANCE COSTS

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Commission expenses | 19,101,806 | 10,735,513 | 6,327,830 |
| Foreign exchange loss | 14,037,438 | — | — |
| Interest expense on bank loans | 10,158,960 | 11,524,259 | 7,044,670 |
| Interest on obligations under finance leases | 5,835,632 | 6,203,121 | 3,549,163 |
| Foreign exchange losses (realized and unrealized) on derivative contracts | — | 2,266,409 | 254,090 |
| Other | — | 792,777 | — |
| | **49,133,836** | **31,522,079** | **17,175,753** |

## 28. FOREIGN CURRENCY POSITION

| 31 December 2012 | US Dollar TL equivalent | TL TL equivalent | GBP TL equivalent | Other TL equivalent | Total TL equivalent |
|---|---|---|---|---|---|
| Cash and cash equivalents | 33,935,839 | 143,250,547 | 3,695,199 | 5,205,316 | 186,086,901 |
| Trade receivables | 1,480,476 | 9,369,706 | 1,661,682 | 1,766,709 | 14,278,573 |
| Other receivables | 45,866,371 | 2,032,358 | 364,061 | 912,595 | 49,175,385 |
| Advances on aircraft | 89,263,443 | — | — | — | 89,263,443 |
| **Total assets** | **170,546,129** | **154,652,611** | **5,720,942** | **7,884,620** | **338,804,302** |
| Bank borrowings | — | 2,747,783 | — | — | 2,747,783 |
| Obligations under finance leases | 242,043,954 | — | — | — | 242,043,954 |
| Trade payables | 33,724,993 | 34,543,853 | 191,409 | 1,052,969 | 69,513,224 |
| Other payables | 33,702,430 | 40,963,033 | 149,975 | 1,099,724 | 75,915,162 |
| **Total liabilities** | **309,471,377** | **78,254,669** | **341,384** | **2,152,693** | **390,220,123** |
| Nominal value of foreign currency derivative contracts (buy) | 371,348,731 | — | — | — | 371,348,731 |
| Nominal value of foreign currency derivative contracts (sell) | — | (73,312,500) | (15,294,740) | (9,002,342) | (97,609,582) |
| Net position of foreign currency derivative contracts | **371,348,731** | **(73,312,500)** | **(15,294,740)** | **(9,002,342)** | **273,739,149** |
| **Net foreign currency position** | **232,423,483** | **3,085,442** | **(9,915,182)** | **(3,270,415)** | **222,323,328** |

| 31 December 2011 | US Dollar TL equivalent | TL TL equivalent | GBP TL equivalent | Other TL equivalent | Total TL equivalent |
|---|---|---|---|---|---|
| Cash and cash equivalents | 6,302,313 | 4,894,660 | 1,824,245 | 2,669,759 | 15,690,977 |
| Trade receivables | 1,858,968 | 58,079,518 | 686,587 | 923,478 | 61,548,551 |
| Other receivables | 38,189,602 | 3,961,831 | 718,451 | 792,475 | 43,662,359 |
| Advances on aircraft | 180,104,579 | — | — | — | 180,104,579 |
| **Total assets** | **226,455,462** | **66,936,009** | **3,229,283** | **4,385,712** | **301,006,466** |
| Bank borrowings | 76,218,560 | — | — | — | 76,218,560 |
| Obligations under finance leases | 283,736,556 | — | — | — | 283,736,556 |
| Trade payables | 54,938,988 | 24,126,006 | 435,290 | 799,371 | 80,299,655 |
| Other payables | 39,051,338 | 35,009,711 | 57,623 | 1,139,833 | 75,258,505 |
| **Total liabilities** | **453,945,442** | **59,135,717** | **492,913** | **1,939,204** | **515,513,276** |
| Nominal value of foreign currency derivative contracts (buy) | 249,772,080 | — | — | — | 249,772,080 |
| Nominal value of foreign currency derivative contracts (sell) | — | — | — | — | — |
| Net position of foreign currency derivative contracts | **249,772,080** | **—** | **—** | **—** | **249,772,080** |
| **Net foreign currency position** | **22,282,100** | **7,800,292** | **2,736,370** | **2,446,508** | **35,265,270** |

