

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

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

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2020 TOGETHER WITH  
THE INDEPENDENT AUDITOR'S REPORT



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**(Convenience translation of a report and consolidated financial statements originally issued in Turkish)**

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Pegasus Hava Taşımacılığı Anonim Şirketi**

### **A) Report on the Audit of the Consolidated Financial Statements**

#### **1) Opinion**

We have audited the consolidated financial statements of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards ("TFRS").

#### **2) Basis for Opinion**

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **3) Emphasis of Matter**

The Coronavirus epidemic, which recently emerged and spread locally as well globally has impacted the operations of the Group and, may further cause disruptions in the Group's operations. Since the final severity of the coronavirus outbreak is currently uncertain, its impact on the Group's operations cannot be reasonably estimated and these matters are disclosed in Note 1 to the accompanying financial statements. Our opinion is not qualified in respect of these matters.

#### **4) Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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| Key audit matter   | How the matter was addressed in the audit   |
|--|---|
| <b><i>Redelivery maintenance provision</i></b>   |   |
| <p>As explained in Note 15, as of December 31, 2020, the Group has recognized a provision of TL 1.795.435 thousand for the delivery maintenance provision costs at the delivery date of the aircraft that are subject to operating lease.</p> <p>Regarding the aircraft held under operating lease agreements, during the hand-over of these aircrafts, the Group is contractually committed to either comply with the conditions set forth in the contract or to compensate the lessor for the difference between the contractual hand-over conditions and the actual hand-over conditions of the airframe, engines and life-limited parts. A maintenance provision is made for this contractual obligation over the lease term, based on the present value of the estimated future cost calculated by reference to the number of hours flown and cycles operated during the year.</p> <p>Redelivery maintenance provision amounts are at significant levels in the consolidated financial statements and they are based on certain assumptions, such as; likely utilization rates of the aircraft, the expected cost and the time of the heavy maintenance, the condition of the aircraft and the lifespan of life-limited parts. The changes in the assumptions may affect the consolidated financial statements significantly, hence, the matter is considered a key audit matter.</p> | <p>The following audit procedures are applied in order to be able to test the reasonable calculation of the redelivery maintenance provision:</p> <p>The design and implementation of controls have been examined to ensure the appropriateness of the calculation designed by the management. The assumptions used in the calculation of the redelivery maintenance provision are evaluated with the technical maintenance supports team performing the calculation, and the data used in these assumptions are compared with the costs used in the maintenance contracts made by the Group.</p> <p>The actual maintenance amounts for the delivered aircraft are compared with the amounts calculated in the previous periods for these aircrafts and an assessment is made to see if there is a significant difference. Furthermore, substantive procedures are applied to the maintenance payments made by the Group for the aircraft held under operating lease. The records of the maintenance costs incurred during the year are compared with the corresponding invoices.</p> <p>In addition, we have evaluated the adequacy of the disclosures in Note 2.6 and Note 15 in accordance with TAS 37 "Provisions, Contingent Liabilities and Contingent Assets".</p> |



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|   |   |
|---|---|
| <p><b>Revenue recognition – complete and accurate recording of revenue and determination of passenger flight liability</b></p>  |   |
| <p>The Group generates its revenues from international and domestic flight operations. In order to perform the aforementioned operations, the Group uses information systems in which large volumes of data are processed. Due to the nature of operations, the ticket sales processes take place before the process of revenue recognition. The Group also earns ancillary income apart from the passenger transportation income and monitors this side income separately.</p> <p>Revenue recognition has been identified as key audit matter since the amount of revenue is significant in the accompanying consolidated financial statements, the information systems, through processing large-volume of data, affects the period in which the revenue will be recorded and revenue recognition includes risks specific to the sector.</p> <p>The accounting policy for the recognition of revenue of the Group is given in Note 2.5 and details of the revenue amount is presented in Note 21.</p> | <p>The following procedures have been applied to ensure the accurate and complete recording of the revenue and to determine the passenger flight liability:</p> <p>The Group's revenue recognition process and the design and implementation of controls designed by management in the process have been examined and tested. Audit activities were conducted for the general controls of both operational and financial information system applications.</p> <p>Information Technology ("IT") experts of another entity that is a part of the same audit network have been included in the audit process for the audit of the revenue. The suitability and effectiveness of automated controls and IT systems established to record passenger revenues have been tested through the help of our IT specialists. In addition, the suitability and effectiveness of non-automated key controls have been also tested. Completion and accuracy check of data exchanges between the systems and verification of detection of data errors for ticketing and collection process are within the controls selected for testing.</p> <p>Substantive analytical tests have been applied for revenue. The data obtained from the accounting systems, traffic data and passenger flight reports were compared in order to test the accuracy of the revenue amount and accuracy of the data used in these tests.</p> <p>In addition, the conformity of the disclosures in the consolidated financial statements as to TFRS has been also evaluated.</p> |

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#### **5) Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group financial reporting process.

#### **6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

In an independent audit, our responsibilities as the auditors are:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and InAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and InAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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**B) Report on Other Legal and Regulatory Requirements**

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 4, 2021.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2020 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Sinem Arı Öz.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited

Sinem Arı Öz, SMMM  
Partner

March 4, 2021  
İstanbul, Turkey

| <b>INDEX</b>   | <b>PAGE</b>   |
|--|---------------|
| <b>CONSOLIDATED BALANCE SHEET</b> .....  | <b>1-2</b>    |
| <b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>   | <b>3</b>      |
| <b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b> .....                         | <b>4</b>      |
| <b>CONSOLIDATED STATEMENT OF CASH FLOWS</b> .....                                | <b>5</b>      |
| <b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b> .....                      | <b>6-87</b>   |
| NOTE 1 ORGANISATION AND OPERATIONS OF THE GROUP .....                            | 6-8           |
| NOTE 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS.....                        | 9-35          |
| NOTE 3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD .....                   | 35-36         |
| NOTE 4 SEGMENT REPORTING .....   | 37            |
| NOTE 5 RELATED PARTY DISCLOSURES.....  | 37-39         |
| NOTE 6 TRADE RECEIVABLES AND PAYABLES .....                                      | 39-40         |
| NOTE 7 OTHER RECEIVABLES AND PAYABLES .....                                      | 40-41         |
| NOTE 8 INVENTORIES .....   | 41            |
| NOTE 9 PREPAID EXPENSES, DEFERRED INCOME AND PASSENGER FLIGHT LIABILITIES .....  | 41-42         |
| NOTE 10 PROPERTY AND EQUIPMENT.....  | 43-45         |
| NOTE 11 INTANGIBLE ASSETS .....  | 46            |
| NOTE 12 RIGHT OF USE ASSETS .....  | 47            |
| NOTE 13 GOVERNMENT GRANTS AND INCENTIVES .....                                   | 47            |
| NOTE 14 BORROWING COSTS.....   | 48            |
| NOTE 15 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES .....                      | 48-49         |
| NOTE 16 COMMITMENTS.....   | 50-52         |
| NOTE 17 EMPLOYEE BENEFITS.....   | 53-55         |
| NOTE 18 EXPENSES BY NATURE .....   | 55            |
| NOTE 19 OTHER ASSETS AND LIABILITIES .....                                       | 56            |
| NOTE 20 SHAREHOLDERS' EQUITY .....   | 56-57         |
| NOTE 21 SALES AND COST OF SALES .....  | 58-59         |
| NOTE 22 GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES.....              | 59-60         |
| NOTE 23 OTHER OPERATING INCOME AND EXPENSES .....                                | 60            |
| NOTE 24 INCOME AND EXPENSES FROM INVESTING ACTIVITIES.....                       | 61            |
| NOTE 25 FINANCIAL INCOME AND EXPENSES .....                                      | 61            |
| NOTE 26 ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS .....                       | 62            |
| NOTE 27 TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) ..... | 63-66         |
| NOTE 28 EARNINGS / LOSS PER SHARE .....  | 67            |
| NOTE 29 EFFECTS OF EXCHANGE RATE CHANGES .....                                   | 67            |
| NOTE 30 DERIVATIVE FINANCIAL INSTRUMENTS .....                                   | 67            |
| NOTE 31 FINANCIAL INSTRUMENTS .....  | 67-71         |
| NOTE 32 NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS .....      | 72-82         |
| NOTE 33 FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)..... | 83-86         |
| NOTE 34 EVENTS AFTER REPORTING PERIOD .....                                      | 86            |
| NOTE 35 EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW.....                      | 87            |
| <br><b>APPENDIX – CONSOLIDATED EURO SELECTED NOTES</b> .....                     | <br><b>88</b> |

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

|  |       | Current period<br>(Audited)<br>31 December<br>2020 | Prior period<br>(Audited)<br>31 December<br>2019 | (*)<br>EUR<br>31 December<br>2020 | (*)<br>EUR<br>31 December<br>2019 |
|--|-------|--|--|-----------------------------------|-----------------------------------|
|  | Notes |  |  |                                   |                                   |
| <b>ASSETS</b>                                    |       |  |  |                                   |                                   |
| <b>Current assets</b>                            |       | <b>5.358.554.832</b>                               | <b>6.088.952.277</b>                             | <b>594.872.815</b>                | <b>915.555.092</b>                |
| Cash and cash equivalents                        | 35    | 3.605.570.830                                      | 4.187.316.581                                    | 400.267.635                       | 629.614.859                       |
| Trade receivables                                | 6     | 197.485.020  | 446.978.360                                      | 21.923.536                        | 67.208.727                        |
| <i>Trade receivables from third parties</i>      | 6     | <i>197.485.020</i>                                 | <i>446.978.360</i>                               | <i>21.923.536</i>                 | <i>67.208.727</i>                 |
| Other receivables                                | 7     | 91.118.025   | 88.182.569                                       | 10.115.346                        | 13.265.117                        |
| <i>Other receivables from related parties</i>    | 5     | <i>227.927</i>                                     | <i>102.852</i>                                   | <i>25.303</i>                     | <i>21.242</i>                     |
| <i>Other receivables from third parties</i>      |       | <i>90.890.098</i>                                  | <i>88.079.717</i>                                | <i>10.090.043</i>                 | <i>13.243.875</i>                 |
| Derivative financial instruments                 | 30    | 7.599.668  | 61.239   | 843.667                           | 9.208                             |
| Inventories                                      | 8     | 91.488.340   | 75.453.026                                       | 10.156.456                        | 11.345.296                        |
| Prepaid expenses                                 | 9     | 1.269.928.689                                      | 1.276.409.834                                    | 140.979.439                       | 191.924.012                       |
| Current income tax assets                        | 27    | 6.629.247  | 13.721.092                                       | 735.937                           | 2.063.136                         |
| Other current assets                             | 19    | 88.735.013   | 829.576  | 9.850.799                         | 124.737                           |
| <b>Non-Current assets</b>                        |       | <b>23.712.117.959</b>                              | <b>14.970.368.921</b>                            | <b>2.631.335.983</b>              | <b>2.256.808.387</b>              |
| Financial assets                                 | 31    | 234.035.538  | 150.906.344                                      | 25.981.143                        | 22.690.636                        |
| Other receivables                                | 7     | 205.188.513  | 144.500.892                                      | 22.778.729                        | 21.727.512                        |
| <i>Other receivables from third parties</i>      | 7     | <i>205.188.513</i>                                 | <i>144.500.892</i>                               | <i>22.778.729</i>                 | <i>21.727.512</i>                 |
| Investments accounted by using the equity method | 3     | 77.210.982   | 57.154.173                                       | 8.571.474                         | 8.593.837                         |
| Property and equipment                           | 10    | 1.432.548.082                                      | 1.675.901.667                                    | 159.030.906                       | 257.820.724                       |
| Intangible assets                                | 11    | 111.125.949  | 79.791.006                                       | 12.336.499                        | 11.997.565                        |
| Right of use assets                              | 12    | 19.788.996.107                                     | 11.906.754.965                                   | 2.195.817.353                     | 1.790.327.935                     |
| Prepaid expenses                                 | 9     | 1.863.012.788                                      | 955.359.874                                      | 206.819.879                       | 143.650.178                       |
| <b>TOTAL ASSETS</b>                              |       | <b>29.070.672.791</b>                              | <b>21.059.321.198</b>                            | <b>3.226.208.798</b>              | <b>3.172.363.479</b>              |

(\*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

|  |    | Current period<br>(Audited)<br>31 December<br>2020 | Prior period<br>(Audited)<br>31 December<br>2019 | (*)<br>EUR<br>31 December<br>2020 | (*)<br>EUR<br>31 December<br>2019 |
|--|----|--|--|-----------------------------------|-----------------------------------|
| <b>LIABILITIES</b>   |    |  |  |                                   |                                   |
| <b>Current liabilities</b>   |    | <b>6.505.674.770</b>                               | <b>4.765.226.708</b>                             | <b>722.218.769</b>                | <b>716.510.797</b>                |
| Short term financial liabilities   | 31 | 1.741.716.857                                      | 758.293.604                                      | 193.354.373                       | 114.018.826                       |
| Short term portion of long term financial liabilities                          | 31 | 2.154.972.636                                      | 1.536.570.246                                    | 239.231.412                       | 231.042.349                       |
| Trade payables   | 6  | 910.641.319  | 722.788.625                                      | 101.093.631                       | 108.680.213                       |
| <i>Trade payables to related parties</i>                                       | 5  | 22.159.362   | 1.543.950  | 2.459.992                         | 232.152                           |
| <i>Trade payables to third parties</i>   |    | 888.481.957  | 721.244.675                                      | 98.633.639                        | 108.448.061                       |
| Employee benefit obligations   | 17 | 30.178.231   | 38.411.053                                       | 3.350.196                         | 5.775.577                         |
| Other payables   | 7  | 30.346.928   | 33.397.989                                       | 3.368.888                         | 5.021.801                         |
| <i>Other payables to third parties</i>   |    | 30.346.928   | 33.397.989                                       | 3.368.888                         | 5.021.801                         |
| Passenger flight liabilities   | 9  | 534.406.386  | 963.908.296                                      | 59.326.412                        | 144.935.539                       |
| Derivative financial instruments   | 30 | 90.228.333   | 53.134.363                                       | 10.016.578                        | 7.989.409                         |
| Deferred income  | 9  | 191.730.990  | 196.521.937                                      | 21.284.760                        | 29.549.505                        |
| Short term provisions  |    | 821.336.124  | 460.143.908                                      | 91.179.534                        | 69.188.329                        |
| <i>Short term provisions for employee benefits</i>                             | 17 | 55.106.089   | 182.949.999                                      | 6.117.529                         | 27.508.796                        |
| <i>Other short term provisions</i>   | 15 | 766.230.035  | 277.193.909                                      | 85.062.005                        | 41.679.533                        |
| Other current liabilities  | 19 | 116.966  | 2.056.687  | 12.985                            | 309.249                           |
| <b>Non-Current liabilities</b>   |    | <b>17.178.580.383</b>                              | <b>10.951.925.283</b>                            | <b>1.907.057.181</b>              | <b>1.646.757.480</b>              |
| Long term financial liabilities  | 31 | 15.115.403.578                                     | 8.460.811.498                                    | 1.678.016.361                     | 1.272.187.697                     |
| Derivative financial instruments   | 30 | 3.838.005  | 1.505.350  | 426.071                           | 226.348                           |
| Deferred income  | 9  | 316.272.170  | 318.913.475                                      | 35.110.533                        | 47.952.587                        |
| Long term provisions   |    | 1.138.088.518                                      | 1.675.179.511                                    | 126.343.378                       | 251.883.969                       |
| <i>Long term provisions for employee benefits</i>                              | 17 | 99.124.346   | 69.675.789                                       | 11.004.157                        | 10.476.617                        |
| <i>Other long term provisions</i>  | 15 | 1.038.964.172                                      | 1.605.503.722                                    | 115.339.221                       | 241.407.352                       |
| Deferred tax liabilities   | 27 | 604.978.112  | 495.515.449                                      | 67.160.838                        | 74.506.879                        |
| <b>SHAREHOLDERS' EQUITY</b>  |    | <b>5.386.417.638</b>                               | <b>5.342.169.207</b>                             | <b>596.932.848</b>                | <b>809.095.202</b>                |
| <b>Equity attributable to shareholders' of the parent</b>                      |    | <b>5.386.417.638</b>                               | <b>5.342.169.207</b>                             | <b>596.932.848</b>                | <b>809.095.202</b>                |
| Paid-in share capital  | 20 | 102.299.707  | 102.299.707                                      | 60.544.134                        | 60.544.134                        |
| Share premiums on capital stock  |    | 455.687.025  | 455.687.025                                      | 194.089.305                       | 194.089.305                       |
| Other comprehensive income/expense<br>not to be reclassified to profit or loss |    |  |  |                                   |                                   |
| Actuarial losses on defined benefit plans                                      | 26 | (2.972.061)  | (3.904.009)                                      | (329.939)                         | (587.016)                         |
| Currency translation differences   | 26 | 4.609.042.699                                      | 2.574.427.009                                    | -                                 | -                                 |
| Other comprehensive income/expense<br>to be reclassified to profit or loss     |    |  |  |                                   |                                   |
| Hedge fund   | 26 | (68.365.331)                                       | (42.163.181)                                     | (7.589.486)                       | (6.339.756)                       |
| Restricted profit reserves   |    | 20.459.941   | 18.542.287                                       | 4.047.406                         | 4.399.540                         |
| Retained earnings  |    | 2.235.362.715                                      | 903.911.251                                      | 556.776.109                       | 345.593.677                       |
| Net (loss) / profit for the period   |    | (1.965.097.057)                                    | 1.333.369.118                                    | (210.604.681)                     | 211.395.318                       |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |    | <b>29.070.672.791</b>                              | <b>21.059.321.198</b>                            | <b>3.226.208.798</b>              | <b>3.172.363.479</b>              |

(\*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

| Profit or loss  | Notes | Current period                 | Prior period                   | (*)                            | (*)                            |
|---|-------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|   |       | (Audited)                      | (Audited)                      | EUR                            | EUR                            |
|   |       | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
| Sales   | 21    | 4.803.559.909                  | 11.025.224.523                 | 629.879.667                    | 1.739.457.710                  |
| Cost of sales (-)   | 21    | (6.062.262.535)                | (8.326.180.393)                | (753.235.104)                  | (1.306.460.827)                |
| <b>Gross (loss) / profit</b>                                      |       | <b>(1.258.702.626)</b>         | <b>2.699.044.130</b>           | <b>(123.355.437)</b>           | <b>432.996.883</b>             |
| General administrative expenses (-)                               | 22    | (274.563.009)                  | (302.553.091)                  | (34.589.732)                   | (47.784.170)                   |
| Marketing expenses (-)  | 22    | (168.837.261)                  | (311.965.775)                  | (21.384.976)                   | (49.012.888)                   |
| Other operating income  | 23    | 354.947.419                    | 5.080.503                      | 44.435.296                     | 806.367                        |
| Other operating expenses (-)                                      | 23    | (13.768.312)                   | (27.622.759)                   | (1.321.110)                    | (4.584.887)                    |
| <b>Operating (loss) / profit</b>                                  |       | <b>(1.360.923.789)</b>         | <b>2.061.983.008</b>           | <b>(136.215.959)</b>           | <b>332.421.305</b>             |
| Income from investing activities                                  | 24    | 2.555.377                      | 925.185                        | 304.647                        | 145.900                        |
| Expenses from investing activities (-)                            | 24    | (208.950.014)                  | (29.314.778)                   | (23.196.307)                   | (4.633.346)                    |
| Share of investments income accounted for using the equity method | 3     | 15.417.638                     | 16.241.182                     | 1.920.379                      | 2.558.661                      |
| <b>Operating (loss) / profit before financial expense</b>         |       | <b>(1.551.900.788)</b>         | <b>2.049.834.597</b>           | <b>(157.187.240)</b>           | <b>330.492.520</b>             |
| Financial income  | 25    | 398.878.172                    | 99.535.989                     | 49.674.405                     | 15.594.079                     |
| Financial expense (-)   | 25    | (871.821.987)                  | (755.105.856)                  | (110.392.920)                  | (125.098.598)                  |
| <b>(Loss) / profit before tax</b>                                 |       | <b>(2.024.844.603)</b>         | <b>1.394.264.730</b>           | <b>(217.905.755)</b>           | <b>220.988.001</b>             |
| <b>Tax expense</b>  |       | <b>59.747.546</b>              | <b>(59.696.815)</b>            | <b>7.301.074</b>               | <b>(9.404.825)</b>             |
| Current tax expense   | 27    | -                              | (60.501.004)                   | -                              | (9.531.424)                    |
| Deferred tax income / (expense)                                   | 27    | 59.747.546                     | 804.189                        | 7.301.074                      | 126.599                        |
| <b>(Loss) / profit for the period</b>                             |       | <b>(1.965.097.057)</b>         | <b>1.334.567.915</b>           | <b>(210.604.681)</b>           | <b>211.583.176</b>             |
| <b>Net (loss) / profit attributable to:</b>                       |       |                                |                                |                                |                                |
| Non-controlling interest  |       | -                              | 1.198.797                      | -                              | 187.858                        |
| Shareholders' of the parent                                       |       | (1.965.097.057)                | 1.333.369.118                  | (210.604.681)                  | 211.395.318                    |
|   |       | <b>(1.965.097.057)</b>         | <b>1.334.567.915</b>           | <b>(210.604.681)</b>           | <b>211.583.176</b>             |
| (Loss) / profit per share (TL) / (EUR)                            | 28    | (19,21)                        | 13,03                          | (2,06)                         | 2,07                           |
| <b>Other comprehensive income</b>                                 |       |                                |                                |                                |                                |
| <b>Items not to be reclassified to profit or loss</b>             |       |                                |                                |                                |                                |
| Actuarial (losses) / gains on defined benefit plans               | 26    | 1.164.935                      | (2.214.490)                    | -                              | (291.580)                      |
| Deferred tax effect   | 26    | (232.987)                      | 442.898                        | -                              | 58.316                         |
| Currency translation differences                                  |       | 2.034.615.690                  | 457.503.847                    | -                              | (1.265.032)                    |
| <b>Items to be reclassified to profit or loss</b>                 |       |                                |                                |                                |                                |
| Currency translation differences                                  |       | -                              | (29.024.747)                   | -                              | (1.300.691)                    |
| Cash flow hedge   | 26    | (31.401.307)                   | 231.942.068                    | (3.911.261)                    | 36.540.519                     |
| Deferred tax effect   | 26    | 5.199.157                      | (52.945.293)                   | 647.593                        | (8.038.914)                    |
| <b>Other comprehensive income</b>                                 |       | <b>2.009.345.488</b>           | <b>605.704.283</b>             | <b>(3.263.668)</b>             | <b>25.702.618</b>              |
| <b>Total comprehensive income</b>                                 |       | <b>44.248.431</b>              | <b>1.940.272.198</b>           | <b>(213.868.349)</b>           | <b>237.285.794</b>             |
| <b>Total comprehensive income attributable to:</b>                |       |                                |                                |                                |                                |
| Non-controlling interest  |       | -                              | (1.609.113)                    | -                              | 187.858                        |
| Shareholders' of the parent                                       |       | 44.248.431                     | 1.941.881.311                  | (213.868.349)                  | 237.097.936                    |
|   |       | <b>44.248.431</b>              | <b>1.940.272.198</b>           | <b>(213.868.349)</b>           | <b>237.285.794</b>             |