## 28. FOREIGN CURRENCY POSITION (Continued)

| 31 December 2010 | US Dollar TL equivalent | TL TL equivalent | GBP TL equivalent | Other TL equivalent | Total TL equivalent |
|---|---|---|---|---|---|
| Cash and cash equivalents | 441,963 | 30,470,723 | 691,786 | 1,192,044 | 32,796,516 |
| Trade receivables | 2,157,031 | 14,123,414 | 217,505 | 454,236 | 16,952,186 |
| Other receivables | 29,612,115 | 7,233,907 | 340,277 | 396,618 | 37,582,917 |
| Advances on aircraft | 256,719,254 | — | — | — | 256,719,254 |
| **Total assets** | **288,930,363** | **51,828,044** | **1,249,568** | **2,042,898** | **344,050,873** |
| Bank borrowings | 69,814,224 | 8,358,158 | — | — | 78,172,382 |
| Obligations under finance leases | 254,445,933 | — | — | — | 254,445,933 |
| Trade payables | 24,497,994 | 17,396,521 | 2,058,650 | 1,025,426 | 44,978,591 |
| Other payables | 7,234,630 | 36,981,385 | 6,001 | 972,630 | 45,194,646 |
| **Total liabilities** | **355,992,781** | **62,736,064** | **2,064,651** | **1,998,056** | **422,791,552** |
| Nominal value of foreign currency derivative contracts (buy) | 104,313,258 | — | — | — | 104,313,258 |
| Nominal value of foreign currency derivative contracts (sell) | — | — | — | — | — |
| **Net position of** foreign currency derivative contracts | **104,313,258** | **—** | **—** | **—** | **104,313,258** |
| **Net foreign currency position** | **37,250,840** | **(10,908,020)** | **(815,083)** | **44,842** | **25,572,579** |

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Capital risk management:**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the financial liabilities disclosed in Note 12 and obligations under finance leases disclosed in Note 13, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings disclosed in Note 4 and 20 respectively. The Group finances its working capital requirements through a combination of cash generated from operations and short-term credit lines with domestic and foreign banks.

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

The Group's overall capital risk management strategy remains unchanged from prior periods.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Categories of financial instruments and fair values:**

| 31 December 2012 | Loans and receivables | Derivatives instruments which are reflected at fair value in shareholders' equity | Derivatives instruments which are reflected fair value profit / (loss) | Financial liabilities at amortized cost | Carrying amount |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 210,150,238 | — | — | — | 210,150,238 |
| Trade receivables (including related parties) | 41,871,360 | — | — | — | 41,871,360 |
| Other receivables | 68,434,068 | — | — | — | 68,434,068 |
| Advances given for purchase of aircraft | 89,263,443 | — | — | — | 89,263,443 |
| Derivative financial assets | — | 14,898,234 | — | — | 14,898,234 |
| **Financial liabilities** | | | | | |
| Bank borrowings | — | — | — | 50,722,463 | 50,722,463 |
| Obligations under finance leases | — | — | — | 1,376,151,582 | 1,376,151,582 |
| Trade payables (including related parties) | — | — | — | 88,538,575 | 88,538,575 |
| Other liabilities | — | — | — | 57,781,965 | 57,781,965 |
| Derivative financial liabilities | — | — | 3,006,145 | — | 3,006,145 |

| 31 December 2011 | Loans and receivables | Derivatives instruments which are reflected at fair value in shareholders' equity | Derivatives instruments which are reflected fair value profit / (loss) | Financial liabilities at amortized cost | Carrying amount |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 19,549,364 | — | — | — | 19,549,364 |
| Trade receivables (including related parties) | 78,693,508 | — | — | — | 78,693,508 |
| Other receivables | 53,155,291 | — | — | — | 53,155,291 |
| Advances given for purchase of aircraft | 180,104,579 | — | — | — | 180,104,579 |
| Derivative financial assets | — | 3,989,185 | 7,792,925 | — | 11,782,110 |
| **Financial liabilities** | | | | | |
| Bank borrowings | — | — | — | 189,002,830 | 189,002,830 |
| Obligations under finance leases | — | — | — | 1,133,074,097 | 1,133,074,097 |
| Trade payables (including related parties) | — | — | — | 100,683,084 | 100,683,084 |
| **Other liabilities** | — | — | — | 40,761,900 | 40,761,900 |

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

| 31 December 2010 | Loans and receivables | Derivatives instruments which are reflected at fair value in shareholders' equity | Derivatives instruments which are reflected fair value profit / (loss) | Financial liabilities at amortized cost | Carrying amount |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 49,284,469 | — | — | — | 49,284,469 |
| Trade receivables (including related parties) | 18,511,639 | — | — | — | 18,511,639 |
| Other receivables | 15,818,813 | — | — | — | 15,818,813 |
| Advances given for purchase of aircraft | 256,719,254 | — | — | — | 256,719,254 |
| Derivative financial assets | — | — | 2,035,162 | — | 2,035,162 |
| **Financial liabilities** | | | | | |
| Bank borrowings | — | — | — | 163,490,265 | 163,490,265 |
| Obligations under finance leases | — | — | — | 679,239,041 | 679,239,041 |
| Trade payables (including related parties) | — | — | — | 54,390,220 | 54,390,220 |
| Other liabilities | — | — | — | 26,682,781 | 26,682,781 |
| Derivative financial liabilities | — | — | 49,160 | — | 49,160 |

The fair value of financial assets and financial liabilities approximates their carrying amount.

**Significant accounting policies:**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

**Financial risk factors**

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

***Market risk***

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

*Foreign currency risk management*

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

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed in Note 28.

*Foreign currency sensitivity*

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

When reporting foreign currency risk internally to key management personnel, a 10% increase and decrease in Euro against US Dollar and Euro against TL is used and this 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. As of 31 December 2012, the net profit before tax of the Group would decrease/increase by TL 23,242,348 as a result of 10% devaluation/appreciation of Euro against US Dollar and TL 308,544 as a result of 10% appreciation/devaluation of Euro against TL, while other variables were held constant. (2011: the net profit before tax of the Group would decrease/increase by TL 2,228,210 as a result of 10% devaluation/appreciation of Euro against US Dollar and TL 780,029 as a result of 10% appreciation/devaluation of Euro against TL ; 2010: the net profit before tax of the Group would decrease/increase by TL 3,725,084 as a result of 10% appreciation/devaluation of Euro against US Dollar and TL 1,090,802 as a result of 10% appreciation/devaluation of Euro against TL)

*Interest rate risk management*

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The Group aims to manage this risk by maintaining an appropriate mix between floating and fixed rate borrowings. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

*Interest rate sensitivity*

For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 0.5% lower/higher as at 31 December 2012 and 0.5% lower/higher for all other comparative periods, keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 6,792,472 (2011: TL 6,608,294, 2010: TL 2,592,064). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases. The Group's distribution of non-derivative fixed and floating rate financial liabilities is given below:

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | Floating rate | Fixed rate | Floating rate | Fixed rate | Floating rate | Fixed rate |
| Bank loans . . . . | — | 50,722,463 | — | 189,002,830 | — | 163,490,265 |
| Finance leases . . | 1,376,151,582 | — | 1,133,074,097 | — | 679,239,041 | — |

***Commodity risk***

*Fuel price risk management*

The Group is exposed to commodity risk due to the significant of fuel purchases to its business. Fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations,

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on the cost of sales, and results of operations of the Group.

The Group manages its risk to fuel prices through the use of derivative financial instruments. The Group's policy since 2011 includes a primary non-discretionary program for the first 30% of anticipated fuel consumption and a supplemental discretionary program for an additional 30% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Prior to 2011, did not have a structured fuel hedging program and generally did not use derivative financial instruments to manage the exposure to fuel price volatility

***Fuel price sensitivity***

The Group entered into fuel purchase contracts in order to manage the cash flow risks arising from fuel purchases beginning from 2011. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 1% increase in fuel prices, the shareholders' equity of the Group will increase by TL 2,167,117 (2011: TL 721,687) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by 2,167,117 (2011: TL 721,687) excluding deferred tax effect.

***Credit risk management***

The Group does not have any significant credit risk exposure to any single counterparty. Disclosures related to the credit risk of receivables are provided in Note 5.

***Liquidity risk management***

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

| 31 December 2012 | Less than 1 month | 1 - 3 months | 3 months to 1 year | 1 - 5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | 2,747,783 | — | 48,630,965 | — | — | 51,378,748 |
| Trade payables (including related parties) | 88,538,575 | — | — | — | — | 88,538,575 |
| Other liabilities | 42,010,805 | 9,062,074 | 6,709,086 | — | — | 57,781,965 |
| Obligations under finance leases | 19,067,920 | 16,377,733 | 105,940,038 | 582,282,296 | 705,874,233 | 1,429,542,220 |
| | **152,365,083** | **25,439,807** | **161,280,089** | **582,282,296** | **705,874,233** | **1,627,241,508** |

| 31 December 2011 | Less than 1 month | 1 - 3 months | 3 months to 1 year | 1 - 5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | 29,810,064 | 119,953,642 | 43,710,787 | — | — | 193,474,493 |
| Trade payables (including related parties) | 100,683,084 | — | — | — | — | 100,683,084 |
| Other liabilities | 31,682,241 | 5,336,366 | 3,743,293 | — | — | 40,761,900 |
| Obligations under finance leases | 10,010,667 | 18,021,727 | 87,932,399 | 483,804,890 | 607,759,253 | 1,207,528,936 |
| | **172,186,056** | **143,311,735** | **135,386,479** | **483,804,890** | **607,759,253** | **1,542,448,413** |