(\*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

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

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

|  |                       |                                 |                                 | Other comprehensive income items not to be reclassified to profit or loss |                                  | Other comprehensive income items to be reclassified to profit or loss |               | Retained earnings          |                   |                                |               |              | Equity attributable to shareholders' of the parent | Non-controlling interest | Shareholders' equity |
|--|-----------------------|---------------------------------|---------------------------------|---|----------------------------------|---|---------------|----------------------------|-------------------|--------------------------------|---------------|--------------|--|--------------------------|----------------------|
|  | Paid in share capital | Share premiums on capital stock | Effects of business acquisition | Actuarial gains/(losses) on defined benefit plans                         | Currency translation differences | Currency translation differences                                      | Hedge reserve | Restricted profit reserves | Retained earnings | Net profit/(loss) for the year |               |              |  |                          |                      |
| As at 1 January 2019                       | 102.299.707           | 455.687.025                     | 31.729.006                      | (2.132.417)   | 2.131.817.567                    | (89.760.549)  | (221.159.956) | 5.016.306                  | 832.182.941       | 507.378.625                    | 3.753.058.255 | (37.610.607) | 3.715.447.648                                      |                          |                      |
| Changes in accounting policy (Note 2)      | -                     | -                               | -                               | -   | -                                | -   | -             | -                          | (330.923.657)     | -                              | (330.923.657) | -            | (330.923.657)                                      |                          |                      |
| Restated total equity as at 1 January 2019 | 102.299.707           | 455.687.025                     | 31.729.006                      | (2.132.417)   | 2.131.817.567                    | (89.760.549)  | (221.159.956) | 5.016.306                  | 501.259.284       | 507.378.625                    | 3.422.134.598 | (37.610.607) | 3.384.523.991                                      |                          |                      |
| Sale of subsidiary                         | -                     | -                               | -                               | -   | 101.082.981                      | -   | -             | -                          | (122.929.683)     | -                              | (21.846.702)  | 39.219.720   | 17.373.018   |                          |                      |
| Transfers                                  | -                     | -                               | (31.729.006)                    | -   | (115.977.386)                    | 115.977.386   | -             | 13.525.981                 | 525.581.650       | (507.378.625)                  | -             | -            | -  |                          |                      |
| Total comprehensive income                 | -                     | -                               | -                               | (1.771.592)   | 457.503.847                      | (26.216.837)  | 178.996.775   | -                          | -                 | 1.333.369.118                  | 1.941.881.311 | (1.609.113)  | 1.940.272.198                                      |                          |                      |
| As at 31 December 2019                     | 102.299.707           | 455.687.025                     | -                               | (3.904.009)   | 2.574.427.009                    | -   | (42.163.181)  | 18.542.287                 | 903.911.251       | 1.333.369.118                  | 5.342.169.207 | -            | 5.342.169.207                                      |                          |                      |
| As at 1 January 2020                       | 102.299.707           | 455.687.025                     | -                               | (3.904.009)   | 2.574.427.009                    | -   | (42.163.181)  | 18.542.287                 | 903.911.251       | 1.333.369.118                  | 5.342.169.207 | -            | 5.342.169.207                                      |                          |                      |
| Transfers                                  | -                     | -                               | -                               | -   | -                                | -   | -             | 1.917.654                  | 1.331.451.464     | (1.333.369.118)                | -             | -            | -  |                          |                      |
| Total comprehensive income                 | -                     | -                               | -                               | 931.948   | 2.034.615.690                    | -   | (26.202.150)  | -                          | -                 | (1.965.097.057)                | 44.248.431    | -            | 44.248.431   |                          |                      |
| As at 31 December 2020                     | 102.299.707           | 455.687.025                     | -                               | (2.972.061)   | 4.609.042.699                    | -   | (68.365.331)  | 20.459.941                 | 2.235.362.715     | (1.965.097.057)                | 5.386.417.638 | -            | 5.386.417.638                                      |                          |                      |

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

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

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

|   |          | Current period<br>(Audited)<br>1 January-<br>31 December 2020 | Prior period<br>(Audited)<br>1 January-<br>31 December 2019 | (*)<br>EUR<br>1 January-<br>31 December 2020 | (*)<br>EUR<br>1 January-<br>31 December 2019 |
|---|----------|---|---|--|--|
| <b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |          |   |   |  |  |
| (Loss) / Profit for the period  |          | (1.965.097.057)   | 1.334.567.915   | (210.604.681)                                | 211.583.176                                  |
| <b>Adjustments to reconcile the loss</b>                                    |          |   |   |  |  |
| Depreciation and amortization   | 10-11-12 | 2.183.403.792   | 1.547.967.792   | 271.958.825                                  | 243.869.288                                  |
| Adjustments related with impairments  |          | 3.617.950   | 12.094.780  | 450.642                                      | 1.818.600                                    |
| Provision for doubtful receivable   | 6-7      | 3.617.950   | 12.094.780  | 450.642                                      | 1.818.600                                    |
| Adjustments related with provisions   |          | (399.271.096)   | (59.419.903)  | (50.135.392)                                 | (11.144.706)                                 |
| Provision for employee benefits   | 17       | 29.775.897  | 206.807.707   | 3.305.532                                    | 30.893.846                                   |
| Legal provision   | 15       | 1.504.554   | (1.105.440)   | 187.403                                      | (174.153)                                    |
| Change in redelivery provision  | 15       | (430.551.547)   | (265.122.170)   | (53.628.327)                                 | (41.864.399)                                 |
| Interest and commission income  | 25       | 554.745.306   | 470.630.839   | 69.097.563                                   | 74.143.925                                   |
| Gain on equity investments accounted for using the equity method            | 3        | (15.417.638)  | (16.241.182)  | (1.920.379)                                  | (2.558.661)                                  |
| Current tax expense   | 27       | (59.747.546)  | 59.696.815  | (7.301.074)                                  | 9.404.825                                    |
| Other provisions related with investing or financing activities             | 24-33    | 207.759.993   | (5.060.898)   | 23.067.217                                   | (774.519)                                    |
| Gain on sales of subsidiary   | 24       | -   | 29.045.073  | -  | 4.633.346                                    |
| <b>Changes in working capital</b>   |          |   |   |  |  |
| Increase in trade receivables   |          | 246.309.338   | (278.275.883)   | 29.425.265                                   | (47.485.701)                                 |
| Increase in other receivables, prepaid expenses, other and financial assets |          | (339.435.540)   | 27.460.712  | (39.156.732)                                 | 4.335.882                                    |
| Increase in inventories   |          | (16.035.314)  | (16.655.430)  | (1.911.160)                                  | (2.600.771)                                  |
| Increase in trade payables  |          | 187.852.694   | 220.884.682   | (7.586.582)                                  | 34.942.972                                   |
| Increase in deferred income, other payables and other current liabilities   |          | 1.127.796   | 378.281.830   | (11.879.584)                                 | 54.566.736                                   |
| <b>Net cash generated from operating activities</b>                         |          |   |   |  |  |
|   |          | <b>589.812.678</b>  | <b>3.704.977.142</b>  | <b>63.503.928</b>                            | <b>574.734.392</b>                           |
| Payment for the employee benefits provisions                                | 17       | (127.006.316)   | (64.961.476)  | (14.141.137)                                 | (10.234.133)                                 |
| Taxes paid  | 27       | -   | (74.222.096)  | -  | (11.693.066)                                 |
| Payment for other provisions  | 15       | (86.428)  | (227.481)   | (10.765)                                     | (35.838)                                     |
| <b>462.719.934</b>  |          |   |   |  |  |
| <b>3.565.566.089</b>  |          |   |   |  |  |
| <b>49.352.026</b>   |          |   |   |  |  |
| <b>552.771.355</b>  |          |   |   |  |  |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>                              |          |   |   |  |  |
| Payment for sale of subsidiary  | 24       | -   | 623.183   | -  | 98.918                                       |
| Proceeds from sale of property, equipment and intangible assets             |          | 163.951.650   | (144.164.620)   | 12.368.496                                   | (21.208.678)                                 |
| Changes in cash advances and payables                                       |          | (469.555.306)   | (395.930.787)   | (55.197.620)                                 | (67.290.001)                                 |
| <b>(305.603.656)</b>  |          |   |   |  |  |
| <b>(539.472.224)</b>  |          |   |   |  |  |
| <b>(42.829.124)</b>   |          |   |   |  |  |
| <b>(88.399.761)</b>   |          |   |   |  |  |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |          |   |   |  |  |
| Increase in borrowings  |          | 2.342.659.971   | 720.798.400   | 260.067.271                                  | 113.555.717                                  |
| Repayment of borrowings   |          | (1.241.647.896)   | (830.070.250)   | (154.656.278)                                | (130.770.576)                                |
| Repayment of principal in lease liabilities                                 |          | (1.758.442.075)   | (1.375.775.278)   | (230.192.927)                                | (220.537.324)                                |
| Interest and commission paid  |          | (480.335.386)   | (432.731.037)   | (55.395.032)                                 | (68.173.130)                                 |
| Interest received   |          | 82.044.632  | 91.543.245  | 10.219.256                                   | 14.421.867                                   |
| <b>(1.055.720.754)</b>  |          |   |   |  |  |
| <b>(1.826.234.920)</b>  |          |   |   |  |  |
| <b>(169.957.710)</b>  |          |   |   |  |  |
| <b>(291.503.446)</b>  |          |   |   |  |  |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                            |          |   |   |  |  |
| <b>BEFORE TRANSLATION EFFECT (A+B+C)</b>                                    |          |   |   |  |  |
|   |          | <b>(898.604.476)</b>  | <b>1.199.858.945</b>  | <b>(163.434.808)</b>                         | <b>172.868.148</b>                           |
| <b>D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS</b>       |          |   |   |  |  |
|   |          | 316.858.725   | 246.412.665   | (65.912.416)                                 | 2.027.904                                    |
| <b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>     |          |   |   |  |  |
|   |          | <b>(581.745.751)</b>  | <b>1.446.271.610</b>  | <b>(229.347.224)</b>                         | <b>174.896.052</b>                           |
| <b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>          |          |   |   |  |  |
| <b>AT THE BEGINNING OF THE PERIOD</b>                                       |          |   |   |  |  |
|   | 35       | 4.187.316.581   | 2.741.044.971   | 629.614.859                                  | 454.718.807                                  |
| <b>CASH AND CASH EQUIVALENTS</b>  |          |   |   |  |  |
| <b>AT THE END OF THE PERIOD (A+B+C+D+E)</b>                                 |          |   |   |  |  |
|   | 35       | <b>3.605.570.830</b>  | <b>4.187.316.581</b>  | <b>400.267.635</b>                           | <b>629.614.859</b>                           |

(\*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

TL 5.008.958.344 of tangible and intangible assets acquisitions in total of TL 5.445.100.035 was financed through leases for the year ended 31 December 2020 (31 December 2019: TL 2.702.451.941 of tangible and intangible assets acquisitions in total of TL 3.280.237.905 was financed through finance leases).

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Pegasus Hava Taşımacılığı A.Ş. (the “Company” or “Pegasus”) and its subsidiaries (together “the Group”) is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service. Group management focuses on providing high-frequency services on short- and medium-haul, point-to-point routes on its domestic and international transit network primarily from its main hub, Sabiha Gökçen Airport in İstanbul. The Group also operates scheduled flights from four other domestic hubs in Ankara, Adana, Antalya and İzmir. The Group operates with 93 aircraft (31 December 2019: 84) including 1 owned and 92 leased, 57 of which have purchase option, as of 31 December 2020.

The Group offers a number of services ancillary to the core air passenger services and generate revenue through the provision of these services. These ancillary services include, but not limited to, revenue related to in-flight sale of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees.

The Group also provides cargo services and provides various training services. These training services include crew training, type rating training (i.e., training to fly a certain aircraft type), dangerous goods training and crew resource management (CRM) training.

The shareholders and their respective holdings in the Company as of 31 December 2020 and 2019 are as follows:

|                                    | <b>31 December<br/>2020</b> | <b>31 December<br/>2019</b> |
|------------------------------------|-----------------------------|-----------------------------|
| Esas Holding A.Ş. (“Esas Holding”) | 62,91%                      | 62,91%                      |
| Publicly held                      | 34,53%                      | 34,53%                      |
| Sabancı Family Members             | 2,56%                       | 2,56%                       |
| <b>Total</b>                       | <b>100,00%</b>              | <b>100,00%</b>              |

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

The Group’s total number of full time employees as of 31 December 2020 is 6.130 (31 December 2019: 6.164). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

#### Subsidiaries

*Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.*

The Group, incorporated Pegasus Havacılık Teknolojileri ve Ticaret A.Ş. (“PHT”) on 13 May 2016 in İstanbul for the operations of simulator technical support and maintenance. The Group owns 100% of the outstanding shares of PHT and consolidated on a line by line basis as a subsidiary.

#### Joint Ventures and Associates

*Pegasus Uçuş Eğitim Merkezi A.Ş.*

The Group incorporated Pegasus Uçuş Eğitim Merkezi A.Ş. (“PUEM”) in October 2010 in Turkey, a joint venture flight training company, with SIM Industries B.V., a Dutch simulator manufacturing and marketing company. PUEM has a 737-800 “next generation” flight simulator and commenced its operations in İstanbul in January 2011. The Group owns 49,40% of the outstanding shares of PUEM and disclose as joint venture under investments accounted for using the equity method in the financial statements.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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### NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

#### Joint Ventures and Associates

##### *Hitit Bilgisayar Hizmetleri A.Ş.*

Hitit Bilgisayar Hizmetleri A.Ş. (“Hitit Bilgisayar”) was established in 1994, and as of 31 December 2014 it was merged with its related company Hitit Yazılım A.Ş. The scope of operations of the entity is to develop software solutions for airlines and travel agencies as well as airports, and be engaged with the activities concerning service of the foregoing operations, services and sales thereof.

The Group owns 50% of the outstanding shares of Hitit Bilgisayar Hizmetleri A.Ş. and disclose as joint venture under investments accounted for using the equity method in the financial statements as of March 2015.

#### Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 December 2020 and delegated authority for publishing it on 4 March 2021. General shareholders’ meeting has the authority to modify the financial statements.

#### COVID-19 Effects and Impairment Analysis

The COVID-19 pandemic which affected the world, had a significant impact on the aviation industry in which the Group operates. At the end of the first quarter of 2020, country-based travel restrictions were followed by suspension of both international and domestic flights on March 27, 2020 and March 28, 2020, respectively. The Group started its operations in June within the scope of countries where domestic and international flights are allowed. Revenue and profitability of the Group decreased compared to previous year due to these effects.

The Group takes measures to reduce costs, conserve its cash position and balance its current ratio. Within the scope of these measures;

- Payroll cost is being tried to be optimized with short-term employment allowance provided by the Government's support package,
- Permanent discounts and/or deferral of payments are targeted in contracts with all suppliers in order to support cash flow management,
- Fixed costs are decreased through remote working scheme in 2020. Further permanent savings are targeted with remote working.
- Aircraft maintenance activities are optimized and updated according to the current flight schedules,
- General expenditure budgets are reviewed continually and accordingly savings are tried to be achieved both with cost control and cash management perspectives. Therefore, non-urgent projects and investments are postponed.
- During the pandemic period, new credit lines from various banks are obtained in order to better manage the Group's cash flow.

Although the company's flights have resumed partly in June 2020, there are still some risks and uncertainties regarding the development of the COVID-19 outbreak. If these risks occur, the Group’s operations may be adversely affected. The Management of the Group closely monitors all action plans on daily basis through various business scenarios.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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### NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

#### COVID-19 Effects and Impairment Analysis

Based on current market conditions and depending on the progress of the vaccination in the world and in Turkey, the Company's main scenario is to approach 2019 "Available Seat Kilometers" (ASK) levels during the 3rd quarter of 2021, which is the high tourism season of Turkey. For the whole year 2021, its expected that ASK production will be approximately 70-75% of those realized in 2019. Parallel to these expectations, no growth at the fleet is planned in 2021(2020:93; 2021:92). Capacity expectations are all subject to review depending on the evolution of COVID-19 and travel restrictions. The main objective of the group is to utilize the fleet in the routes that generate positive cash.

At the worst case scenario, which foresees all the fleet of the group is grounded, monthly cash burn of the Company rises, yet the Group management still expects to have ample liquidity throughout 2021.

In both the base and worst case scenarios, the Group forecasts significant liquidity throughout the going concern period given the strength of its balance sheet and the low monthly cash burn rate of the Company.

On the other hand, as of December 31, 2020, the Group evaluated whether there is any risk of impairment on aircraft, tangible fixed assets, and intangible assets due to the effects of the COVID-19 outbreak, and in the light of the analysis made, it is concluded that there is not any impairment risk regarding the determination of the value-in-use of the assets. In the impairment tests, the Group used some estimates such as number of passengers, passenger load factor, fuel prices and discount rates. The Group management will continue to make these analyses regularly.

#### Statement of Compliance with TAS

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

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

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

#### 2.1 Basis of Presentation

##### Functional and Presentation Currency

Although there is no prominent currency affecting revenue and cost of sales, the Group's functional currency is determined as Euro for the reasons that, largest scale of scheduled flight revenue which is the Group's primary operation is generated from European flights, Euro is clearly effective on the financial liabilities of the Group and management reports and budget enabling the Company's management to make executive decisions are prepared in Euro. The functional currency of the Company and its subsidiaries is Euro.

If the legal records are kept in a currency other than the functional currency, the financial statements are initially translated into the functional currency and then translated to the Group's presentation currency, Turkish Lira ("TL"). For the companies in Turkey that book legal records in TL, currency translation from TL to the functional currency Euro is made under the framework described below:

- Monetary assets and liabilities have been converted to the functional currency with the The Central Bank of Turkish Republic (CBRT) foreign exchange buying rate.
- Non-monetary items have been converted into the functional currency at the exchange rates prevailing at the transaction date.
- Profit or loss accounts have been converted into the functional currency using the exchange rates at the transaction date, except for depreciation expenses.
- The capital is followed according to historical costs.

The translation differences resulting from the above mentioned conversions are recorded under financial income / expenses in the statement of profit or loss.

Presentation currency of the Group's financial statements is TL. Financial Statements have been translated from Euro to TL in accordance with the relevant provisions of TAS 21 ("The Effects of Changes in Foreign Exchange Rates") as follows:

- Assets and liabilities are translated using the Central Bank of the Republic of Turkey ("TCMB") Euro buying rate prevailing at the balance sheet date; 31 December 2020: 1 Euro (€) = TL 9,0079, (31 December 2019: 1 Euro (€) = TL 6,6506).
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions.

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

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

#### 2.1 Basis of Presentation

##### Euro Amounts in the Financial Statements

Euro amounts shown in the consolidated balance sheet prepared in accordance with the TFRS have been translated from TL, as a matter of arithmetic computation only, at the official Euro bid rates announced by the TCMB on 31 December 2020 of TL 9,0079 = EUR 1, and Euro amounts shown in the consolidated statements of income, comprehensive income and cash flow have been translated from TL, as a matter of arithmetic computation only, Euro bid rates calculated from the official daily bid rates announced by the TCMB.

##### Comparative Information and Reclassification of Prior Period Financial Statements

Consolidated financial statements of Group are prepared in comparison to prior period in order to identify financial position and performance trends. In order to maintain consistency with current period consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current period, the Group has classified the balance amounting to 66.940.862 TL, which is presented in the "Trade Payables" account in the previous period financial statements, to the "Deferred Income" account to comply with the presentation of the current period consolidated financial statements.

##### Basis of Consolidation

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 31 December 2020 and 2019:

| <u>Name of the company</u> | <u>Principal activity</u>                   | <u>Participation rate</u> |                         | <u>Country of registration and operation</u> |
|----------------------------|---|---------------------------|-------------------------|--|
|                            |   | <u>31 December 2020</u>   | <u>31 December 2019</u> |  |
| PHT                        | Simulator technical support and maintenance | 100%                      | 100%                    | Turkey                                       |

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

#### 2.1 Basis of Presentation

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.1 Basis of Presentation

##### Associates and Joint Ventures

The table below sets out affiliates and joint ventures then indicates the proportion of ownership interest of the Company in these affiliates and joint ventures as of 31 December 2020 and 2019:

| <u>Name of the company</u>                            | <u>Principal activity</u>    | <u>Participation rate</u> |                         | <u>Country of registration and operation</u> |
|---|------------------------------|---------------------------|-------------------------|--|
|   |                              | <u>31 December 2020</u>   | <u>31 December 2019</u> |  |
| Pegasus Uçuş Eğitim Merkezi A.Ş. (“PUEM”)             | Simulator training           | 49%                       | 49%                     | Turkey                                       |
| Hitit Bilgisayar Hizmetleri A.Ş. (“Hitit Bilgisayar”) | Information system solutions | 50%                       | 50%                     | Turkey                                       |

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Group’s share of losses of an associate or a joint venture exceeds the Group’s interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate or a joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

#### 2.2 Significant Accounting Policies and Changes

The same presentation and methods of computation have been followed in these consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements as at and for the year ended 31 December 2019.