| 31 December 2010 | Less than 1 month | 1 - 3 months | 3 months to 1 year | 1 - 5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | 17,211,572 | 6,189,093 | 130,551,926 | 11,647,518 | — | 165,600,109 |
| Trade payables (including related parties) | 54,390,220 | — | — | — | — | 54,390,220 |
| Other liabilities | 18,852,515 | 4,652,063 | 3,228,203 | — | — | 26,682,781 |
| Obligations under finance leases | 1,258,928 | 14,458,963 | 47,412,275 | 323,597,815 | 322,560,079 | 709,288,060 |
| | **91,713,235** | **25,250,119** | **181,192,404** | **335,245,333** | **322,560,079** | **955,961,170** |

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

| 31 December 2012 | Less than 3 months | 3 - 6 months | 6 months to 1 year | Total |
|---|---|---|---|---|
| Derivative cash inflows outflows, net | 3,950,246 | 11,055,584 | (260,982) | 14,744,848 |
| **Total** | **3,950,246** | **11,055,584** | **(260,982)** | **14,744,848** |

| 31 December 2011 | Less than 3 months | 3 - 6 months | 3 months to 1 year | Total |
|---|---|---|---|---|
| Derivative cash inflows outflows, net | 2,170,667 | 41,149,590 | (31,512,832) | 11,807,425 |
| **Total** | **2,170,667** | **41,149,590** | **(31,512,832)** | **11,807,425** |

| 31 December 2010 | Less than 3 months | 3 - 6 months | 3 months to 1 year | Total |
|---|---|---|---|---|
| Derivative cash inflows outflows, net | 1,023,746 | 979,328 | (144,816) | 1,858,258 |
| **Total** | **1,023,746** | **979,328** | **(144,816)** | **1,858,258** |

**Fair value of financial instruments**

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.

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follows:

| 31 December 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Other current assets—derivative contracts | — | 14,898,234 | — | **14,898,234** |
| Cash flow hedge | | | | |
| Other current liabilities—derivative contract | — | (3,006,145) | — | **(3,006,145)** |

| 31 December 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Other current assets—derivative contracts | — | 7,792,925 | — | **7,792,925** |
| Cash flow hedge | | | | |
| Other current assets—derivative contract | — | 3,989,185 | — | **3,989,185** |

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

| 31 December 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Other current assets—derivative contracts | — | 2,035,162 | — | **2,035,162** |
| Cash flow hedge | | | | |
| Other liabilities—derivative contract | — | (49,160) | — | **(49,160)** |

| 31 December 2012 | Positive fair value | Negative fair value | Total |
|---|---|---|---|
| Forward fuel purchase contracts for hedging against risk of fuel price | 14,898,234 | — | 14,898,234 |
| **Fair values of derivative instruments for hedging purposes** | **14,898,234** | **—** | **14,898,234** |
| Forward currency contracts not subject to hedge accounting | — | (3,006,145) | (3,006,145) |
| **Fair values of derivative instruments not for hedging purposes** | **—** | **(3,006,145)** | **(3,006,145)** |
| **Total** | **14,898,234** | **(3,006,145)** | **11,892,089** |

| 31 December 2011 | Positive fair value | Negative fair value | Total |
|---|---|---|---|
| Forward fuel purchase contracts and related currency contracts for hedging against risk of fuel price | 3,989,185 | — | 3,989,185 |
| **Fair values of derivative instruments for hedging purposes** | **3,989,185** | **—** | **3,989,185** |
| Forward currency contracts not subject to hedge accounting | 7,792,925 | — | 7,792,925 |
| **Fair values of derivative instruments not for hedging purposes** | **7,792,922** | **—** | **7,792,925** |
| **Total** | **11,782,110** | **—** | **11,782,110** |

| 31 December 2010 | Positive fair value | Negative fair value | Total |
|---|---|---|---|
| Forward currency contracts subject to hedge accounting | — | (49,160) | (49,160) |
| **Fair values of derivative instruments for hedging purposes** | **—** | **(49,160)** | **(49,160)** |
| Forward currency contracts not subject to hedge accounting | 2,035,162 | — | 2,035,162 |
| **Fair values of derivative instruments not for hedging purposes** | **—** | **—** | **2,035,162** |
| **Total** | **2,035,162** | **(49,160)** | **1,986,002** |

## 30. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

| | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Net profit / (loss)—attributable to equity holders of the parent | 126,303,516 | (15,323,004) | 25,536,874 |
| Weighted average number of shares | 75,000,000 | 75,000,000 | 23,912,260 |
| **Earnings / (loss) per share** | **1.68** | **(0.20)** | **1.07** |

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