#### 2.3 Changes in Accounting Estimates

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period. Significant errors identified by the Group in the accounting estimates are applied retrospectively and prior period financial statements are restated. The Group has not made any changes in accounting estimates in the current year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.4 The new standards, amendments and interpretations**

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2020 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2020. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

**i) The new standards, amendments and interpretations which are effective as at January 1, 2020 are as follows:**

**Definition of a Business (Amendments to TFRS 3)**

In May 2019, the PAO issued amendments to the definition of a business in TFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to TFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively.

The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

**Amendments to TFRS 9, TAS 39 and TFRS 7- Interest Rate Benchmark Reform**

The amendments issued to TFRS 9 and TAS 39 which are effective for periods beginning on or after January 1, 2020 provide reliefs which enable hedge accounting to continue. For these reliefs, it is assumed that the benchmark on which the cash flows of hedged risk or item are based and/or, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform. in connection with interest rate benchmark reform.

Reliefs used as a result of amendments in TFRS 9 and TAS 39 is aimed to be disclosed in financial statements based on the amendments made in TFRS 7.

The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.4 The new standards, amendments and interpretations**

**i) The new standards, amendments and interpretations which are effective as at January 1, 2020 are as follows :**

**Definition of Material (Amendments to TAS 1 and TAS 8)**

In June 2019, the PAO issued amendments to TAS 1 Presentation of Financial Statements and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to TAS 1 and TAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

**Amendments to TFRS 16 – COVID-19 Rent Related Concessions**

On June 5, 2020, the POA issued amendments to TFRS 16 Leases to provide relief to lessees from applying TFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the COVID-19 pandemic. A lessee that makes this election accounts for any change in lease payments related rent concession the same way it would account for the change under the standard, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 31 December 2021
- There is no substantive change to other terms and conditions of the lease.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Early application of the amendments is permitted.

The amendments are not applicable for the Group and did not have a significant impact on the financial position or performance of the Group.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

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

##### ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to “the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

##### **TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)**

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

The Group will wait until the final amendment to assess the impacts of the changes.

##### **TFRS 17 - The new Standard for insurance contracts**

The POA issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted.

The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

##### **Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities**

On March 12, 2020, the PAO issued amendments to TAS 1 Presentation of Financial Statements. The amendments issued to TAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

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

**ii) Standards issued but not yet effective and not early adopted**

**Amendments to TFRS 3 – Reference to the Conceptual Framework**

In July 2020, the POA issued amendments to TFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of TFRS 3. At the same time, the amendments add a new paragraph to TFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to TFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in TFRS standards (March 2018).

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**Amendments to TAS 16 – Proceeds before intended use**

In July 2020, the POA issued amendments to TAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to TAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied retrospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**Amendments to TAS 37 – Onerous contracts – Costs of Fulfilling a Contract**

In July 2020, the POA issued amendments to TAS 37 Provisions, Contingent Liabilities and Contingent assets. The amendments issued to TAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a “directly related cost approach”. Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

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

**ii) Standards issued but not yet effective and not early adopted**

**Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS - 16 Interest Rate Benchmark Reform – Phase 2**

In December 2020, the POA issued Interest Rate Benchmark Reform – Phase 2, Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR), amending the followings. The amendments are effective for periods beginning on or after 1 January 2021. Earlier application is permitted and must be disclosed.

**Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform**

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying TFRS 4 Insurance Contracts that are using the exemption from TFRS 9 Financial Instruments (and, therefore, apply TAS 39 Financial Instruments: Classification and Measurement) and for TFRS 16 Leases, to lease modifications required by IBOR reform.

**Relief from discontinuing hedging relationships**

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the TAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

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

**ii) Standards issued but not yet effective and not early adopted**

**Separately identifiable risk components**

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

**Additional disclosures**

Amendments need additional TFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and If IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**Annual Improvements – 2018–2020 Cycle**

In July 2020, the POA issued Annual Improvements to TFRS Standards 2018–2020 Cycle, amending the followings:

- TFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- TFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other's behalf.
- TAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of TAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of TAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all.

The Group is in the process of assessing the impact of the improvements on financial position or performance of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.5 Summary of Significant Accounting Policies**

**Related Parties**

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

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

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

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

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

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

**Revenue from Contracts with Customers**

The Group generates its revenues from international and domestic flight operations. 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.
- Ancillary revenue is recognized as revenue when the service is provided.
- The passenger service fee is a surcharge on the ticket price for the purpose of selling. Since the passenger service fee, which is recorded as revenue as the ticket sold before the TFRS 15 application, is not considered as a different performance obligation than the transportation service, it has started to be recorded as revenue as of 1 January 2018 when the related transportation service is performed.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

#### Revenue from Contracts with Customers

The Group has evaluated itself as a surrogate in terms of the airport tax paid to the relevant state institutions and collected from the passengers at the ticket price and has not included the taxes in the revenue amount. The most important factor in this evaluation is the fact that the addressee of the tax is not the Company but the passenger.

If the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

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.

Group recognises revenue based on the following five principles in accordance with the TFRS 15, “Revenue from Contracts with Customers Standard”; effective from 1 January 2019:

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time.

Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation. When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

#### Pegasus Card and Pegasus Plus Loyalty Program

The holders of Pegasus Card and Pegasus Plus earn and accumulate flight points for both ticket and non-ticket purchases each time they use the Pegasus Card.

If the points are earned by ticket purchases, the flight points are provided by Pegasus and recognized as a separately identifiable component of the sales transaction and measured at fair value. They are recorded as “flight liability from flight points” initially and recognized as revenue when the flight points are used. The nominal amount of the points earned approximates the fair value of the points, because 50 Flight Points = TL 1. Flight points can be redeemed at the purchase of flight tickets at minimum TL 10 (500 Flight Points).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

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

**Pegasus Card and Pegasus Plus Loyalty Program**

If the points are earned through non-ticket purchases, the bank funds the cost of the points through a payment to the Group. The Group defers this revenue, which it records as “flight liability from flight points” and recognizes the revenue when the points are used by the customer. Award points are valid for at least two years and expire at the last day of the second calendar year. Unused points are recognized as income based on historic usage.

**Inventories**

Inventories are composed of consumables, spare parts, catering stocks and other stocks and they are valued at the lower of cost or net realizable value.

**Tangible Assets**

Tangible assets are carried at historical costs less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised over their estimated useful lives, less their residual values using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Group allocates the cost of an acquired aircraft to its service potential reflecting the maintenance condition of its engines and airframe. This cost, which can equate to a substantial element of the total aircraft cost, is depreciated over the shorter of the period to the next maintenance check or the remaining life of the aircraft. The costs of subsequent major airframe and engine maintenance checks are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

All significant components and repairable spare parts are accounted separately and depreciated over their estimated useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**Intangible Assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Acquired trademark, brands and licenses are shown at historical cost. Trademarks, brands and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives. The acquired software has a 5 year useful life.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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

#### **Provisions, Contingent Assets and Contingent Liabilities**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Impairment of Non-financial Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its aircraft to determine whether there is any indication that those assets have suffered an impairment loss. If such an 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). At the end of each reporting period, non-financial assets are reviewed for possible reversal of the impairment.

The fleet has been determined as the lowest level cash generating unit and analysed for impairment accordingly. For determination of recoverable amounts the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used. Net selling price for the aircraft is determined according to second hand prices in international price guides.

#### **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There are no qualifying assets during the years ended 31 December 2020 and 2019. Therefore, no borrowing costs were capitalized during the years ended 31 December 2020 and 2019. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.5 Summary of Significant Accounting Policies**

**Maintenance and Repair Costs and Maintenance Reserve Contribution Receivables**

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned and financial leased aircraft is described in the accounting policy for tangible assets.

For aircraft held under operating lease agreements, the Group pays monthly supplemental amount called “Maintenance Reserve Contribution” to operating lease companies with respect to heavy maintenance expenditures. This reserve contribution is calculated based on the actual flight hours or the actual number of landings of the aircraft. These maintenance reserve payments are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term. However, when the Group incurs such heavy maintenance expenditures on behalf of the operating lease company, it claims these costs back and recognise an agreed maintenance reserve contribution receivable until it is collected. All other maintenance and repair costs are expensed as incurred.

**Right of use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. As of the leasing start date, the redelivery and maintenance provisions of the aircraft are considered as an indispensable obligation within the scope of the contract, and the estimated provisions are included in the discounted cost and the right of use assets.

Right-of-use assets are subject to impairment.

**Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.5 Summary of Significant Accounting Policies

##### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

##### Taxation and Deferred Income Taxes

Turkish Tax Legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### Current Tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

#### 2.5 Summary of Significant Accounting Policies

##### Deferred Tax

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

##### Current and Deferred Tax for the Period

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

#### **Government Grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. As a financing instrument, government grants, rather than to be recognized in profit or loss to offset the expenses they are financing, are to be recognized in the balance sheet as deferred income and be recognized in profit or loss on a systematic basis over the economical life of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

##### 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.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.5 Summary of Significant Accounting Policies

##### Taxation and Deferred Income Taxes

##### Government Grants

##### *Investment Incentives*

The Group obtained incentive certificates from the Undersecretariat of Treasury for 57 aircraft. According to the incentive certificate of 25 aircraft, 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 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. According to the incentive certificate of 32 aircraft, the Company will use 50% 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 aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2% instead of 20%) taxable income attributable to the operation of these aircraft. As the Group does not have taxable profits during the year ended 31 December 20, it has not recognized the benefit in the financial statements associated with the Incentive Program (Note 13).

##### Employee Benefits

##### *Termination Benefits*

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation. The calculated actuarial gains and losses are accounted under the other comprehensive income when material.

##### *Employee Bonus Plan*

The Group recognizes a liability and an expense for employee bonus, based on current year performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

##### Foreign Currency Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Based on the nature of the Group's business, there are various transactions entered into that are in currencies other than the functional currency. In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognized either as finance income or finance costs in the period in which they arise.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.5 Summary of Significant Accounting Policies**

**Financial Assets**

Recognition and Measurement

Group classifies its financial assets in three categories of financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase. The Group classifies its financial assets at the date of the purchase. TFRS 9 eliminates the categories of available-for-sale financial assets, loans and receivables and available-for-sale financial assets included in the existing TAS 39 standard.

“Financial assets measured at amortized cost”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortized cost comprise “cash and cash equivalents”, “trade receivables” and “financial investments”. Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the consolidated statement of income.

“Financial assets measured at fair value through other comprehensive income”, are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified.

In derecognition of financial assets, the valuation differences which is classified under the other comprehensive income are recognized in retained earnings.

Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under consolidated statement of income.

“Financial assets measured at fair value through profit or loss”, are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.5 Summary of Significant Accounting Policies**

**Financial Assets**

Derecognition

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognized as a separate asset or liability.

Impairment

Impairment of the financial and contractual assets measured by using “Expected credit loss model” (ECL). The impairment model applies for amortized financial and contractual assets.

Provision for loss measured as below ;

12- Month ECL: results from default events that are possible within 12 months after reporting date.  
Lifetime ECL: results from all possible default events over the expected life of financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since 12 month ECL measurement if it has not.

The group may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement (simplified approach) always apply for trade receivables and contract assets without a significant financing.

Trade receivables

Trade receivables that are created by way of providing services directly to a debtor are measured at amortized cost, using the effective interest rate method, Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

Group has preferred to apply “simplified approach” defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to “lifetime expected credit losses” except incurred credit losses in which trade receivables are already impaired for a specific reason.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other operating income.

Unearned finance income/expense due to commercial transactions are accounted for under “Other Operating Income/Expenses” in the consolidated statement of income or loss.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

---

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

#### 2.5 Summary of Significant Accounting Policies

##### **Financial Assets**

##### Cash and Cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank deposits with original maturities of more than three months and shorter than 1 year are classified under short-term financial investments.

##### **Financial Liabilities**

The Group's financial liabilities and equity instruments are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The contract representing the right in the assets of the Group after deducting all debts of the Group which is an equity-based financial instrument. The accounting policies applied for certain financial liabilities and equity instruments are as follows.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

##### Other financial liabilities

Other financial liabilities are initially recognized at fair value as a net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

The effective interest method calculates the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

In case of fulfilling the contractual obligations of other financial liabilities, canceling the contract or expiring, the Group offsets this liability. The carrying amount of the off-balance sheet and the difference between the book value of the financial liability and the new financial liability arising are recognized in the statement of profit or loss.

##### **Derivative Financial Instruments and Hedge Accounting**

Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the statement of profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.5 Summary of Significant Accounting Policies**

**Derivative Financial Instruments and Hedge Accounting**

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 the 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. The change in the fair value of the derivative financial assets that qualify for hedge accounting according to TAS 39 (Financial Instruments) are recognized in other comprehensive income and the change in the fair value of the derivative financial assets that do not qualify for hedge accounting according to TAS 39 are recognized in statement of profit or loss. The Group started applying TFRS 9 for derivative financial instruments starting from 1 October 2019.

Inherently, the Group is exposed to financial risks related to interest rate fluctuations. The most significant source of the interest rate risk is the financial lease liabilities. The policy of the Group is to transform a part of its floating rate financial liabilities into fixed rate financial liabilities by using derivative financial instruments. Derivative financial instruments procured for this purpose do not qualify for hedge accounting and the change in the fair value of these derivative financial assets are recognized immediately in profit or loss.

Fuel costs which are predominantly determined in US Dollars constitute a substantial portion of the Group's cost base. The Group enters into forward and option 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 2020 and 2019.

Brent within framework of hedge transactions against cash flow risk is a substitute product of Jet Fuel, whereas the correlation between the two commodities is set forth in terms of past statistics. The correlation rate between Brent and Jet Fuel between years 2010-2020 is between the effectiveness ranges. The excessive amount over the effective rate is accounted in profit or loss in the related period when the amount has material effect in the financial statements.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as using the basis of recent market transactions on arm's length terms, using the fair value of similar financial instruments and using discounted cash flow analysis (Note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.5 Summary of Significant Accounting Policies

**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.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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 TAS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

---

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

**2.5 Summary of Significant Accounting Policies**

**Business Combinations**

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Amounts included in the item "Effect of Business Acquisition" if the business acquired as a result of business combination subject to joint control is terminated and the subsidiary becomes later acquired. Starting from the fiscal period, it is closed by transferring to the "Previous Years Profits / Loss" item in equal installments within a maximum of 5 fiscal periods.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.5 Summary of Significant Accounting Policies

##### Events After Reporting Period

Events after reporting period comprise any events between the reporting period 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.

##### Contingent Liabilities and Contingent Assets

Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group's contingent liabilities are probable but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes to the financial statements.

##### Earnings per Share

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to shareholders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

##### Cash Flow Statement

Cash flows for the period are classified and presented as operating, investing and financing activities in the cash flow statement.

Cash flows from operating activities present cash generated from the Group's airline operations.

Cash flows from investing activities present cash used in, generated from investing activities (capital investments and financial investments) of the Group.

Cash flows from financing activities present the funds used in financing operations and repayment regarding these operations.

Cash and cash equivalents are short term investments that are cash on hand, demand deposits, time deposits of with maturities not exceeding three months from purchase date and free of detoration of value with high liquidity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

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

**2.5 Summary of Significant Accounting Policies**

**Capital and Dividends**

Common shares are classified as equity. Dividends distributed over common shares are accounted by deduction from retained earnings in the period decision for dividend payment is undertaken.

**2.6 Critical Accounting Estimates and Assumptions**

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. The Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations. Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are 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 10. While determining estimated useful lives and residual values, the Group makes estimations and assumptions by taking past experience and business plans into consideration.

*Income Taxes*

The Group recognizes deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. Based on the available evidence, it is the Group's belief that sufficient taxable profit will be available to utilize these deferred tax assets as at 31 December 2020.

The Group estimates to utilize reduce corporate tax advantages arising from acquisition of aircrafts. With this respect, the Group recognized deferred tax assets for only foreseeable future due to uncertainty of the timing on realization of total tax advantages earned.

*Redelivery Provision*

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year. The provision also incorporates management expectation on the cost of the maintenance and component compensation at the time of the redelivery. The group considers the estimated maintenance costs and estimated flight times and number of flights as significant assumptions.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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

#### 2.6 Critical Accounting Estimates and Assumptions

##### *Litigation Provision*

The Group, within its normal course of business, is party to various lawsuits, fines and claims that have been filed against it. These lawsuits and fines have been evaluated by the Group's management and provisions are provided where necessary. The Group has provided a provision at an amount of TL 9.758.749 as of 31 December 2020 (31 December 2019: TL 8.340.623) (Note 15).

##### *Fair Value of Derivatives and Other Financial Instruments*

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date.

### NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

|                       | 31 December 2020  | 31 December 2019  |
|-----------------------|-------------------|-------------------|
| <b>Joint ventures</b> |                   |                   |
| Hitit Bilgisayar      | 58.812.540        | 44.417.911        |
| PUEM                  | 18.398.442        | 12.736.262        |
|                       | <b>77.210.982</b> | <b>57.154.173</b> |

Total profit from investments accounted for using the equity method is as follows:

|                   | 1 Ocak-<br>31 Aralık 2020 | 1 Ocak-<br>31 Aralık 2019 |
|-------------------|---------------------------|---------------------------|
| Hitit Bilgisayar  | 14.394.626                | 14.722.864                |
| PUEM              | 1.023.012                 | 1.518.318                 |
| <b>Net profit</b> | <b>15.417.638</b>         | <b>16.241.182</b>         |

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

#### PUEM

|   | 31 December 2020  | 31 December 2019  |
|---|-------------------|-------------------|
| Current assets  | 10.538.605        | 2.274.519         |
| Non-current assets  | 29.586.485        | 25.153.183        |
| Current liabilities   | (3.081.385)       | (1.084.942)       |
| Non-current liabilities   | 200.104           | (560.853)         |
| <b>Net assets of joint venture</b>                              | <b>37.243.809</b> | <b>25.781.907</b> |
| Group's ownership interest in the joint venture                 | 49,40%            | 49,40%            |
| <b>Group's share in the net assets<br/>of the joint venture</b> | <b>18.398.442</b> | <b>12.736.262</b> |

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

PUEM

|   | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|--------------------------------|--------------------------------|
| Revenue   | 12.905.653                     | 10.199.468                     |
| Depreciation&amortisation expense                               | (3.451.411)                    | (1.856.956)                    |
| Interest income/(expense), net                                  | (409.124)                      | (416.678)                      |
| Profit for the year   | 2.070.874                      | 3.073.519                      |
| Group's ownership interest                                      | 49,40%                         | 49,40%                         |
| <b>Group's share in the net profit<br/>of the joint venture</b> | <b>1.023.012</b>               | <b>1.518.318</b>               |

Hitit Bilgisayar

|   | 31 December 2020   | 31 December 2019  |
|---|--------------------|-------------------|
| Current assets  | 78.284.911         | 43.964.800        |
| Non-current assets  | 86.917.669         | 65.238.423        |
| Current liabilities   | (41.905.233)       | (15.268.867)      |
| Non-current liabilities   | (7.457.291)        | (6.883.558)       |
| <b>Net assets of joint venture</b>                              | <b>115.840.056</b> | <b>87.050.798</b> |
| Group's ownership interest in the joint venture                 | 50%                | 50%               |
| Goodwill  | 892.512            | 892.512           |
| <b>Group's share in the net assets<br/>of the joint venture</b> | <b>58.812.540</b>  | <b>44.417.911</b> |

|   | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|--------------------------------|--------------------------------|
| Revenue   | 88.108.305                     | 93.876.905                     |
| Depreciation&amortisation expense                               | (9.865.973)                    | (6.638.232)                    |
| Interest income/(expense), net                                  | 578.781                        | 586.635                        |
| Profit for the year   | 28.789.252                     | 29.445.728                     |
| Group's weighted average ownership interest                     | 50%                            | 50%                            |
| <b>Group's share in the net profit<br/>of the joint venture</b> | <b>14.394.626</b>              | <b>14.722.864</b>              |

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 4 - SEGMENT REPORTING

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 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 Group's single reportable segment.

### NOTE 5 - 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 receivables and payables resulting from operating activities are generally settled in normal course of business.

#### (i) Balances with Related Parties:

##### a) Other receivables from related parties

|   | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| <b>Balances with joint ventures and subsidiaries:</b> |                  |                  |
| PUEM  | 227.595          | 102.852          |
| <b>Balances with other related parties:</b>           |                  |                  |
| Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş.        | 332              | -                |
|   | <b>227.927</b>   | <b>102.852</b>   |

##### b) Trade payables to related parties

|   | 31 December 2020  | 31 December 2019 |
|---|-------------------|------------------|
| <b>Balances with parent company:</b>                  |                   |                  |
| Esas Holding  | 8.498.505         | -                |
| <b>Balances with joint ventures and subsidiaries:</b> |                   |                  |
| Hitit Bilgisayar                                      | 4.517.471         | 1.397.591        |
| PUEM  | 7.800.677         | -                |
| <b>Balances with other related parties:</b>           |                   |                  |
| Esasburda İnşaat Sanayi ve Ticaret A.Ş.               | 1.300.124         | 146.359          |
| Alarm Sağlık Hizmetleri San. ve Tic. A.Ş.             | 42.585            | -                |
|   | <b>22.159.362</b> | <b>1.543.950</b> |

#### Significant Transactions with Related Parties:

Various transactions with Esas Holding consist of commissions paid. The Group records these commissions within finance expense.

The Group also leases their head office building from Esasburda İnşaat Sanayi ve Ticaret A.Ş. ("Esasburda"), another Esas Holding subsidiary, and records the expenses as depreciation and interest under new leases standard.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 5 - RELATED PARTY TRANSACTIONS**

**Significant Transactions with Related Parties:**

The Group receives simulator training services from PUEM for their pilots and generates revenue from labor hire and common area use.

The Group receives software and software support services from Hitit Bilgisayar that provides informations system solutions for transportation industry.

The Group receives health services from Alarm Sağlık Hizmetleri Sanayi ve Ticaret A.Ş.

**a) Other Income from Related Parties**

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| <b>Transactions with joint ventures and subsidiaries:</b> |  |  |
| PUEM  | 1.830.231                              | 2.004.915                              |
|   | <b>1.830.231</b>                       | <b>2.004.915</b>                       |

**b) Purchases of goods or services**

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| <b>Transactions with joint ventures and subsidiaries:</b> |  |  |
| Hitit Bilgisayar  | 23.252.160                             | 19.790.367                             |
| PUEM  | 12.905.653                             | 10.199.468                             |
| <b>Transactions with other related parties:</b>           |  |  |
| Alarm Sağlık Hizmetleri San. ve Tic. A.Ş.                 | 900.742                                | -                                      |
| Esasburda   | 3.179.959                              | 3.093.335                              |
| Other   | -                                      | 35.912                                 |
|   | <b>40.238.514</b>                      | <b>33.119.082</b>                      |

**c) Rent expenses**

|              | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--------------|--|--|
| Esasburda(*) | 12.299.573                             | 7.270.399                              |
|              | <b>12.299.573</b>                      | <b>7.270.399</b>                       |

(\*)Rent expenses are recorded as depreciation and interest under TFRS 16 new leases standard.

**d) Commission expenses**

|              | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--------------|--|--|
| Esas Holding | 12.206.159                             | 11.780.578                             |
|              | <b>12.206.159</b>                      | <b>11.780.578</b>                      |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 5 - RELATED PARTY TRANSACTIONS

##### (iii) Compensation of Key Management Personnel:

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the period ended 31 December 2020 and 2019 are as follows:

|  | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|--|--------------------------------|--------------------------------|
| Salaries and other short term benefits | 23.354.950                     | 20.451.408                     |
| Other long term benefits               | 16.098.187                     | 2.114.002                      |
|  | <b>39.453.137</b>              | <b>22.565.410</b>              |

#### NOTE 6 – TRADE RECEIVABLES AND PAYABLES AND OTHER RECEIVABLES

##### Short term trade receivables

The details of short term trade receivables as of 31 December 2020 and 2019 are as follows:

|  | 31 December 2020   | 31 December 2019   |
|--|--------------------|--------------------|
| Trade receivables                        | 202.685.663        | 253.007.254        |
| Credit card receivables                  | 24.900.433         | 209.689.912        |
| Income accruals                          | 1.208.598          | 6.486.220          |
|  | <b>228.794.694</b> | <b>469.183.386</b> |
| Less: Allowance for doubtful receivables | (31.309.674)       | (22.205.026)       |
|  | <b>197.485.020</b> | <b>446.978.360</b> |

The average collection period of trade receivables is approximately 39 days (31 December 2019: 19 days).

The movement of provision for doubtful receivables for the years ended 31 December 2020 and 2019 are as follows:

|  | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|--|--------------------------------|--------------------------------|
| <b>1 January</b>                       | 22.205.026                     | 10.606.503                     |
| Charge for the year                    | 8.101.323                      | 12.278.020                     |
| Collections and written off allowances | (2.716.533)                    | (183.240)                      |
| Currency translation differences       | 3.719.858                      | (496.257)                      |
| <b>31 December</b>                     | <b>31.309.674</b>              | <b>22.205.026</b>              |

The nature and level of risks related to trade receivables is disclosed in Note 32.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 6 – TRADE RECEIVABLES AND PAYABLES**

**Short term trade payables**

The details of short term trade payables as of 31 December 2020 and 2019 are as follows:

|                                  | <b>31 December 2020</b> | <b>31 December 2019</b> |
|----------------------------------|-------------------------|-------------------------|
| Trade payables                   | 606.442.333             | 542.178.273             |
| Accrued direct operational costs | 282.039.624             | 179.066.402             |
| Other accrued expenses           | 22.159.362              | 1.543.950               |
|                                  | <b>910.641.319</b>      | <b>722.788.625</b>      |

The average credit period of trade payables is approximately 47 days (31 December 2019: 30 days).

**NOTE 7 - OTHER RECEIVABLES AND PAYABLES**

**Short term other receivables**

The details of short term other receivables as of 31 December 2020 and 2019 are as follows:

|   | <b>31 December 2020</b> | <b>31 December 2019</b> |
|---|-------------------------|-------------------------|
| Deposits and guarantees given(*)            | 31.762.390              | 32.225.590              |
| Receivables from pilots for flight training | 54.457.337              | 53.554.739              |
| Due from related parties (Note 5)           | 227.927                 | 102.852                 |
| Other receivables                           | 4.670.371               | 5.180.385               |
| Less: Allowance for doubtful receivables    | -                       | (2.880.997)             |
|   | <b>91.118.025</b>       | <b>88.182.569</b>       |

(\*)As of 31 December 2020, the amount of TL 25.412.740 in deposits and guarantees given, consists of guarantee deposits given to banks related to valuation of derivative contracts (31 December 2019: 19.840.273).

The movement of provision for doubtful other receivables for the years ended 31 December 2020 and 2019 are as follows:

|                                  | <b>2020</b> | <b>2019</b>      |
|----------------------------------|-------------|------------------|
| <b>1 January</b>                 | 2.880.997   | 2.551.536        |
| Written off allowances           | (1.766.840) | -                |
| Currency translation differences | (1.114.157) | 329.461          |
| <b>31 December</b>               | <b>-</b>    | <b>2.880.997</b> |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 7 – OTHER RECEIVABLES AND PAYABLES**

**Long term other receivables**

The details of long term other receivables as of 31 December 2020 and 2019 are as follows:

|                                  | <b>31 December 2020</b> | <b>31 December 2019</b> |
|----------------------------------|-------------------------|-------------------------|
| Receivables from pilot trainings | 117.180.175             | 117.197.274             |
| Deposits given                   | 88.008.338              | 27.303.618              |
|                                  | <b>205.188.513</b>      | <b>144.500.892</b>      |

**Short term other payables**

|                   | <b>31 December 2020</b> | <b>31 December 2019</b> |
|-------------------|-------------------------|-------------------------|
| Taxes payables    | 26.485.120              | 30.518.103              |
| Deposits received | 3.861.808               | 2.879.886               |
|                   | <b>30.346.928</b>       | <b>33.397.989</b>       |

**NOTE 8 - INVENTORIES**

The details of inventories as of 31 December 2020 and 2019 are as follows:

|                                   | <b>31 December 2020</b> | <b>31 December 2019</b> |
|-----------------------------------|-------------------------|-------------------------|
| Consumables and spare parts       | 80.298.886              | 65.049.356              |
| Operational and other inventories | 11.119.339              | 10.324.951              |
| Catering inventories              | 70.115                  | 78.719                  |
|                                   | <b>91.488.340</b>       | <b>75.453.026</b>       |

**NOTE 9 - PREPAID EXPENSES, DEFERRED INCOME AND CONTRACT LIABILITIES**

The details of prepaid expenses as of 31 December 2020 and 2019 are as follows:

**Short term prepaid expenses**

|                                | <b>31 December 2020</b> | <b>31 December 2019</b> |
|--------------------------------|-------------------------|-------------------------|
| Advances on aircraft purchases | 841.904.079             | 1.078.133.045           |
| Advances to suppliers          | 271.147.552             | 138.064.398             |
| Prepaid insurance expenses     | 130.892.966             | 39.969.877              |
| Prepaid advertising expenses   | 61.461                  | 132.959                 |
| Other prepaid expenses         | 25.922.631              | 20.109.555              |
|                                | <b>1.269.928.689</b>    | <b>1.276.409.834</b>    |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 9 - PREPAID EXPENSES, DEFERRED INCOME AND CONTRACT LIABILITIES**

**Long term prepaid expenses**

|                                | <b>31 December 2020</b> | <b>31 December 2019</b> |
|--------------------------------|-------------------------|-------------------------|
| Advances on aircraft purchases | 1.033.436.154           | 506.767.830             |
| Prepaid maintenance expenses   | 811.729.181             | 431.497.058             |
| Other prepaid expenses         | 17.847.453              | 17.094.986              |
|                                | <b>1.863.012.788</b>    | <b>955.359.874</b>      |

**Deferred Revenue**

**Contract Liabilities**

The details of passenger flight liabilities as of 31 December 2020 and 2019 are as follows:

|  | <b>31 December 2020</b> | <b>31 December 2019</b> |
|--|-------------------------|-------------------------|
| Flight liability from ticket sales             | 344.016.889             | 692.054.775             |
| Passenger airport fees received from customers | 105.883.089             | 209.032.208             |
| Flight liability from flight points            | 84.506.408              | 62.821.313              |
|  | <b>534.406.386</b>      | <b>963.908.296</b>      |

**Deferred Revenue (Excluding Passenger Flight Liabilities)**

**Short term deferred income**

|                                  | <b>31 December 2020</b> | <b>31 December 2019</b> |
|----------------------------------|-------------------------|-------------------------|
| Advances received from customers | 122.080.709             | 81.362.753              |
| Other deferred income            | 69.650.281              | 115.159.184             |
|                                  | <b>191.730.990</b>      | <b>196.521.937</b>      |

**Long term deferred income**

|                                   | <b>31 December 2020</b> | <b>31 December 2019</b> |
|-----------------------------------|-------------------------|-------------------------|
| Income relating to future periods | 316.272.170             | 318.913.475             |
|                                   | <b>316.272.170</b>      | <b>318.913.475</b>      |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 10 - PROPERTY AND EQUIPMENT**

| <b>31 December 2020</b>          | <b>Machinery<br/>and equipment</b> | <b>Motor<br/>vehicles</b> | <b>Furniture and<br/>fixtures</b> | <b>Leasehold<br/>improvements</b> | <b>Components,<br/>spare engine<br/>and repairables</b> | <b>Owned<br/>Aircraft</b> | <b>Construction<br/>in progress</b> | <b>Total</b>           |
|----------------------------------|------------------------------------|---------------------------|-----------------------------------|-----------------------------------|---|---------------------------|-------------------------------------|------------------------|
| <b>Cost:</b>                     |                                    |                           |                                   |                                   |   |                           |                                     |                        |
| Opening                          | <b>146.516.118</b>                 | <b>109.456.942</b>        | <b>179.887.996</b>                | <b>91.186.916</b>                 | <b>1.307.799.047</b>                                    | <b>706.740.318</b>        | <b>59.903.487</b>                   | <b>2.601.490.824</b>   |
| Additions                        | 822.863                            | 10.077                    | 9.474.846                         | -                                 | 202.548.829   | -                         | 41.251.397                          | 254.108.012            |
| Disposals                        | -                                  | (469.332)                 | (292.653)                         | -                                 | (158.071.075)   | (477.371.071)             | -                                   | (636.204.131)          |
| Transfers                        | -                                  | -                         | -                                 | -                                 | (385.227.066)   | 39.577.793                | (60.388.579)                        | (406.037.852)          |
| Currency translation differences | 52.032.914                         | 38.740.899                | 64.881.384                        | 32.321.131                        | 422.113.902   | 45.567.649                | 18.898.019                          | 674.555.898            |
| <b>Closing</b>                   | <b>199.371.895</b>                 | <b>147.738.586</b>        | <b>253.951.573</b>                | <b>123.508.047</b>                | <b>1.389.163.637</b>                                    | <b>314.514.689</b>        | <b>59.664.324</b>                   | <b>2.487.912.751</b>   |
| <b>Accumulated depreciation:</b> |                                    |                           |                                   |                                   |   |                           |                                     |                        |
| Opening                          | <b>(33.888.233)</b>                | <b>(32.235.123)</b>       | <b>(123.135.870)</b>              | <b>(80.374.835)</b>               | <b>(263.103.059)</b>                                    | <b>(392.852.037)</b>      | -                                   | <b>(925.589.157)</b>   |
| Depreciation for the year        | (16.140.439)                       | (10.564.377)              | (18.792.346)                      | (7.961.787)                       | (94.177.487)  | (51.082.410)              | -                                   | (198.718.846)          |
| Disposals                        | -                                  | 382.896                   | 190.370                           | -                                 | 27.744.072  | 240.687.304               | -                                   | 269.004.642            |
| Currency translation differences | (13.980.782)                       | (12.667.849)              | (45.914.843)                      | (29.460.131)                      | (101.361.515)   | 3.323.812                 | -                                   | (200.061.308)          |
| <b>Closing</b>                   | <b>(64.009.454)</b>                | <b>(55.084.453)</b>       | <b>(187.652.689)</b>              | <b>(117.796.753)</b>              | <b>(430.897.989)</b>                                    | <b>(199.923.331)</b>      | -                                   | <b>(1.055.364.669)</b> |
| <b>Net book value</b>            | <b>135.362.441</b>                 | <b>92.654.133</b>         | <b>66.298.884</b>                 | <b>5.711.294</b>                  | <b>958.265.648</b>                                      | <b>114.591.358</b>        | <b>59.664.324</b>                   | <b>1.432.548.082</b>   |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 10 - PROPERTY AND EQUIPMENT**

| <b>31 December 2019</b>          | <b>Machinery<br/>and equipment</b> | <b>Motor<br/>vehicles</b> | <b>Furniture and<br/>fixtures</b> | <b>Leasehold<br/>improvements</b> | <b>Components,<br/>spare engine<br/>and repairables</b> | <b>Aircraft</b>        | <b>Construction<br/>in progress</b> | <b>Total</b>           |
|----------------------------------|------------------------------------|---------------------------|-----------------------------------|-----------------------------------|---|------------------------|-------------------------------------|------------------------|
| <b>Cost:</b>                     |                                    |                           |                                   |                                   |   |                        |                                     |                        |
| Opening                          | <b>107.827.347</b>                 | <b>100.683.168</b>        | <b>151.141.325</b>                | <b>79.369.370</b>                 | <b>1.007.485.389</b>                                    | <b>8.977.788.704</b>   | <b>3.713.862</b>                    | <b>10.428.009.165</b>  |
| Additions                        | 37.181.577                         | 1.637.589                 | 13.595.983                        | 3.932.173                         | 191.841.779   | -                      | 53.914.017                          | 302.103.118            |
| Disposals                        | (23.617)                           | (1.654.972)               | (736.254)                         | -                                 | -   | -                      | -                                   | (2.414.843)            |
| Transfers(*)                     | -                                  | -                         | -                                 | -                                 | -   | (8.269.533.424)        | (651.070)                           | (8.270.184.494)        |
| Sale of subsidiary               | (9.074.432)                        | (1.719.197)               | (1.396.583)                       | (374.968)                         | (6.375.395)   | (47.626.201)           | -                                   | (66.566.776)           |
| Currency translation differences | 10.605.243                         | 10.510.354                | 17.283.525                        | 8.260.341                         | 114.847.274   | 46.111.239             | 2.926.678                           | 210.544.654            |
| <b>Closing</b>                   | <b>146.516.118</b>                 | <b>109.456.942</b>        | <b>179.887.996</b>                | <b>91.186.916</b>                 | <b>1.307.799.047</b>                                    | <b>706.740.318</b>     | <b>59.903.487</b>                   | <b>2.601.490.824</b>   |
| <b>Accumulated depreciation:</b> |                                    |                           |                                   |                                   |   |                        |                                     |                        |
| Opening                          | <b>(21.043.895)</b>                | <b>(23.059.619)</b>       | <b>(97.346.345)</b>               | <b>(65.504.421)</b>               | <b>(204.998.522)</b>                                    | <b>(1.767.852.728)</b> | -                                   | <b>(2.179.805.530)</b> |
| Depreciation for the year        | (10.862.551)                       | (8.194.574)               | (15.774.533)                      | (7.993.375)                       | (35.248.363)  | (60.266.320)           | -                                   | (138.339.716)          |
| Disposals                        | 11.813                             | 1.167.419                 | 604.755                           | -                                 | -   | -                      | -                                   | 1.783.987              |
| Transfers                        | -                                  | -                         | -                                 | -                                 | -   | 1.430.867.671          | -                                   | 1.430.867.671          |
| Sale of subsidiary               | 169.211                            | 527.553                   | 725.398                           | 106.004                           | 2.329.539   | 23.974.769             | -                                   | 27.832.474             |
| Currency translation differences | (2.162.811)                        | (2.675.902)               | (11.345.145)                      | (6.983.043)                       | (25.185.713)  | (19.575.429)           | -                                   | (67.928.043)           |
| <b>Closing</b>                   | <b>(33.888.233)</b>                | <b>(32.235.123)</b>       | <b>(123.135.870)</b>              | <b>(80.374.835)</b>               | <b>(263.103.059)</b>                                    | <b>(392.852.037)</b>   | -                                   | <b>(925.589.157)</b>   |
| <b>Net book value</b>            | <b>112.627.885</b>                 | <b>77.221.819</b>         | <b>56.752.126</b>                 | <b>10.812.081</b>                 | <b>1.044.695.988</b>                                    | <b>313.888.281</b>     | <b>59.903.487</b>                   | <b>1.675.901.667</b>   |

(\*)Consists of aircraft transferred to Right of Use Assets under TFRS 16.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 10 - PROPERTY AND EQUIPMENT

The useful lives of the depreciable assets are as follows:

|                            | <u>Useful life</u>    |
|----------------------------|-----------------------|
| Aircraft                   | 23 years              |
| Engine and Engine LLP's    | 16 years              |
| Airframe and maintenance   | 7-8 years             |
| Repairables and components | 3-7 years             |
| Machinery and equipment    | 7 years               |
| Furniture and fixtures     | 7 years               |
| Motor vehicles             | 5 years               |
| Simulator                  | 7 years               |
| Leasehold improvements     | 5 years or lease term |

The Group has determined the residual value of the aircraft as 15% of market value of a new aircraft in the same model.

Depreciation and amortisation expense charged to cost of sales, general administrative expenses, and marketing expenses is summarized below:

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| Current year depreciation (Note 10,11)    | 2.152.174.693                          | 1.529.342.126                          |
| Current year amortization (Note 12)       | 31.229.099                             | 18.625.666                             |
|   | <b>2.183.403.792</b>                   | <b>1.547.967.792</b>                   |
|   | <b>31 December 2020</b>                | <b>31 December 2019</b>                |
| Cost of sales (Note 21)                   | 2.098.677.917                          | 1.486.166.042                          |
| General administrative expenses (Note 22) | 67.780.700                             | 49.511.298                             |
| Marketing expenses (Note 22)              | 16.945.175                             | 12.290.452                             |
|   | <b>2.183.403.792</b>                   | <b>1.547.967.792</b>                   |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 11 - INTANGIBLE ASSETS**

| <b>31 December 2020</b>          | <b>Brand</b>       | <b>Software</b>      | <b>Total</b>         |
|----------------------------------|--------------------|----------------------|----------------------|
| <b>Cost:</b>                     |                    |                      |                      |
| Opening                          | -                  | <b>177.603.372</b>   | <b>177.603.372</b>   |
| Additions                        | -                  | 34.116.747           | 34.116.747           |
| Transfers                        | -                  | -                    | -                    |
| Disposals                        | -                  | -                    | -                    |
| Currency translation differences | -                  | 66.896.563           | 66.896.563           |
| <b>Closing</b>                   | -                  | <b>278.616.682</b>   | <b>278.616.682</b>   |
| <b>Accumulated amortization:</b> |                    |                      |                      |
| Opening                          | -                  | <b>(97.812.366)</b>  | <b>(97.812.366)</b>  |
| Amortization for the year        | -                  | (31.229.099)         | (31.229.099)         |
| Currency translation differences | -                  | (38.449.268)         | (38.449.268)         |
| <b>Closing</b>                   | -                  | <b>(167.490.733)</b> | <b>(167.490.733)</b> |
| <b>Net book value</b>            | -                  | <b>111.125.949</b>   | <b>111.125.949</b>   |
| <b>31 December 2019</b>          |                    |                      |                      |
|                                  | <b>Brand</b>       | <b>Software</b>      | <b>Total</b>         |
| <b>Cost:</b>                     |                    |                      |                      |
| Opening                          | <b>4.249.742</b>   | <b>116.056.170</b>   | <b>120.305.912</b>   |
| Additions                        | -                  | 46.337.207           | 46.337.207           |
| Transfers                        | -                  | 651.073              | 651.073              |
| Disposal                         | (4.249.742)        | -                    | (4.249.742)          |
| Currency translation differences | -                  | 14.558.922           | 14.558.922           |
| <b>Closing</b>                   | -                  | <b>177.603.372</b>   | <b>177.603.372</b>   |
| <b>Accumulated amortization:</b> |                    |                      |                      |
| Opening                          | <b>(2.461.308)</b> | <b>(70.984.707)</b>  | <b>(73.446.015)</b>  |
| Amortization for the year        | -                  | (18.625.666)         | (18.625.666)         |
| Disposal                         | 2.461.308          | -                    | 2.461.308            |
| Currency translation differences | -                  | (8.201.993)          | (8.201.993)          |
| <b>Closing</b>                   | -                  | <b>(97.812.366)</b>  | <b>(97.812.366)</b>  |
| <b>Net book value</b>            | -                  | <b>79.791.006</b>    | <b>79.791.006</b>    |

Remaining average useful life of intangible assets as of 31 December 2020 is 2,04 years (31 December 2019: 2,3 years).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 12 – RIGHT OF USE ASSETS**

| <b>31 December 2020</b>          | <b>Field Rental</b> | <b>Building</b>     | <b>Aircraft</b>        | <b>Other</b>       | <b>Total</b>           |
|----------------------------------|---------------------|---------------------|------------------------|--------------------|------------------------|
| <b>Cost:</b>                     |                     |                     |                        |                    |                        |
| Opening                          | 30.958.669          | 24.646.405          | 18.000.762.823         | 2.070.755          | 18.058.438.652         |
| Additions                        | -                   | -                   | 5.156.875.276          | -                  | 5.156.875.276          |
| Disposals                        | -                   | -                   | (216.042.711)          | -                  | (216.042.711)          |
| Transfers                        | -                   | -                   | 406.037.852            | -                  | 406.037.852            |
| Currency translation differences | 10.973.277          | 8.735.900           | 6.263.764.824          | 733.973            | 6.284.207.974          |
| <b>Closing</b>                   | <b>41.931.946</b>   | <b>33.382.305</b>   | <b>29.611.398.064</b>  | <b>2.804.728</b>   | <b>29.689.517.043</b>  |
| <b>Accumulated depreciation:</b> |                     |                     |                        |                    |                        |
| Opening                          | (11.686.083)        | (6.718.403)         | (6.131.858.564)        | (1.420.637)        | (6.151.683.687)        |
| Depreciation for the period      | (22.806.874)        | (6.082.714)         | (1.923.779.003)        | (787.256)          | (1.953.455.847)        |
| Disposals                        | -                   | -                   | 216.042.711            | -                  | 216.042.711            |
| Currency translation differences | (6.924.550)         | (3.123.420)         | (2.000.779.308)        | (596.835)          | (2.011.424.113)        |
| <b>Closing</b>                   | <b>(41.417.507)</b> | <b>(15.924.537)</b> | <b>(9.840.374.164)</b> | <b>(2.804.728)</b> | <b>(9.900.520.936)</b> |
| <b>Net book value</b>            | <b>514.439</b>      | <b>17.457.768</b>   | <b>19.771.023.900</b>  | <b>-</b>           | <b>19.788.996.107</b>  |
|                                  | <b>Field Rental</b> | <b>Building</b>     | <b>Aircraft</b>        | <b>Other</b>       | <b>Total</b>           |
| <b>Cost:</b>                     |                     |                     |                        |                    |                        |
| TFRS 16 opening effects(*)       | 28.126.554          | 22.391.742          | 14.318.653.346         | 1.881.318          | 14.371.052.960         |
| Additions                        | -                   | -                   | 2.931.797.580          | -                  | 2.931.797.580          |
| Disposals                        | -                   | -                   | (843.014.725)          | -                  | (843.014.725)          |
| Currency translation differences | 2.832.115           | 2.254.663           | 1.593.326.622          | 189.437            | 1.598.602.837          |
| <b>Closing</b>                   | <b>30.958.669</b>   | <b>24.646.405</b>   | <b>18.000.762.823</b>  | <b>2.070.755</b>   | <b>18.058.438.652</b>  |
| <b>Accumulated depreciation:</b> |                     |                     |                        |                    |                        |
| TFRS 16 opening effects          | -                   | -                   | (5.063.924.051)        | -                  | (5.063.924.051)        |
| Depreciation for the period      | (11.153.546)        | (6.412.244)         | (1.372.082.662)        | (1.353.958)        | (1.391.002.410)        |
| Disposals                        | -                   | -                   | 843.014.725            | -                  | 843.014.725            |
| Currency translation differences | (532.537)           | (306.159)           | (538.866.576)          | (66.679)           | (539.771.951)          |
| <b>Closing</b>                   | <b>(11.686.083)</b> | <b>(6.718.403)</b>  | <b>(6.131.858.564)</b> | <b>(1.420.637)</b> | <b>(6.151.683.687)</b> |
| <b>Net book value</b>            | <b>19.272.586</b>   | <b>17.928.002</b>   | <b>11.868.904.259</b>  | <b>650.118</b>     | <b>11.906.754.965</b>  |

(\*)Consists of aircraft amounting TL 8.269.533.424 transferred from Property & Equipment to Right of Use Assets under TFRS 16.

**NOTE 13 - GOVERNMENT GRANTS AND INCENTIVES**

The Group obtained incentive certificates from the Undersecretariat of Treasury for 57 aircraft. According to the incentive certificate of 25 aircraft, 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 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. According to the new incentive certificate of 32 aircraft bought in 2018 the Company will use 50% 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 aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2% instead of 20%) taxable income attributable to the operation of these aircraft.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 14 - BORROWING COSTS**

For the years ended 31 December 2020 and 2019, as there are no qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs for the respective periods are not capitalized. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

**NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

**Short term provisions**

|                                 | <b>31 December 2020</b> | <b>31 December 2019</b> |
|---------------------------------|-------------------------|-------------------------|
| Provision for litigation claims | 9.758.749               | 8.340.623               |
| Redelivery provision            | 756.471.286             | 268.853.286             |
|                                 | <b>766.230.035</b>      | <b>277.193.909</b>      |

**Long term provisions**

|                      | <b>31 December 2020</b> | <b>31 December 2019</b> |
|----------------------|-------------------------|-------------------------|
| Redelivery provision | 1.038.964.172           | 1.605.503.722           |
|                      | <b>1.038.964.172</b>    | <b>1.605.503.722</b>    |

Redelivery Provision

The detail of redelivery provision is as follows:

|            | <b>31 December 2020</b> | <b>31 December 2019</b> |
|------------|-------------------------|-------------------------|
| Short term | 756.471.286             | 268.853.286             |
| Long term  | 1.038.964.172           | 1.605.503.722           |
|            | <b>1.795.435.458</b>    | <b>1.874.357.008</b>    |

The movement of redelivery provision as of the years ended 31 December 2020 and 2019 are as follows:

|                                  | <b>2020</b>          | <b>2019</b>          |
|----------------------------------|----------------------|----------------------|
| 1 January                        | 1.874.357.008        | 1.018.228.937        |
| TFRS 16 effect                   | -                    | 947.659.045          |
| Charge for the year              | 174.859.947          | 203.479.166          |
| Disposals                        | (605.411.494)        | (468.601.336)        |
| Currency translation differences | 351.629.997          | 173.591.196          |
| <b>31 December</b>               | <b>1.795.435.458</b> | <b>1.874.357.008</b> |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

##### Litigation

The movement of litigation provision is as follows:

|                       | 2020             | 2019             |
|-----------------------|------------------|------------------|
| 1 January             | 8.340.623        | 9.673.544        |
| Charge for the year   | 2.704.083        | 822.519          |
| Payments              | (86.428)         | (227.481)        |
| Reversal of provision | (1.199.529)      | (1.927.959)      |
| <b>31 December</b>    | <b>9.758.749</b> | <b>8.340.623</b> |

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 38.124.393 as of 31 December 2020 (31 December 2019: TL 27.096.909). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 9.758.749 (31 December 2019: TL 8.340.623) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

##### Tax Inspection

Value Added Tax Inspection Report Number 2013-B-228/6, is based on the allegation that corporation tax withholdings arising on such amounts set forth to be accrued under such Corporation Tax Withholding Inspection Report Number 2013-B-228/5, and corporation tax withholdings anticipated under the said report are at the same time subject to value added tax withholding. In addition, in this report, the VAT calculation with the title of responsible for the intangible rights procured from abroad was brought to the agenda.

In the aforesaid process, all of the lawsuits filed with the demand for rescission of such fined value added tax assessments imposed in the name of the Company as per respective monthly periods of year 2010, with the claim that the rate of value added tax required to be calculated over corporation tax withholdings claimed as being payable over such leasing payments with respect to aircraft subject matter of financial leasing with the purpose of acquiring the same from companies with legal domiciles as well as principal places of business abroad being 18% are concluded, and such lawsuits filed in tax courts are concluded in favor of the Company. A part of the judgments were subject to appeal by Major Taxpayers Tax Office before Istanbul Tax Court due to their amounts, but in respect of judgment of İstanbul Regional Administrative Court, the appeals has been rejected and lawsuits were concluded in favor of the Company. The decision was appealed by the Tax Office and the decision of the first instance court was approved as a result of the appeal. The Tax Office has applied for the correction of the decision and our response to this application has been submitted to the file. In March 2020, the decision for the correction of the decision was rejected and the decision to lift the penalty for the corporate tax (withholding tax) corresponding to the payments made against financial leases was finalized. The Court decided to partially reject (for the TL 9.103 part) the decision to disrupt the appeal at the stage of appeal and the VAT amount, which is limited only for this amount, to be reversed at the appeal stage and sent to the local Court for renegotiation.

As can be seen from the explanations above, all the lawsuits filed for the Corporate Tax Review Report, Corporate Tax Withholding Review Report and Value Added Tax Withholding Review Report (excluding VAT lawsuit with the amount of TL 9.103) resulted positively.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 16 - COMMITMENTS**

**Purchase Commitments**

|                                  | <b>31 December 2020</b> | <b>31 December 2019</b> |
|----------------------------------|-------------------------|-------------------------|
| Commitments to purchase aircraft | 59.718.587.974          | 56.563.789.155          |
|                                  | <b>59.718.587.974</b>   | <b>56.563.789.155</b>   |

As of 31 December 2020, the Group holds firm orders for 57 aircraft. In accordance to with agreement the expected deliveries are 8 aircraft in 2021, 19 aircraft in 2022, 17 aircraft in 2023, 10 aircraft in 2024, 3 aircraft in 2025. The purchase commitments for these aircraft were calculated based on their list prices and actual prices would be typically lower than the list prices.

The Group has provided advances on aircraft purchases amounting TL 1.875.340.233 (31 December 2019: TL 1.584.900.875) and TL 841.904.079 of this amount is reclassified under short term, TL 1.033.436.154 of this amount is reclassified under long term prepaid expenses (31 December 2019: TL 1.078.133.045 of this amount is reclassified under short term, TL 506.767.830 of this amount is reclassified under long term prepaid expenses).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 16 - COMMITMENTS**

**Collaterals-Pledges-Mortgages(“CPM”)**

The details of the CPMs given by the Group as of 31 December 2020 is as follows:

| <b>31 December 2020</b>  | <b>TL TOTAL</b>      | <b>USD</b>         | <b>EUR</b>        | <b>TL</b>         | <b>Other</b>      |
|--|----------------------|--------------------|-------------------|-------------------|-------------------|
| A. Total amounts of CPM given on behalf of its own legal entity                                      |                      |                    |                   |                   |                   |
| - <i>Collateral</i>  | 1.308.894.933        | 141.376.684        | 27.464.393        | 13.452.807        | 10.270.071        |
| - <i>Pledge</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Mortgage</i>  | -                    | -                  | -                 | -                 | -                 |
| B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation      |                      |                    |                   |                   |                   |
| - <i>Collateral</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Pledge</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Mortgage</i>  | -                    | -                  | -                 | -                 | -                 |
| C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations |                      |                    |                   |                   |                   |
| - <i>Collateral</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Pledge</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Mortgage</i>  | -                    | -                  | -                 | -                 | -                 |
| D. Total amounts of other CPM given  |                      |                    |                   |                   |                   |
| i. Total amount of CPM given on behalf of the Parent   |                      |                    |                   |                   |                   |
| - <i>Collateral</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Pledge</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Mortgage</i>  | -                    | -                  | -                 | -                 | -                 |
| ii. Total amount of CPM given on behalf of other group companies not covered in B and C              |                      |                    |                   |                   |                   |
| - <i>Collateral</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Pledge</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Mortgage</i>  | -                    | -                  | -                 | -                 | -                 |
| iii. Total amount of CPM given on behalf of third parties not covered in C                           |                      |                    |                   |                   |                   |
| - <i>Collateral</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Pledge</i>  | -                    | -                  | -                 | -                 | -                 |
| - <i>Mortgage</i>  | -                    | -                  | -                 | -                 | -                 |
|  | <b>1.308.894.933</b> | <b>141.376.684</b> | <b>27.464.393</b> | <b>13.452.807</b> | <b>10.270.071</b> |

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

The other CPMs given by the Company constitute 0% of the Company’s equity as of 31 December 2020.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 16 - COMMITMENTS**

**Collaterals-Pledges-Mortgages(“CPM”)**

The details of the CPMs given by the Group as of 31 December 2019 is as follows:

| <b>31 December 2019</b>  | <b>TL TOTAL</b>      | <b>USD</b>         | <b>EUR</b>       | <b>TL</b>         | <b>Other</b>     |
|--|----------------------|--------------------|------------------|-------------------|------------------|
| A. Total amounts of CPM given on behalf of its own legal entity                                      |                      |                    |                  |                   |                  |
| - <i>Collateral</i>  | 1.664.459.335        | 269.080.506        | 6.786.958        | 13.487.804        | 7.442.166        |
| - <i>Pledge</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Mortgage</i>  | -                    | -                  | -                | -                 | -                |
| B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation      |                      |                    |                  |                   |                  |
| - <i>Collateral</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Pledge</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Mortgage</i>  | -                    | -                  | -                | -                 | -                |
| C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations |                      |                    |                  |                   |                  |
| - <i>Collateral</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Pledge</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Mortgage</i>  | -                    | -                  | -                | -                 | -                |
| D. Total amounts of other CPM given  |                      |                    |                  |                   |                  |
| i. Total amount of CPM given on behalf of the Parent   |                      |                    |                  |                   |                  |
| - <i>Collateral</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Pledge</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Mortgage</i>  | -                    | -                  | -                | -                 | -                |
| ii. Total amount of CPM given on behalf of other group companies not covered in B and C              |                      |                    |                  |                   |                  |
| - <i>Collateral</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Pledge</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Mortgage</i>  | -                    | -                  | -                | -                 | -                |
| iii. Total amount of CPM given on behalf of third parties not covered in C                           |                      |                    |                  |                   |                  |
| - <i>Collateral</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Pledge</i>  | -                    | -                  | -                | -                 | -                |
| - <i>Mortgage</i>  | -                    | -                  | -                | -                 | -                |
|  | <b>1.664.459.335</b> | <b>269.080.506</b> | <b>6.786.958</b> | <b>13.487.804</b> | <b>7.442.166</b> |

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

The other CPMs given by the Company constitute 0% of the Company’s equity as of 31 December 2019.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 17 - EMPLOYEE BENEFITS**

**Employee benefit obligations**

The details of employee benefit obligations as of 31 December 2020 and 2019 are as follows:

|                                  | <b>31 December 2020</b> | <b>31 December 2019</b> |
|----------------------------------|-------------------------|-------------------------|
| Social security premiums payable | 11.989.308              | 17.059.456              |
| Accrual of employee wages        | 18.188.923              | 21.351.597              |
|                                  | <b>30.178.231</b>       | <b>38.411.053</b>       |

**Short term provisions for employee benefits**

The details of short term provisions for employee benefits as of 31 December 2020 and 2019 are as follows:

|                         | <b>31 December 2020</b> | <b>31 December 2019</b> |
|-------------------------|-------------------------|-------------------------|
| Unused vacation accrual | 34.887.651              | 21.330.785              |
| Employee bonus plan     | 20.218.438              | 161.619.214             |
|                         | <b>55.106.089</b>       | <b>182.949.999</b>      |

**Long term provisions for employee benefits**

The details of long term provisions for employee benefits as of 31 December 2020 and 2019 are as follows:

|                                 | <b>31 December 2020</b> | <b>31 December 2019</b> |
|---------------------------------|-------------------------|-------------------------|
| Employment termination benefits | 19.764.016              | 14.796.499              |
| Employee bonus plan             | 79.360.330              | 54.879.290              |
|                                 | <b>99.124.346</b>       | <b>69.675.789</b>       |

**Unused Vacation Accrual**

The movement of unused vacation accrual as of the years ended 31 December 2020 and 2019 are as follows:

|                         | <b>2020</b>       | <b>2019</b>       |
|-------------------------|-------------------|-------------------|
| 1 January               | 21.330.785        | 14.888.136        |
| Charge for the year     | 14.999.039        | 8.077.476         |
| Payment during the year | (1.442.173)       | (1.634.827)       |
| <b>31 December</b>      | <b>34.887.651</b> | <b>21.330.785</b> |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 17 - EMPLOYEE BENEFITS

##### Employee Bonus Plan

The movement of employee bonus plan as of the years ended 31 December 2020 and 2019 are as follows:

|                         | 2020               | 2019               |
|-------------------------|--------------------|--------------------|
| 1 January               | 216.498.504        | 79.754.906         |
| Charge for the year     | 31.611.124         | 201.123.135        |
| Payment during the year | (122.485.218)      | (59.860.921)       |
| Reversal of provision   | (18.378.835)       | (4.518.616)        |
| <b>31 December</b>      | <b>107.245.575</b> | <b>216.498.504</b> |

##### Employee Termination Benefits

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

The amount payable consists of one month's salary limited to a maximum of TL 7.117,17 for each period of service at 31 December 2020 (31 December 2019: TL 6.379,86).

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2020, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 8,50% (2019: 8,00%) and a discount rate of 13,00% (2019: 12,00%), resulting in a real discount rate of approximately 4,15% (2019: 3,70%). Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 10,72% (2019: 14,10%) for employees with 0-15 years of service, and 0% for those with 16 or more years of service. As the maximum liability is revised annually, the maximum amount of TL 7.638,96 effective from 1 January 2020 has been taken into consideration in calculation of provision from employee termination benefits.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 17 - EMPLOYEE BENEFITS

#### Employee Termination Benefits

The movement of employee termination benefits as of the years ended 31 December 2020 and 2019 are as follows:

|                          | 2020              | 2019              |
|--------------------------|-------------------|-------------------|
| 1 January                | 14.796.499        | 9.796.278         |
| Actuarial gain           | (1.164.935)       | 2.214.490         |
| Service cost             | 8.275.256         | 5.549.847         |
| Interest cost            | 936.121           | 701.612           |
| Retirement benefits paid | (3.078.925)       | (3.465.728)       |
| <b>31 December</b>       | <b>19.764.016</b> | <b>14.796.499</b> |

Service cost and interest expenses are recognized in payroll expenses. Calculated actuarial gains and losses are accounted under other comprehensive income as of 31 December 2020 and 2019.

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

- If the discount rate had been 1% lower, provision for employee termination benefits would increase by TL 2.978.447 (2019: TL 1.817.754); if the rate had been 1% higher, it would decrease by TL 2.453.660 (2019: TL 1.508.054).
- If the anticipated turnover rate had been 1% higher while all other variables were held constant, provision for employee termination benefits would decrease by TL 773.648 (2019: TL 358.128); if the rate had been 1% lower, it would increase by TL 864.864 (2019: TL 418.084).

### NOTE 18 - EXPENSES BY NATURE

The details of expenses by nature for the years periods 31 December 2020 and 2019 are as follows:

|   | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|--------------------------------|--------------------------------|
| Depreciation and amortisation expenses  | 2.183.403.792                  | 1.547.967.792                  |
| Jet fuel expenses                       | 1.564.651.895                  | 3.159.894.510                  |
| Personnel expenses                      | 975.059.003                    | 1.427.947.584                  |
| Handling and station fees               | 431.751.085                    | 720.417.073                    |
| Navigation expenses                     | 364.046.314                    | 590.792.482                    |
| Maintenance expenses                    | 243.150.366                    | 397.469.391                    |
| Landing expenses                        | 157.333.849                    | 320.297.522                    |
| Passenger service and catering expenses | 42.085.949                     | 96.617.708                     |
| Advertising expenses                    | 38.391.377                     | 91.860.274                     |
| Commission expenses                     | 66.043.281                     | 136.478.717                    |
| Other expenses                          | 439.745.894                    | 450.956.206                    |
|   | <b>6.505.662.805</b>           | <b>8.940.699.259</b>           |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 19 - OTHER ASSETS AND LIABILITIES

##### Other current assets

The details of other current assets as of 31 December 2020 and 2019 are as follows:

|                 | 31 December 2020  | 31 December 2019 |
|-----------------|-------------------|------------------|
| VAT receivables | 88.515.402        | -                |
| Other           | 219.611           | 829.576          |
|                 | <b>88.735.013</b> | <b>829.576</b>   |

##### Other short term liabilities

The details of other short term liabilities as of 31 December 2020 and 2019 are as follows:

|                              | 31 December 2020 | 31 December 2019 |
|------------------------------|------------------|------------------|
| Other short term liabilities | 116.966          | 2.056.687        |
|                              | <b>116.966</b>   | <b>2.056.687</b> |

#### NOTE 20 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS

The Company's shareholding structure as of 31 December 2020 and 2019 are as follows:

| Shareholders:              | 31 December 2020 |                    | 31 December 2019 |                    |
|----------------------------|------------------|--------------------|------------------|--------------------|
|                            | (%)              | TL                 | (%)              | TL                 |
| Esas Holding               | 62,91            | 64.353.570         | 62,91            | 64.353.570         |
| Publicly held              | 34,53            | 35.321.707         | 34,53            | 35.321.707         |
| Emine Kamışlı              | 0,85             | 874.810            | 0,85             | 874.810            |
| Ali İsmail Sabancı         | 0,85             | 874.810            | 0,85             | 874.810            |
| Kazım Köseoğlu             | 0,43             | 437.405            | 0,43             | 437.405            |
| Can Köseoğlu               | 0,43             | 437.405            | 0,43             | 437.405            |
| <b>TL historic capital</b> | <b>100,00</b>    | <b>102.299.707</b> | <b>100,00</b>    | <b>102.299.707</b> |

The Company's share capital consists of 102.299.707 shares of par value TL 1 each (31 December 2019: 102.299.707 shares). All issued shares are fully paid in cash.

##### Dividend distribution

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

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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#### **NOTE 20 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS**

##### *Resources Available for Profit Distribution:*

The Company does not have any distributable equity in statutory accounts as of balance sheet date (31 December 2019: TL TL 1.388.252.188).

##### **Currency translation differences**

For the purpose of preparation of the consolidated financial statements and disclosures, according to TAS 21, balance sheet items except shareholders' equity in financial statements are translated to TL using balance sheet date EUR exchange rates; equity items, income/expenses and cash flow are translated to TL by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under shareholders' equity.

##### **Gain/losses from cash flow hedges**

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

##### **Share premiums on capital stock**

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

##### **Non-controlling interests**

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

##### **Actuarial gain/losses on defined benefit plans**

The effects of the change in actuarial valuations that is calculated with respect to TAS 19 "Employee Benefits" is presented in actuarial gains/losses on defined benefit plans.

##### **Restricted profit reserves**

In the statutory accounts, profit restricted from retained earnings and not subject to distribution is presented in the restricted profit reserves.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 21 - SALES AND COST OF SALES**

The details of sales and cost of sales for the periods ended 31 December 2020 and 2019 are as follows:

**Sales:**

|                                      | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--------------------------------------|--|--|
| Scheduled flight and service revenue | 4.677.094.623                          | 10.636.178.486                         |
| <i>International flight revenue</i>  | <i>1.819.961.325</i>                   | <i>5.599.444.560</i>                   |
| <i>Domestic flight revenue</i>       | <i>1.213.709.222</i>                   | <i>2.127.539.695</i>                   |
| <i>Service revenue</i>               | <i>1.643.424.076</i>                   | <i>2.909.194.231</i>                   |
| Charter flight and service revenue   | 54.437.594                             | 302.476.623                            |
| <i>Charter flight revenue</i>        | <i>54.116.734</i>                      | <i>302.264.108</i>                     |
| <i>Service revenue</i>               | <i>320.860</i>                         | <i>212.515</i>                         |
| Other revenue                        | 72.027.692                             | 86.569.414                             |
|                                      | <b>4.803.559.909</b>                   | <b>11.025.224.523</b>                  |

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

|          | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|----------|--|--|
| Europe   | 1.325.108.751                          | 3.930.506.432                          |
| Domestic | 1.213.709.222                          | 2.127.539.695                          |
| Other    | 494.852.574                            | 1.668.938.128                          |
|          | <b>3.033.670.547</b>                   | <b>7.726.984.255</b>                   |

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

|             | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|-------------|--|--|
| Europe      | 46.859.756                             | 245.007.130                            |
| Middle East | 7.256.978                              | 57.256.978                             |
|             | <b>54.116.734</b>                      | <b>302.264.108</b>                     |

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 21 - SALES AND COST OF SALES**

**Cost of sales:**

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| Depreciation and amortisation expenses  | 2.098.677.917                          | 1.486.166.042                          |
| Jet fuel expenses                       | 1.564.651.895                          | 3.159.894.510                          |
| Personnel expenses                      | 881.686.290                            | 1.236.501.966                          |
| Handling and station fees               | 431.751.085                            | 720.417.073                            |
| Navigation expenses                     | 364.046.314                            | 590.792.482                            |
| Maintenance expenses                    | 243.150.366                            | 397.469.391                            |
| Landing expenses                        | 157.333.849                            | 320.297.522                            |
| Passenger service and catering expenses | 42.085.949                             | 96.617.708                             |
| Other expenses                          | 278.878.870                            | 318.023.699                            |
|   | <b>6.062.262.535</b>                   | <b>8.326.180.393</b>                   |

**NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES**

|                                 | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---------------------------------|--|--|
| Marketing expenses              | 168.837.261                            | 311.965.775                            |
| General administrative expenses | 274.563.009                            | 302.553.091                            |
|                                 | <b>443.400.270</b>                     | <b>614.518.866</b>                     |

The details of general administrative expenses and marketing expenses for the periods ended 31 December 2020 and 2019 are as follows (there are no research & development expenses in the periods ended in respective dates):

**General administrative expenses:**

|  | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--|--|--|
| Depreciation and amortisation expenses | 67.780.700                             | 49.511.298                             |
| IT expenses                            | 70.228.796                             | 52.572.821                             |
| Personnel expenses                     | 71.498.634                             | 145.201.315                            |
| Consultancy expenses                   | 9.772.367                              | 12.122.513                             |
| Legal and notary expenses              | 8.118.625                              | 6.456.336                              |
| Communication expenses                 | 4.993.678                              | 2.799.285                              |
| Office utility expenses                | 4.744.680                              | 3.782.919                              |
| Training expenses                      | 1.160.323                              | 2.180.569                              |
| Travel expenses                        | 867.146                                | 3.996.322                              |
| Other expenses                         | 35.398.060                             | 23.929.713                             |
|  | <b>274.563.009</b>                     | <b>302.553.091</b>                     |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES**

**Marketing expenses:**

|  | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--|--|--|
| Advertising expenses                   | 38.391.377                             | 91.860.274                             |
| Commission expenses                    | 66.043.281                             | 136.478.717                            |
| Personnel expenses                     | 21.874.079                             | 46.244.303                             |
| Call center expenses                   | 21.194.058                             | 17.669.425                             |
| Depreciation and amortisation expenses | 16.945.175                             | 12.290.452                             |
| Other expenses                         | 4.389.291                              | 7.422.604                              |
|  | <b>168.837.261</b>                     | <b>311.965.775</b>                     |

**NOTE 23 - OTHER OPERATING INCOME AND EXPENSES**

The details of other operating income and expenses for the periods ended 31 December 2020 and 2019 are as follows:

**Other operating income:**

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| Foreign exchange gain from operating activities | 276.273.622                            | -                                      |
| Indemnity income                                | 74.657.919                             | -                                      |
| Reversal of doubtful cash and cash equivalents  | 3.955.232                              | 4.794.784                              |
| Other   | 60.646                                 | 285.719                                |
|   | <b>354.947.419</b>                     | <b>5.080.503</b>                       |

**Other operating expenses:**

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| Doubtful receivable allowance expense           | 3.617.950                              | 12.094.780                             |
| Penalty expense                                 | 1.737.234                              | 4.257.127                              |
| Foreign exchange loss from operating activities | -                                      | 5.271.796                              |
| Other   | 8.413.128                              | 5.999.056                              |
|   | <b>13.768.312</b>                      | <b>27.622.759</b>                      |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 24 - INCOME / EXPENSE FROM INVESTING ACTIVITIES**

The details of income from investing activities for the periods ended 31 December 2020 and 2019 are as follows:

**Income from investing activities:**

|                                  | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|----------------------------------|--|--|
| Income from sale of fixed assets | 1.036.307                              | -                                      |
| Other income                     | 1.519.070                              | 925.185                                |
|                                  | <b>2.555.377</b>                       | <b>925.185</b>                         |

**Expense from investing activities:**

|   | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|---|--|--|
| Loss from aircraft sale                 | 208.950.014                            | -                                      |
| Loss from subsidiary sale               | -                                      | 29.045.073                             |
| Financial investments allowance expense | -                                      | 269.705                                |
|   | <b>208.950.014</b>                     | <b>29.314.778</b>                      |

**NOTE 25 - FINANCIAL INCOME AND EXPENSES**

The details of financial income and expenses for the periods ended 31 December 2020 and 2019 are as follows:

**Financial income:**

|                              | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|------------------------------|--|--|
| Foreign exchange gain        | 315.499.407                            | -                                      |
| Interest income              | 80.470.886                             | 91.285.498                             |
| Gain on derivative contracts | 2.907.879                              | 8.250.491                              |
|                              | <b>398.878.172</b>                     | <b>99.535.989</b>                      |

**Financial expenses:**

|  | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--|--|--|
| Interest expense on leases                                     | 455.472.214                            | 399.711.275                            |
| Expenses from fair value differences of derivative instruments | 236.605.795                            | -                                      |
| Interest expense on bank loans                                 | 94.227.317                             | 23.042.113                             |
| Other commission expenses                                      | 85.516.661                             | 139.162.949                            |
| Foreign exchange loss  | -                                      | 193.189.519                            |
|  | <b>871.821.987</b>                     | <b>755.105.856</b>                     |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 26 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS**

**Currency Translation Differences**

|   | <b>2020</b>          | <b>2019</b>          |
|---|----------------------|----------------------|
| 1 January   | 2.574.427.009        | 2.042.057.018        |
| Exchange differences arising on translating the non-monetary items of the the parent                    | 2.034.615.690        | 341.526.461          |
| Exchange differences arising on translating the non-monetary items from the sale of subsidiaries abroad | -                    | 101.082.981          |
| Exchange differences arising on translating the non-monetary items of the subsidiaries abroad           | -                    | 89.760.549           |
| <b>31 December</b>  | <b>4.609.042.699</b> | <b>2.574.427.009</b> |

**Hedge Fund**

|   | <b>2020</b>         | <b>2019</b>         |
|---|---------------------|---------------------|
| 1 January   | (42.163.181)        | (221.159.956)       |
| Gain/(loss) from the accounting of cash flow hedges against financial risk          | (31.401.307)        | 231.942.068         |
| Deferred tax related with the accounting of cash flow hedges against financial risk | 5.199.157           | (52.945.293)        |
| <b>31 December</b>  | <b>(68.365.331)</b> | <b>(42.163.181)</b> |

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

**Actuarial gains/(losses) on defined benefit plans**

|  | <b>2020</b>        | <b>2019</b>        |
|--|--------------------|--------------------|
| 1 January  | (3.904.009)        | (2.132.417)        |
| Actuarial gains / (losses) on defined benefit plans                        | 1.164.935          | (2.214.490)        |
| Deferred tax effect of actuarial gains / (losses) on defined benefit plans | (232.987)          | 442.898            |
| <b>31 December</b>   | <b>(2.972.061)</b> | <b>(3.904.009)</b> |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

|                                 | 31 December 2020   | 31 December 2019    |
|---------------------------------|--------------------|---------------------|
| Current corporate tax provision | -                  | 60.501.004          |
| Less: Prepaid taxes and funds   | (6.629.247)        | (74.222.096)        |
| <b>Current tax assets (*)</b>   | <b>(6.629.247)</b> | <b>(13.721.092)</b> |

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

|                                     | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|-------------------------------------|--------------------------------|--------------------------------|
| Income tax expense                  |                                |                                |
| - Current tax expense               | -                              | (60.501.004)                   |
| - Deferred tax expense              | 59.747.546                     | 804.189                        |
| <b>Total tax income / (expense)</b> | <b>59.747.546</b>              | <b>(59.696.815)</b>            |

#### *Corporate Tax*

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate in Turkey is 20% (2019: 22%).

#### *Deferred Tax*

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

For the calculation of deferred tax assets and liabilities, the rate 20% was used (2019: %22).

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)**

*Deferred Tax*

The consolidated deferred tax liability position as of 31 December 2020 is as follows:

|   | <b>1 January - 31 December 2020</b> |                                    |  |   |                       |
|---|-------------------------------------|------------------------------------|--|---|-----------------------|
|   | <b>31 December 2020</b>             | <b>Currency translation effect</b> | <b>Other comprehensive income tax effect</b> | <b>Deferred tax charge for the year</b> | <b>1 January 2020</b> |
| Difference between tax base and carrying value of tangible assets and intangible assets | (1.734.278.777)                     | (405.337.512)                      | -  | (282.661.890)                           | (1.046.279.375)       |
| Carry forward tax losses  | 652.188.515                         | 70.915.055                         | -  | 581.273.460                             | -                     |
| Government grants and incentives  | 139.679.048                         | 64.713.740                         | -  | (164.088.554)                           | 239.053.862           |
| Provision for employee termination benefits   | 3.952.803                           | 759.901                            | (232.987)                                    | 466.589                                 | 2.959.300             |
| Provision for litigation claims   | 1.951.750                           | 592.374                            | -  | (475.561)                               | 1.834.937             |
| Unused vacation and bonus plans provision   | 29.242.284                          | 5.154.249                          | -  | 14.556.852                              | 9.531.183             |
| Deferred revenue from flight points   | 16.901.282                          | 4.701.039                          | -  | (1.620.446)                             | 13.820.689            |
| Relivery provisions for the leased aircraft   | 364.005.345                         | 93.197.495                         | -  | 12.003.181                              | 258.804.669           |
| Change in fair value of derivative contracts  | 17.293.334                          | 45.804                             | 5.199.157                                    | 41.109                                  | 12.007.264            |
| Other   | (95.913.696)                        | (8.918.524)                        | -  | (99.747.194)                            | 12.752.022            |
| <b>Deferred tax liability</b>   | <b>(604.978.112)</b>                | <b>(174.176.379)</b>               | <b>4.966.170</b>                             | <b>59.747.546</b>                       | <b>(495.515.449)</b>  |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)**

*Deferred Tax*

The consolidated deferred tax liability position as of 31 December 2019 is as follows:

|   | <b>1 January - 31 December 2019</b> |                                    |  |   |                                       |                       |
|---|-------------------------------------|------------------------------------|--|---|---------------------------------------|-----------------------|
|   | <u>31 December 2019</u>             | <u>Currency translation effect</u> | <u>Other comprehensive income tax effect</u> | <u>Deferred tax charge for the year</u> | <u>Changes in accounting policies</u> | <u>1 January 2019</u> |
| Difference between tax base and carrying value of tangible assets and intangible assets | (1.046.279.375)                     | (102.906.051)                      | -  | 47.593.887                              | 50.896.930                            | (1.041.864.141)       |
| Government grants and incentives  | 239.053.862                         | 21.449.300                         | -  | 18.472.089                              | -                                     | 199.132.473           |
| Provision for employee termination benefits   | 2.959.300                           | 165.977                            | 442.897                                      | 391.170                                 | -                                     | 1.959.256             |
| Provision for litigation claims   | 1.834.937                           | 196.428                            | -  | (489.671)                               | -                                     | 2.128.180             |
| Unused vacation and bonus plans provision   | 9.531.183                           | 1.329.958                          | -  | (12.620.244)                            | -                                     | 20.821.469            |
| Deferred revenue from flight points   | 13.820.689                          | 1.128.661                          | -  | 3.281.150                               | -                                     | 9.410.878             |
| Relivery provisions for the leased aircraft   | 258.804.669                         | 18.291.275                         | -  | (9.329.313)                             | 36.014.630                            | 213.828.077           |
| Change in fair value of derivative contracts  | 12.007.264                          | (31.308)                           | (52.945.292)                                 | 835.947                                 | -                                     | 64.147.917            |
| Other   | 12.752.022                          | 8.779.137                          | -  | (47.330.826)                            | -                                     | 51.303.711            |
| <b>Deferred tax liability</b>   | <b>(495.515.449)</b>                | <b>(51.596.623)</b>                | <b>(52.502.395)</b>                          | <b>804.189</b>                          | <b>86.911.560</b>                     | <b>(479.132.180)</b>  |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)**

*Deferred Tax*

Tax effects related to other comprehensive income as of 31 December 2020 and 2019 are as follows:

|  | <b>1 January - 31 December 2020</b> |                  |                      |
|--|-------------------------------------|------------------|----------------------|
|  | Amount<br>before tax                | Tax<br>expense   | Amount<br>after tax  |
| Change in foreign currency translation               | 2.034.615.690                       | -                | 2.034.615.690        |
| Actuarial gains/(losses)<br>on defined benefit plans | 1.164.935                           | (232.987)        | 931.948              |
| Change in cash flow hedge reserve                    | (31.401.307)                        | 5.199.157        | (26.202.150)         |
| <b>Other comprehensive income</b>                    | <b>2.004.379.318</b>                | <b>4.966.170</b> | <b>2.009.345.488</b> |

  

|  | <b>1 January - 31 December 2019</b> |                     |                     |
|--|-------------------------------------|---------------------|---------------------|
|  | Amount<br>before tax                | Tax<br>income       | Amount<br>after tax |
| Change in foreign currency translation               | 457.503.847                         | -                   | 457.503.847         |
| Actuarial gains/(losses)<br>on defined benefit plans | (2.214.490)                         | 442.898             | (1.771.592)         |
| Change in cash flow hedge reserve                    | 231.942.068                         | (52.945.293)        | 178.996.775         |
| <b>Other comprehensive income</b>                    | <b>687.231.425</b>                  | <b>(52.502.395)</b> | <b>634.729.030</b>  |

Reconciliation of tax expense in consolidated statement of profit or loss for the years 31 December 2020 and 2019 is as follows:

|  | <b>1 January-<br/>31 December 2020</b> | <b>1 January-<br/>31 December 2019</b> |
|--|--|--|
| <b>(Loss) / Profit before tax</b>                              | <b>(2.024.844.603)</b>                 | <b>1.394.264.730</b>                   |
| Enacted local tax rate   | 22%                                    | 22%                                    |
| Tax calculated at the enacted tax rate                         | 445.465.813                            | (306.738.241)                          |
| Tax effect of disallowable expenses                            | (4.758.092)                            | (80.659.701)                           |
| Income from investment incentives                              | (164.088.554)                          | 18.472.089                             |
| Tax-exempt revenue   | 7.739.431                              | 8.367.262                              |
| Tax losses over which deferred tax asset<br>was not recognized | -                                      | 959.037                                |
| Subsidiary effect that have different tax rate                 | -                                      | 799.198                                |
| Effect of different tax rates applied                          | (40.460.739)                           | -                                      |
| Translation effect and other                                   | (184.150.313)                          | 299.103.541                            |
| <b>Taxation expense</b>  | <b>59.747.546</b>                      | <b>(59.696.815)</b>                    |

As of December 31, 2020 and 2019, the Group does not have any carry forward tax losses that it did not recognize deferred tax assests.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 28 - EARNINGS / LOSS PER SHARE

Earnings/(loss) per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 31 December 2020 and 2019 are as follows:

|   | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|--------------------------------|--------------------------------|
| (Loss) / profit attributable to<br>the shareholders of the parent | (1.965.097.057)                | 1.333.369.118                  |
| Weighted average number of shares<br>issued in the year           | 102.299.707                    | 102.299.707                    |
| <b>(Loss) / profit per share</b>                                  | <b>(19,21)</b>                 | <b>13,03</b>                   |

### NOTE 29- EFFECTS OF EXCHANGE RATE CHANGES

Details related to effects of exchange rate changes are disclosed at foreign currency risk management in Note 32.

### NOTE 30 - DERIVATIVE INSTRUMENTS

#### Fair Value of Derivative Instruments

|            | 31 December 2020 |                   | 31 December 2019 |                   |
|------------|------------------|-------------------|------------------|-------------------|
|            | Asset            | Liability         | Asset            | Liability         |
| Short term | 7.599.668        | 90.228.333        | 61.239           | 53.134.363        |
| Long term  | -                | 3.838.005         | -                | 1.505.350         |
|            | <b>7.599.668</b> | <b>94.066.338</b> | <b>61.239</b>    | <b>54.639.713</b> |

Explanations related to derivative instruments are disclosed in Note 33.

### NOTE 31 - FINANCIAL INSTRUMENTS

#### Financial Assets

#### Financial investments measured at amortized cost

|  | 31 December 2020   | 31 December 2019   |
|--|--------------------|--------------------|
| Financial investments measured at amortized cost | 234.035.538        | 151.176.049        |
| Less: Allowance for impairment under TFRS 9      | -                  | (269.705)          |
|  | <b>234.035.538</b> | <b>150.906.344</b> |

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 31 - FINANCIAL INSTRUMENTS

#### Financial Assets

| Company issuing security | 31 December 2020   | 31 December 2019   |
|--------------------------|--------------------|--------------------|
| TC Hazine Müsteşarlığı   | 43.697.761         | 32.205.718         |
| Türkiye Vakıflar Bankası | 81.079.624         | 60.534.622         |
| Yapı ve Kredi Bankası    | 73.117.656         | 58.166.004         |
| Garanti Bankası          | 36.140.497         | -                  |
| <b>Eurobond (*)</b>      | <b>234.035.538</b> | <b>150.906.344</b> |

(\*)The Group's fixed income securities are accounted over their amortized costs using the effective interest rate. The securities in question are denominated in Euros and US Dollars and must pay fixed interest every year and every six months, respectively.

Financial investments measured at amortized cost have an active market and market prices (according to dirty prices) are as follows:

| Company issuing security | 31 December 2020   | 31 December 2019   |
|--------------------------|--------------------|--------------------|
| TC Hazine Müsteşarlığı   | 44.935.824         | 33.176.455         |
| Türkiye Vakıflar Bankası | 81.630.645         | 62.850.418         |
| Yapı ve Kredi Bankası    | 73.324.791         | 59.355.018         |
| Garanti Bankası          | 36.647.909         | -                  |
|                          | <b>236.539.169</b> | <b>155.381.891</b> |

The coupon interest rates and call dates of the financial investments in Euro and US Dollars that are measured by their amortized costs and continues as of the reporting date are as follows. The effective interest rate of the mentioned securities is 4.85% (2019: 4.75).

| Company issuing security | ISIN Code    | Coupon Interest Rate (%) | Call Date  |
|--------------------------|--------------|--------------------------|------------|
| Türkiye Vakıflar Bankası | XS140316222  | 2,375                    | 4.05.2021  |
| Türkiye Vakıflar Bankası | XS1508914691 | 5,500                    | 27.10.2021 |
| Yapı ve Kredi Bankası    | XS1571399754 | 5,750                    | 24.02.2022 |
| Garanti Bankası          | USM8931TAA71 | 6,250                    | 20.04.2021 |
| TC Hazine Müsteşarlığı   | XS0993155398 | 4,350                    | 12.11.2021 |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 31 - FINANCIAL INSTRUMENTS**

**Financial Liabilities**

The details of financial liabilities as of 31 December 2020 and 2019 are as follows:

| <b>Short term financial liabilities</b>                            | <b>31 December 2020</b> | <b>31 December 2019</b> |
|--|-------------------------|-------------------------|
| Short term bank borrowings   | 1.741.716.857           | 758.293.604             |
| Lease liabilities  | 2.154.972.636           | 1.536.570.246           |
| <i>Short term portion of long term operating lease obligations</i> | <i>679.665.846</i>      | <i>635.282.662</i>      |
| <i>Short term portion of long term financial lease obligations</i> | <i>1.475.306.790</i>    | <i>901.287.584</i>      |
|  | <b>3.896.689.493</b>    | <b>2.294.863.850</b>    |
| <b>Long term financial liabilities</b>                             | <b>31 December 2020</b> | <b>31 December 2019</b> |
| Long term bank borrowings  | 805.508.577             | -                       |
| Lease liabilities  | 14.309.895.001          | 8.460.811.498           |
| Long term operating lease obligations                              | 1.667.930.667           | 1.614.122.499           |
| Long term financial lease obligations                              | 12.641.964.334          | 6.846.688.999           |
|  | <b>15.115.403.578</b>   | <b>8.460.811.498</b>    |

**Bank Borrowings**

The effective interest rates, original currency and TL equivalents of the short and long term bank borrowings as of 31 December 2020 and 2019 are as follows :

| <b>31 December 2020</b>    | <b>Weighted average interest rate (%)</b> | <b>Currency</b> | <b>Original amount</b> | <b>TL equivalent</b> |
|----------------------------|---|-----------------|------------------------|----------------------|
| Short term bank borrowings | 4,62%                                     | Euro            | 138.400.000            | 1.246.695.357        |
| Short term bank borrowings | 15,54%                                    | TL              | 473.000.000            | 473.000.000          |
| Short term bank borrowings | 6,50%                                     | USD             | 3.000.000              | 22.021.500           |
|                            |   |                 |                        | <b>1.741.716.857</b> |

| <b>31 December 2019</b>    | <b>Weighted average interest rate (%)</b> | <b>Currency</b> | <b>Original amount</b> | <b>TL equivalent</b> |
|----------------------------|---|-----------------|------------------------|----------------------|
| Short term bank borrowings | %2,84                                     | US Dollar       | 125.000.000            | 742.525.000          |
| Short term bank borrowings | %0,00                                     | TL              | 15.768.604             | 15.768.604           |
|                            |   |                 |                        | <b>758.293.604</b>   |

| <b>31 December 2020</b>   | <b>Weighted average interest rate (%)</b> | <b>Currency</b> | <b>Original amount</b> | <b>TL equivalent</b> |
|---------------------------|---|-----------------|------------------------|----------------------|
| Long term bank borrowings | 4,62%                                     | Euro            | 69.440.000             | 625.508.577          |
| Long term bank borrowings | 15,54%                                    | TL              | 180.000.000            | 180.000.000          |
|                           |   |                 |                        | <b>805.508.577</b>   |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 31 - FINANCIAL INSTRUMENTS

##### Financial Liabilities

##### Lease Liabilities

The details of financial and operating lease liabilities as of 31 December 2020 and 2019 are as follows:

|                                | 31 December 2020      | 31 December 2019     |
|--------------------------------|-----------------------|----------------------|
| Less than 1 year               | 2.682.166.703         | 1.968.639.836        |
| Between 1 - 5 years            | 9.002.019.440         | 5.830.430.461        |
| Over 5 years                   | 7.848.676.463         | 4.242.706.951        |
|                                | 19.532.862.606        | 12.041.777.248       |
| Less: Future interest expenses | (3.067.994.969)       | (2.044.395.504)      |
|                                | <b>16.464.867.637</b> | <b>9.997.381.744</b> |

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

|                     | 31 December 2020      | 31 December 2019     |
|---------------------|-----------------------|----------------------|
| Less than 1 year    | 2.154.972.636         | 1.536.570.246        |
| Between 1 - 5 years | 7.185.705.564         | 5.199.045.253        |
| Over 5 years        | 7.124.189.437         | 3.261.766.245        |
|                     | <b>16.464.867.637</b> | <b>9.997.381.744</b> |

The Group purchases certain of its handling equipment and aircraft through lease arrangements. The average lease term is 5,18 years. For the period ended 31 December 2020, the floating interest rate applicable to Euro-denominated lease obligations, amounting to TL 10.604.322.875, is 1,17% (31 December 2019: 1,72%) and the floating rate applicable to US Dollar-denominated lease obligations, amounting to TL 5.846.920.268, is 2,97% (31 December 2019: 4,84%).

The Group's obligations under finance leases of aircraft are guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank").

The aircraft manufacturer, the Group, the lender, Ex-Im Bank, Special Purpose Vehicle Company ("SPV") and orphan trust which managed the SPV and a security trustee with whom the orphan trusts securities are pledged enter into a Participation Agreement to structure the financing deal. The Lender enters into a commitment with the Group and loan documentation with a SPV as borrower, owner and lessor. The SPV draws down the loan from lender and purchases the aircraft from Boeing on the delivery date. The equity interests in the SPV are indirectly beneficially owned by an unrelated orphan trust which in turn its shares are pledged to a security trustee in favor of Ex-Im Bank.

The Group indemnifies the SPV against all of their obligations under the finance lease, with Esas Holding providing a guarantee for the full obligation.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 31 - FINANCIAL INSTRUMENTS

#### Financial Liabilities

##### Lease Liabilities

All Ex-Im Bank supported credit facilities also contain cross-default and cross-collateralization provisions. These provisions provide for mandatory pre-payment of Ex-Im Bank guaranteed loans (without penalties, but with applicable breakage costs) in the event of total loss or seizure of any of the Group's aircraft in the event of default which had not been cured or equivalent events affecting the aircraft, including the sale or disposal of such aircraft before the pay down of the debt to lender and extinguishment of US Ex-Im Bank guarantee. The termination of Esas Holding's ownership of the Group may also result in the acceleration of the finance leases. Additionally, Ex-Im Bank documentation governing these guaranteed loans also imposes restrictive covenants on the SPV in respect of their liabilities and the nature of their business and a restriction on other pledges of interests on the aircraft and other assets of the SPV, and imposes on the Group a restriction on mergers, consolidations and sale of substantially all of the Group's assets.

In respect of the aircraft purchased by the Group in December 2013 through financial lease without using US Ex-Im guarantee, the same method of finance is used as in under US Ex-Im structure only to the extent that all rights on SPV as the proprietor of the aircraft are pledged by the bank providing the financing. There are no guarantees provided by Esas Holding in connection with the subject matter aircraft.

##### Reconciliation of obligations arising from financing activities

The changes in the Group's liabilities arising from financing activities are given in the following table:

|                | 1 January 2020        | Utilized<br>bank loans and<br>repayments | Finance lease<br>obtained and<br>repayment of<br>principals, (net) | Foreign exchange<br>valuations | 31 December 2020      |
|----------------|-----------------------|--|--|--------------------------------|-----------------------|
| Bank loans     | 758.293.604           | 1.101.012.075                            | -  | 687.919.755                    | 2.547.225.434         |
| Lease payables | 9.997.381.744         | -  | 2.819.173.372  | 3.648.312.521                  | 16.464.867.637        |
|                | <b>10.755.675.348</b> | <b>1.101.012.075</b>                     | <b>2.819.173.372</b>   | <b>4.336.232.276</b>           | <b>19.012.093.071</b> |

|                | 1 January 2019       | Utilized<br>bank loans and<br>repayments | Finance lease<br>obtained and<br>repayment of<br>principals, (net) | IFRS 16<br>effect    | Foreign exchange<br>valuations | 31 December 2019      |
|----------------|----------------------|--|--|----------------------|--------------------------------|-----------------------|
| Bank loans     | 797.815.861          | (109.271.850)                            | -  | -                    | 69.749.593                     | 758.293.604           |
| Lease payables | 5.724.268.521        | -  | 928.792.901  | 2.371.874.199        | 972.446.123                    | 9.997.381.744         |
|                | <b>6.522.084.382</b> | <b>(109.271.850)</b>                     | <b>928.792.901</b>   | <b>2.371.874.199</b> | <b>1.042.195.716</b>           | <b>10.755.675.348</b> |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

##### Capital Risk Management

The Group manages its capital with the goal of ensuring that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the financial liabilities and obligations under finance leases disclosed in Note 31, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings, respectively. The Group meets working capital requirement with the cash generated from its operations and through credit lines from Turkish and foreign banks, if needed.

The Group's management reviews the cost of capital together with the risk associated with each class in the capital structure. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital and obtains approval from Board of Directors in the form of a resolution. Based on evaluations of management and Board of Directors, the Group balances its overall capital structure from time to time through capital increases as well as the issue of new debt or the redemption of existing debt. The Group's overall capital risk management strategy remains unchanged from prior periods.

The debt-capital ratio that is calculated as net debt (total borrowings less cash and cash equivalents and financial investments) divided by total capital as of 31 December 2020 and 2019 are as follows.

|   | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Financial Liabilities                                   | 19.012.093.071   | 10.755.675.348   |
| Less: Cash and Cash Equivalents & Financial Investments | (3.839.606.368)  | (4.338.222.925)  |
| Net Debt  | 15.172.486.703   | 6.417.452.423    |
| Total Equity  | 5.386.417.638    | 5.342.169.207    |
| Total Capital   | 20.558.904.341   | 11.759.621.630   |
| Net Debt/Total Capital Ratio                            | <b>0,7</b>       | <b>0,5</b>       |

##### 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Credit Risk Management**

The Group applied the simplified approach in TFRS 9 to calculate the expected credit loss provision for trade receivables. This approach allows for the expected credit loss provision for all trade receivables. In order to measure expected credit losses, the Group grouped its trade receivables considering the maturity and credit risk characteristics. The expected credit loss ratio for each class of trade receivables, which is grouped using past loan loss experiences and prospective macroeconomic indicators, is calculated and the expected credit loss provision has been calculated by multiplying the determined rate and trade receivable sums.

|                        | <b>Not<br/>Overdue</b> | <b>0-1 Months<br/>Overdue</b> | <b>1-3 Months<br/>Overdue</b> | <b>More than 3<br/>Months<br/>Overdue</b> | <b>Total</b> |
|------------------------|------------------------|-------------------------------|-------------------------------|---|--------------|
| Period end balance     | 192.624.818            | 17.751.449                    | 1.397.184                     | 17.021.243                                | 228.794.694  |
| Loan loss rate (%)     | 0,7%                   | 0,7%                          | 1,7%                          | 55%                                       |              |
| Expected credit losses | 1.265.545              | 116.627                       | 23.577                        | 9.361.683                                 | 10.767.432   |

|                        | <b>Not<br/>Overdue</b> | <b>0-1 Months<br/>Overdue</b> | <b>1-3 Months<br/>Overdue</b> | <b>More than 3<br/>Months<br/>Overdue</b> | <b>Total</b> |
|------------------------|------------------------|-------------------------------|-------------------------------|---|--------------|
| Period end balance     | 423.425.894            | 23.715.764                    | 13.195.470                    | 8.846.258                                 | 469.183.386  |
| Loan loss rate (%)     | 0,5%                   | 0,5%                          | 1%                            | 55%                                       |              |
| Expected credit losses | 2.036.361              | 114.055                       | 131.997                       | 4.865.442                                 | 7.147.855    |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Credit risk management*

| 31 December 2020   | Receivables       |                    |                   |                    | Bank<br>Deposits     | Financial<br>Investments | Derivative<br>Instruments |
|--|-------------------|--------------------|-------------------|--------------------|----------------------|--------------------------|---------------------------|
|  | Trade Receivables |                    | Other Receivables |                    |                      |                          |                           |
|  | Related Party     | Other              | Related Party     | Other              |                      |                          |                           |
| <b>Maximum exposed credit risk as of reporting date (A+B+C+D) (*)</b>    | -                 | <b>197.485.020</b> | <b>227.927</b>    | <b>296.078.611</b> | <b>3.606.732.620</b> | <b>234.035.538</b>       | <b>7.599.668</b>          |
| Secured portion of the maximum credit risk by guarantees, etc. (**)      | -                 | 33.942.776         | -                 | -                  | -                    | -                        | -                         |
| A. Net book value of financial asset neither are not due or nor impaired | -                 | 192.624.818        | 227.927           | 296.078.611        | 3.606.732.620        | 234.035.538              | 7.599.668                 |
| B. Net book value of financial assets that are past due but not impaired | -                 | 4.860.202          | -                 | -                  | -                    | -                        | -                         |
| -The part under guarantee with collateral etc.                           | -                 | 4.860.202          | -                 | -                  | -                    | -                        | -                         |
| C. Net book value of impaired assets                                     | -                 |                    | -                 | -                  | -                    | -                        | -                         |
| - Past due (gross carrying amount)                                       | -                 | 20.542.242         | -                 | -                  | -                    | -                        | -                         |
| - Impairment(-)  | -                 | (20.542.242)       | -                 | -                  | -                    | -                        | -                         |
| - The part of net value under guarantee with collateral etc.             | -                 | -                  | -                 | -                  | -                    | -                        | -                         |
| - Not Past due (gross carrying amount)                                   | -                 | 10.767.432         | -                 | -                  | 1.806.546            | -                        | -                         |
| - Impairment(-)  | -                 | (10.767.432)       | -                 | -                  | (1.806.546)          | -                        | -                         |
| - The part of net value under guarantee with collateral etc.             | -                 | -                  | -                 | -                  | -                    | -                        | -                         |
| D. Off-balance sheet items with credit risk                              | -                 | -                  | -                 | -                  | -                    | -                        | -                         |

(\*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(\*\*) Guarantees consist of the letters of guarantee obtained from the customers.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Credit risk management (cont'd)*

| 31 December 2019   | Receivables       |                    |                   |                    | Bank<br>Deposits     | Financial<br>Investments | Derivative<br>Instruments |
|--|-------------------|--------------------|-------------------|--------------------|----------------------|--------------------------|---------------------------|
|  | Trade Receivables |                    | Other Receivables |                    |                      |                          |                           |
|  | Related Party     | Other              | Related Party     | Other              |                      |                          |                           |
| <b>Maximum exposed credit risk as of reporting date (A+B+C+D) (*)</b>    | -                 | <b>446.978.360</b> | <b>102.852</b>    | <b>232.580.609</b> | <b>4.192.730.120</b> | <b>150.906.344</b>       | <b>61.239</b>             |
| Secured portion of the maximum credit risk by guarantees, etc. (**)      | -                 | 76.903.258         | -                 | -                  | -                    | -                        | -                         |
| A. Net book value of financial asset neither are not due or nor impaired | -                 | 423.425.894        | 102.852           | 232.580.609        | 4.192.730.120        | 150.906.344              | 61.239                    |
| B. Net book value of financial assets that are past due but not impaired | -                 | 23.552.466         | -                 | -                  | -                    | -                        | -                         |
| -The part under guarantee with collateral etc.                           | -                 | 5.866.204          | -                 | -                  | -                    | -                        | -                         |
| C. Net book value of impaired assets                                     | -                 | -                  | -                 | -                  | -                    | -                        | -                         |
| - Past due (gross carrying amount)                                       | -                 | 15.055.544         | -                 | 2.880.997          | -                    | -                        | -                         |
| - Impairment(-)  | -                 | (15.055.544)       | -                 | (2.880.997)        | -                    | -                        | -                         |
| - The part of net value under guarantee with collateral etc.             | -                 | -                  | -                 | -                  | -                    | -                        | -                         |
| - Not Past due (gross carrying amount)                                   | -                 | 7.149.482          | -                 | -                  | 5.761.778            | 269.705                  | -                         |
| - Impairment(-)  | -                 | (7.149.482)        | -                 | -                  | (5.761.778)          | (269.705)                | -                         |
| - The part of net value under guarantee with collateral etc.             | -                 | -                  | -                 | -                  | -                    | -                        | -                         |
| D. Off-balance sheet items with credit risk                              | -                 | -                  | -                 | -                  | -                    | -                        | -                         |

(\*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(\*\*) Guarantees consist of the letters of guarantee obtained from the customers.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Credit risk management*

Aging of the past due receivables is as follows:

| <b>31 December 2020</b>           | <b>Trade<br/>receivables</b> | <b>Other<br/>receivables</b> | <b>Bank<br/>deposits</b> | <b>Total</b>      |
|-----------------------------------|------------------------------|------------------------------|--------------------------|-------------------|
| 1-30 days past due                | 778.119                      | -                            | -                        | 778.119           |
| 1-3 months past due               | 798.993                      | -                            | -                        | 798.993           |
| 3-12 months past due              | 1.841.696                    | -                            | -                        | 1.841.696         |
| 1-5 years past due                | 21.983.636                   | -                            | -                        | 21.983.636        |
| Receivables secured by guarantees | (4.860.202)                  | -                            | -                        | (4.860.202)       |
|                                   | <b>20.542.242</b>            | <b>-</b>                     | <b>-</b>                 | <b>20.542.242</b> |

| <b>31 December 2019</b>           | <b>Trade<br/>receivables</b> | <b>Other<br/>receivables</b> | <b>Bank<br/>deposits</b> | <b>Total</b>      |
|-----------------------------------|------------------------------|------------------------------|--------------------------|-------------------|
| 1-30 days past due                | 12.574.324                   | -                            | -                        | 12.574.324        |
| 1-3 months past due               | 3.402.012                    | -                            | -                        | 3.402.012         |
| 3-12 months past due              | 1.663.232                    | -                            | -                        | 1.663.232         |
| 1-5 years past due                | 20.968.442                   | 2.880.997                    | -                        | 23.849.439        |
| Receivables secured by guarantees | (5.866.204)                  | -                            | -                        | (5.866.204)       |
|                                   | <b>32.741.806</b>            | <b>2.880.997</b>             | <b>-</b>                 | <b>35.622.803</b> |

*Liquidity risk management*

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables show the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Liquidity risk management*

| 31 December 2020                            |                       |                                      |                      |                          |                       |                        |
|---|-----------------------|--------------------------------------|----------------------|--------------------------|-----------------------|------------------------|
| Due date on the contract                    | Carrying value        | Contractual cash-flows (I+II+III+IV) | Up to 3 months (I)   | 3 months- 12 months (II) | 1 year- 5 years (III) | More than 5 years (IV) |
| <b>Non-derivative financial liabilities</b> |                       |                                      |                      |                          |                       |                        |
| Short term bank borrowings                  | 2.547.225.434         | 2.547.225.434                        | 327.887.560          | 1.413.829.298            | 805.508.576           | -                      |
| Obligations under leases                    | 16.464.867.637        | 19.532.862.606                       | 676.966.996          | 2.005.199.707            | 9.002.019.440         | 7.848.676.463          |
| Trade payables                              | 910.641.319           | 910.641.319                          | 910.641.319          | -                        | -                     | -                      |
|   | <b>19.922.734.390</b> | <b>22.990.729.359</b>                | <b>1.915.495.875</b> | <b>3.419.029.005</b>     | <b>9.807.528.016</b>  | <b>7.848.676.463</b>   |
| Due date on the contract                    | Carrying value        | Contractual cash-flows (I+II+III+IV) | Up to 3 months (I)   | 3 months- 12 months (II) | 1 year- 5 years (III) | More than 5 years (IV) |
| <b>Derivative financial liabilities</b>     |                       |                                      |                      |                          |                       |                        |
| Derivative cash inflows outflows, net       | (86.466.670)          | (84.409.963)                         | (30.298.901)         | (49.811.047)             | (4.300.015)           | -                      |
|   |                       |                                      |                      |                          |                       |                        |
| 31 December 2019                            |                       |                                      |                      |                          |                       |                        |
| Due date on the contract                    | Carrying value        | Contractual cash-flows (I+II+III+IV) | Up to 3 months (I)   | 3 months- 12 months (II) | 1 year- 5 years (III) | More than 5 years (IV) |
| <b>Non-derivative financial liabilities</b> |                       |                                      |                      |                          |                       |                        |
| Short term bank borrowings                  | 758.293.604           | 758.293.604                          | 15.768.604           | 742.525.000              | -                     | -                      |
| Obligations under leases                    | 9.997.381.744         | 12.041.777.248                       | 601.587.524          | 1.439.589.472            | 5.856.446.961         | 4.144.153.291          |
| Trade payables                              | 789.729.487           | 789.729.487                          | 789.729.487          | -                        | -                     | -                      |
|   | <b>11.545.404.835</b> | <b>13.589.800.339</b>                | <b>1.407.085.615</b> | <b>2.182.114.472</b>     | <b>5.856.446.961</b>  | <b>4.144.153.291</b>   |
| Due date on the contract                    | Carrying value        | Contractual cash-flows (I+II+III+IV) | Up to 3 months (I)   | 3 months- 12 months (II) | 1 year- 5 years (III) | More than 5 years (IV) |
| <b>Derivative financial liabilities</b>     |                       |                                      |                      |                          |                       |                        |
| Derivative cash inflows outflows, net       | (54.578.474)          | (54.192.800)                         | (13.960.696)         | (38.699.145)             | (1.532.959)           | -                      |

**Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, fuel price and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency, fuel price and interest rate risk.

**Foreign currency risk management**

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

The Group's foreign currency position of monetary and non-monetary assets/liabilities for the years ended 31 December 2020 and 2019 are as follows:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Foreign currency risk management*

| <b>31 December 2020</b>   | <b>TL Total</b>      | <b>USD</b>           | <b>TL</b>            | <b>GBP</b>       | <b>Other</b>      |
|---|----------------------|----------------------|----------------------|------------------|-------------------|
| 1. Trade receivables  | 212.376.311          | 12.065.543           | 101.470.363          | 334.373          | 19.013.891        |
| 2a. Monetary financial assets   | 2.054.167.015        | 246.117.870          | 149.798.906          | 5.888.115        | 39.189.646        |
| 2b. Non monetary financial assets   | -                    | -                    | -                    | -                | -                 |
| 3. Other  | 633.411.670          | 72.141.682           | 101.758.381          | 89.563           | 1.206.676         |
| <b>4. CURRENT ASSETS</b>  | <b>2.899.954.996</b> | <b>330.325.095</b>   | <b>353.027.650</b>   | <b>6.312.051</b> | <b>59.410.213</b> |
| 5. Trade receivables  | -                    | -                    | -                    | -                | -                 |
| 6a. Monetary financial assets   | 144.331.708          | 19.662.381           | -                    | -                | -                 |
| 6b. Non monetary financial assets   | -                    | -                    | -                    | -                | -                 |
| 7. Other  | 149.009.259          | 19.500.573           | 341.073              | 1.000            | 5.514.286         |
| <b>8. NON CURRENT ASSETS</b>  | <b>293.340.967</b>   | <b>39.162.954</b>    | <b>341.073</b>       | <b>1.000</b>     | <b>5.514.286</b>  |
| <b>9. TOTAL ASSETS</b>  | <b>3.193.295.963</b> | <b>369.488.049</b>   | <b>353.368.723</b>   | <b>6.313.051</b> | <b>64.924.499</b> |
| 10. Trade payables  | 563.378.666          | 7.151.551            | 497.346.897          | 186.316          | 11.683.120        |
| 11. Financial liabilities   | 1.910.953.898        | 195.893.181          | 473.000.000          | -                | -                 |
| 12a. Other liabilities, monetary  | 917.402.135          | 106.365.614          | 127.431.455          | 85.662           | 8.342.085         |
| 12b. Other liabilities, non monetary  | -                    | -                    | -                    | -                | -                 |
| <b>13. CURRENT LIABILITIES</b>  | <b>3.391.734.699</b> | <b>309.410.346</b>   | <b>1.097.778.352</b> | <b>271.978</b>   | <b>20.025.205</b> |
| 14. Trade payables  | -                    | -                    | -                    | -                | -                 |
| 15. Financial liabilities   | 4.461.206.972        | 583.230.975          | 180.000.000          | -                | -                 |
| 16a. Other liabilities, monetary  | 1.038.964.136        | 141.538.606          | -                    | -                | -                 |
| 16b. Other liabilities, non monetary  | -                    | -                    | -                    | -                | -                 |
| <b>17. NON CURRENT LIABILITIES</b>  | <b>5.500.171.108</b> | <b>724.769.581</b>   | <b>180.000.000</b>   | <b>-</b>         | <b>-</b>          |
| <b>18. TOTAL LIABILITIES</b>  | <b>8.891.905.807</b> | <b>1.034.179.927</b> | <b>1.277.778.352</b> | <b>271.978</b>   | <b>20.025.205</b> |
| 19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b) | -                    | -                    | -                    | -                | -                 |
| 19.a Off-balance sheet foreign currency derivative assets                       | -                    | -                    | -                    | -                | -                 |
| 19.b. Off-balance sheet foreign currency derivative liabilities                 | -                    | -                    | -                    | -                | -                 |
| 20. Net foreign currency asset/(liability) position                             | (5.698.609.844)      | (664.691.878)        | (924.409.629)        | 6.041.073        | 44.899.294        |
| 21. Net foreign currency asset / (liability) position of monetary items         |                      |                      |                      |                  |                   |
| (1+2a+3+5+6a+7-10-11-12a-14-15-16a)   | (5.698.609.844)      | (664.691.878)        | (924.409.629)        | 6.041.073        | 44.899.294        |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Foreign currency risk management*

| <b>31 December 2019</b>   | <b>TL Total</b>      | <b>USD</b>           | <b>TL</b>          | <b>GBP</b>       | <b>Other</b>       |
|---|----------------------|----------------------|--------------------|------------------|--------------------|
| 1. Trade receivables  | 445.328.143          | 8.654.041            | 283.132.380        | 1.504.015        | 99.093.056         |
| 2a. Monetary financial assets   | 3.671.506.061        | 597.374.911          | 49.068.444         | 6.425.896        | 23.940.190         |
| 2b. Non monetary financial assets   | -                    | -                    | -                  | -                | -                  |
| 3. Other  | 193.948.953          | 3.574.272            | 172.714.136        | -                | 2.926              |
| <b>4. CURRENT ASSETS</b>  | <b>4.310.783.157</b> | <b>609.603.224</b>   | <b>504.914.960</b> | <b>7.929.911</b> | <b>123.036.172</b> |
| 5. Trade receivables  | -                    | -                    | -                  | -                | -                  |
| 6a. Monetary financial assets   | 88.446.329           | 14.889.453           | -                  | -                | -                  |
| 6b. Non monetary financial assets   | -                    | -                    | -                  | -                | -                  |
| 7. Other  | 142.398.435          | 23.154.357           | 355.786            | 1.000            | 4.493.361          |
| <b>8. NON CURRENT ASSETS</b>  | <b>230.844.764</b>   | <b>38.043.810</b>    | <b>355.786</b>     | <b>1.000</b>     | <b>4.493.361</b>   |
| <b>9. TOTAL ASSETS</b>  | <b>4.541.627.921</b> | <b>647.647.034</b>   | <b>505.270.746</b> | <b>7.930.911</b> | <b>127.529.533</b> |
| 10. Trade payables  | 412.035.767          | 43.853.367           | 107.150.780        | 1.575.470        | 32.135.574         |
| 11. Financial liabilities   | 1.654.852.242        | 275.930.716          | 15.768.604         | -                | -                  |
| 12a. Other liabilities, monetary  | 402.134.668          | 52.562.088           | 70.256.665         | 94.753           | 18.911.841         |
| 12b. Other liabilities, non monetary  | -                    | -                    | -                  | -                | -                  |
| <b>13. CURRENT LIABILITIES</b>  | <b>2.469.022.677</b> | <b>372.346.171</b>   | <b>193.176.049</b> | <b>1.670.223</b> | <b>51.047.415</b>  |
| 14. Trade payables  | -                    | -                    | -                  | -                | -                  |
| 15. Financial liabilities   | 3.800.045.664        | 639.716.788          | -                  | -                | -                  |
| 16a. Other liabilities, monetary  | 1.570.845.470        | 264.443.196          | -                  | -                | -                  |
| 16b. Other liabilities, non monetary  | -                    | -                    | -                  | -                | -                  |
| <b>17. NON CURRENT LIABILITIES</b>  | <b>5.370.891.134</b> | <b>904.159.984</b>   | <b>-</b>           | <b>-</b>         | <b>-</b>           |
| <b>18. TOTAL LIABILITIES</b>  | <b>7.839.913.811</b> | <b>1.276.506.155</b> | <b>193.176.049</b> | <b>1.670.223</b> | <b>51.047.415</b>  |
| 19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)                             | 810.122              | 14.455.000           | -                  | (10.937.500)     | -                  |
| 19.a Off-balance sheet foreign currency derivative assets   | 85.865.591           | 14.455.000           | -                  | -                | -                  |
| 19b. Off-balance sheet foreign currency derivative liabilities  | 85.055.469           | -                    | -                  | 10.937.500       | -                  |
| 20. Net foreign currency asset/(liability) position   | (3.386.732.219)      | (628.859.121)        | 312.094.697        | 6.260.688        | 76.482.118         |
| 21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a) | (3.386.732.219)      | (628.859.121)        | 312.094.697        | 6.260.688        | 76.482.118         |

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

#### Financial Risk Factors

#### *Foreign currency risk management*

#### Foreign currency sensitivity

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

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

Foreign currency sensitivity tables as of 31 December 2020 and 2019 are as follows:

| 31 December 2020                 | Profit/(Loss)                       |                                     | Shareholders' equity                |                                     |
|----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|                                  | If foreign currency appreciated 10% | If foreign currency depreciated 10% | If foreign currency appreciated 10% | If foreign currency depreciated 10% |
| Effect of 10% change in USD rate |                                     |                                     |                                     |                                     |
| USD net asset / (liability)      | (487.917.073)                       | 487.917.073                         | -                                   | -                                   |
| Part of hedged from USD risk     | -                                   | -                                   | -                                   | -                                   |
| <b>USD net effect</b>            | <b>(487.917.073)</b>                | <b>487.917.073</b>                  | <b>-</b>                            | <b>-</b>                            |
| Effect of 10% change in TL rate  |                                     |                                     |                                     |                                     |
| TL net asset / (liability)       | (92.440.963)                        | 92.440.963                          | 545.478.297                         | (545.478.297)                       |
| Part of hedged from TL risk      | -                                   | -                                   | -                                   | -                                   |
| <b>TL net effect</b>             | <b>(92.440.963)</b>                 | <b>92.440.963</b>                   | <b>545.478.297</b>                  | <b>(545.478.297)</b>                |
| Effect of 10% change in GBP rate |                                     |                                     |                                     |                                     |
| GBP net asset / liability        | 6.007.122                           | (6.007.122)                         | -                                   | -                                   |
| Part of hedged from GBP risk     | -                                   | -                                   | -                                   | -                                   |
| <b>GBP net effect</b>            | <b>6.007.122</b>                    | <b>(6.007.122)</b>                  | <b>-</b>                            | <b>-</b>                            |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

*Foreign currency risk management*

Foreign currency sensitivity

| 31 December 2019                 | Profit/(Loss)                       |                                     | Shareholders' equity                |                                     |
|----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|                                  | If foreign currency appreciated 10% | If foreign currency depreciated 10% | If foreign currency appreciated 10% | If foreign currency depreciated 10% |
| Effect of 10% change in USD rate |                                     |                                     |                                     |                                     |
| USD net asset / (liability)      | (373.554.895)                       | 373.554.895                         | -                                   | -                                   |
| Part of hedged from USD risk     | -                                   | -                                   | -                                   | -                                   |
| <b>USD net effect</b>            | <b>(373.554.895)</b>                | <b>373.554.895</b>                  | <b>-</b>                            | <b>-</b>                            |
| Effect of 10% change in TL rate  |                                     |                                     |                                     |                                     |
| TL net asset / (liability)       | 31.209.470                          | (31.209.470)                        | 538.433.239                         | (538.433.239)                       |
| Part of hedged from TL risk      | -                                   | -                                   | -                                   | -                                   |
| <b>TL net effect</b>             | <b>31.209.470</b>                   | <b>(31.209.470)</b>                 | <b>538.433.239</b>                  | <b>(538.433.239)</b>                |
| Effect of 10% change in GBP rate |                                     |                                     |                                     |                                     |
| GBP net asset / liability        | 4.868.624                           | (4.868.624)                         | -                                   | -                                   |
| Part of hedged from GBP risk     | (8.505.547)                         | 8.505.547                           | -                                   | -                                   |
| <b>GBP net effect</b>            | <b>(3.636.923)</b>                  | <b>3.636.923</b>                    | <b>-</b>                            | <b>-</b>                            |

*Interest rate risk management*

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate borrowings, by the use of interest rate swap contracts based on the approved policies.

Foreign currency sensitivity

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

|  | 31 December 2020 |               | 31 December 2019 |               |
|--|------------------|---------------|------------------|---------------|
|  | Floating rate    | Fixed rate    | Floating rate    | Fixed rate    |
| Bank loans   | -                | 2.547.225.434 | -                | 758.293.604   |
| Finance leases   | 14.018.203.436   | 2.446.664.201 | 6.638.304.491    | 3.359.077.253 |
| Interest swap agreements not subject to hedge accounting (net) | (1.010.003)      | -             | 61.239           | -             |

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.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

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#### NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

##### **Financial Risk Factors**

##### *Interest rate risk management*

##### Foreign currency sensitivity

If interest rates had been 0,5% lower/higher during the reporting period keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 46.741.135 (2019: TL 28.581.875). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases.

##### *Price risk management*

##### Fuel price risk management

The Group is exposed to commodity risk due to the significant of fuel purchases to its business. Fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on the cost of sales, and results of operations of the Group.

The Group manages its risk to fuel prices through the use of derivative financial instruments. The Group's policy since 2011 includes a primary non-discretionary program for the first 50% of anticipated fuel consumption and a supplemental discretionary program for an additional 20% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

##### Fuel price sensitivity

The Group entered into fuel purchase and option forward contracts in order to manage the cash flow risks arising from fuel purchases. Due to forward fuel purchase and option forward 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 12.034.910 (2019: TL 21.517.547) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 12.034.910 (2019: TL 21.517.547) excluding deferred tax effect.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)**

**Fair Value of Financial Instruments**

| <b>31 December 2020</b>          | <b>Loans and<br/>receivables</b> | <b>Derivative instruments<br/>which are reflected at<br/>fair value in<br/>shareholders' equity</b> | <b>Derivative instruments<br/>which are reflected at<br/>fair value in profit/loss</b> | <b>Financial liabilities at<br/>amortized cost</b> | <b>Carrying amount<br/>(*)</b> | <b>Note</b> |
|----------------------------------|----------------------------------|---|--|--|--------------------------------|-------------|
| <b>Financial assets</b>          |                                  |   |  |  |                                |             |
| Cash and cash equivalents        | 3.605.570.830                    | -   | -  | -  | 3.605.570.830                  | 35          |
| Trade receivables                | 197.485.020                      | -   | -  | -  | 197.485.020                    | 6           |
| - <i>Related party</i>           | -                                | -   | -  | -  | -                              |             |
| - <i>Other</i>                   | 197.485.020                      | -   | -  | -  | 197.485.020                    | 6           |
| Other receivables                | 296.306.538                      | -   | -  | -  | 296.306.538                    |             |
| - <i>Related party</i>           | 227.927                          | -   | -  | -  | 227.927                        | 5           |
| - <i>Other</i>                   | 296.078.611                      | -   | -  | -  | 296.078.611                    |             |
| Financial investments(**)        | 234.035.538                      | -   | -  | -  | 234.035.538                    |             |
| Derivative financial assets      | -                                | 7.599.668   | -  | -  | 7.599.668                      | 30          |
| <b>Financial liabilities</b>     |                                  |   |  |  |                                |             |
| Bank borrowings                  | -                                | -   | -  | 2.547.225.434                                      | 2.547.225.434                  | 31          |
| Obligations under leases         | -                                | -   | -  | 16.464.867.637                                     | 16.464.867.637                 | 31          |
| Trade payables                   | -                                | -   | -  | 910.641.319  | 910.641.319                    | 6           |
| - <i>Related party</i>           | -                                | -   | -  | 22.159.362   | 22.159.362                     | 5           |
| - <i>Other</i>                   | -                                | -   | -  | 888.481.957  | 888.481.957                    |             |
| Derivative financial liabilities | -                                | 93.056.335  | 1.010.003  | -  | 94.066.338                     | 30          |

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

(\*\*) As of 31 December 2020 market prices of financial investments amounting to TL 236.539.169.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)**

**Fair Value of Financial Instruments**

| <b>31 December 2019</b>            | <b>Loans and<br/>receivables</b> | <b>Derivative instruments<br/>which are reflected at<br/>fair value in<br/>shareholders' equity</b> | <b>Derivative instruments<br/>which are reflected at<br/>fair value in profit/loss</b> | <b>Financial liabilities at<br/>amortized cost</b> | <b>Carrying amount<br/>(*)</b> | <b>Note</b> |
|------------------------------------|----------------------------------|---|--|--|--------------------------------|-------------|
| <b>Financial assets</b>            |                                  |   |  |  |                                |             |
| Cash and cash equivalents          | 4.187.316.581                    | -   | -  | -  | 4.187.316.581                  | 35          |
| Trade receivables                  | 446.978.360                      | -   | -  | -  | 446.978.360                    | 6           |
| - <i>Related party</i>             | -                                | -   | -  | -  | -                              |             |
| - <i>Other</i>                     | 446.978.360                      | -   | -  | -  | 446.978.360                    | 6           |
| Other receivables                  | 232.683.461                      | -   | -  | -  | 232.683.461                    |             |
| - <i>Related party</i>             | 102.852                          | -   | -  | -  | 102.852                        | 5           |
| - <i>Other</i>                     | 232.580.609                      | -   | -  | -  | 232.580.609                    |             |
| Financial investments(**)          | 150.906.344                      | -   | -  | -  | 150.906.344                    |             |
| Derivative financial assets        | -                                | -   | 61.239   | -  | 61.239                         | 30          |
| <b>Financial liabilities</b>       |                                  |   |  |  |                                |             |
| Bank borrowings                    | -                                | -   | -  | 758.293.604  | 758.293.604                    | 31          |
| Obligations under financial leases | -                                | -   | -  | 9.997.381.744                                      | 9.997.381.744                  | 31          |
| Trade payables                     | -                                | -   | -  | 722.788.625  | 722.788.625                    | 6           |
| - <i>Related party</i>             | -                                | -   | -  | 1.543.950  | 1.543.950                      | 5           |
| - <i>Other</i>                     | -                                | -   | -  | 721.244.675  | 721.244.675                    |             |
| Derivative financial liabilities   | -                                | 54.055.360  | 584.353  | -  | 54.639.713                     | 30          |

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

(\*\*) As of 31 December 2019 market prices of financial investments amounting to TL 155.381.891.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)**

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

| Financial assets / (Financial liabilities) | Fair value as at                       |                                       | Fair value hierarchy              | Valuation technique                 |                     |
|--|--|---------------------------------------|-----------------------------------|-------------------------------------|---------------------|
|  | 31 December 2020                       | 31 December 2019                      |                                   |                                     |                     |
| Fuel purchase option contracts             | (93.056.335)                           | (42.733.371)                          | Level 2                           | Discounted cash flow method         |                     |
| Fuel purchase forward contracts            | 7.599.668                              | (11.321.989)                          | Level 2                           | Discounted cash flow method         |                     |
| Currency forward contracts                 | -                                      | (584.353)                             | Level 2                           | Discounted cash flow method         |                     |
| Interest rate swap contracts               | (1.010.003)                            | 61.239                                | Level 2                           | Discounted cash flow method         |                     |
|  | <b>Fuel purchase forward contracts</b> | <b>Fuel purchase option contracts</b> | <b>Currency forward contracts</b> | <b>Interest rate swap contracts</b> | <b>Total</b>        |
| <b>31 December 2020</b>                    |  |                                       |                                   |                                     |                     |
| <b>Fair value:</b>                         |  |                                       |                                   |                                     |                     |
| Opening                                    | (11.321.989)                           | (42.733.371)                          | (584.353)                         | 61.239                              | (54.578.474)        |
| Fair value increase                        |  |                                       |                                   |                                     |                     |
| Recognized in equity                       | 18.921.657                             | (50.322.964)                          | -                                 | -                                   | (31.401.307)        |
| Recognized in profit or loss               | -                                      | -                                     | 584.353                           | (1.071.242)                         | (486.889)           |
| <b>Closing</b>                             | <b>7.599.668</b>                       | <b>(93.056.335)</b>                   | <b>-</b>                          | <b>(1.010.003)</b>                  | <b>(86.466.670)</b> |
| Assets                                     | 7.599.668                              | -                                     | -                                 | -                                   | 7.599.668           |
| Liabilities                                | -                                      | (93.056.335)                          | -                                 | (1.010.003)                         | (94.066.338)        |
| <b>Total net assets and liabilities</b>    | <b>7.599.668</b>                       | <b>(93.056.335)</b>                   | <b>-</b>                          | <b>(1.010.003)</b>                  | <b>(86.466.670)</b> |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(Amounts are expressed in TL unless otherwise stated.)

#### NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

##### Fair Value of Financial Instruments

| <b>31 December 2019</b>                 | <b>Fuel purchase<br/>forward<br/>contracts</b> | <b>Fuel purchase<br/>option<br/>contracts</b> | <b>Currency<br/>forward<br/>contracts</b> | <b>Interest rate<br/>swap<br/>contracts</b> | <b>Total</b>        |
|---|--|---|---|---|---------------------|
| <b>Fair value:</b>                      |  |   |   |   |                     |
| Opening                                 | (76.613.424)                                   | (218.102.353)                                 | -   | 3.134.337                                   | (291.581.440)       |
| Fair value increase / (decrease)        |  |   |   |   |                     |
| Recognized in equity                    | 65.291.435                                     | 166.650.633                                   | -   | -   | 231.942.068         |
| Recognized in profit or loss            | -  | 8.718.349                                     | (584.353)                                 | (3.073.098)                                 | 5.060.898           |
| <b>Closing</b>                          | <b>(11.321.989)</b>                            | <b>(42.733.371)</b>                           | <b>(584.353)</b>                          | <b>61.239</b>                               | <b>(54.578.474)</b> |
| Assets                                  | -  | -   | -   | 61.239                                      | 61.239              |
| Liabilities                             | (11.321.989)                                   | (42.733.371)                                  | (584.353)                                 | -   | (54.639.713)        |
| <b>Total net assets and liabilities</b> | <b>(11.321.989)</b>                            | <b>(42.733.371)</b>                           | <b>(584.353)</b>                          | <b>61.239</b>                               | <b>(54.578.474)</b> |

As of 31 December 2020, the Group has fuel purchase forward contracts subject to hedge accounting on the purpose of covering 54% (2019: 57%) of the expected total fuel consumption for the upcoming one-year period. Weighted average price of these contracts is US Dollars 517,8 (2019: US Dollars 615,4).

#### NOTE 34 - EVENTS AFTER BALANCE SHEET DATE

In accordance with the Capital Markets Law No. 6362 and other applicable law and Article 9 of the Company Articles of Association, Board of Directors of the Company resolved on 3 December 2020, on the issuance of debt securities for up to TL 2.500.000.000 for non-public sale to qualified investors in Turkey in one or multiple tranches. The application for issuance was approved by the Capital Markets Board on 31 December 2020.

The sale transaction of bonds with ISIN code TRSPEGS22218, 365-day maturity, 3-month coupon payments with floating interest of 300 bps over the benchmark (TLREF Index, BIST overnight interest rate) and principal payment at maturity date of 11 February 2022, was completed on 9 February 2021. The final issuance amount realized as TL 260.000.000, within the ceiling which was approved by the Capital Markets Board's decision numbered 79/1617 on 31 December.2020. Settlement date for the issuance is 11 February 2021.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2020**

(Amounts are expressed in TL unless otherwise stated.)

**NOTE 35 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW**

The details of cash and cash equivalents as of 31 December 2020 and 2019 are as follows:

|   | <b>31 December 2020</b> | <b>31 December 2019</b> |
|---|-------------------------|-------------------------|
| Cash on hand                                | 644.756                 | 348.239                 |
| Cash at banks                               | 3.606.732.620           | 4.192.730.120           |
| - Demand deposits                           | 55.355.224              | 34.128.875              |
| - Time deposits                             | 3.551.377.396           | 4.158.601.245           |
| Less: Allowance for impairment under TFRS 9 | (1.806.546)             | (5.761.778)             |
|   | <b>3.605.570.830</b>    | <b>4.187.316.581</b>    |

The weighted average interest rates of time deposits are as presented below:

| <b>31 December 2020</b> | <b>Weighted average<br/>interest rates</b> | <b>Total</b>         |
|-------------------------|--|----------------------|
| USD deposits            | %1,55                                      | 1.795.008.276        |
| EUR deposits            | %1,20                                      | 1.541.353.532        |
| TL deposits             | %18,76                                     | 147.679.943          |
| GBP deposits            | %0,14                                      | 57.804.150           |
| CHF deposits            | %0,02                                      | 9.531.495            |
|                         |  | <b>3.551.377.396</b> |

| <b>31 December 2019</b> | <b>Weighted average<br/>interest rates</b> | <b>Total</b>         |
|-------------------------|--|----------------------|
| USD deposits            | %2,37                                      | 3.555.102.439        |
| EUR deposits            | %0,54                                      | 503.762.854          |
| GBP deposits            | %0,46                                      | 49.355.439           |
| TL deposits             | %11,23                                     | 47.329.684           |
| CHF deposits            | %0,50                                      | 3.050.829            |
|                         |  | <b>4.158.601.245</b> |

All of the time deposits as of 31 December 2020 and 2019 have maturities less than 90 days.

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

### APPENDIX : EURO SELECTED NOTES

(Amounts are expressed in TL unless otherwise stated.)

#### Revenue

|                                      | Euro<br>1 January-<br>31 December 2020 | Euro<br>1 January-<br>31 December 2019 |
|--------------------------------------|--|--|
| Scheduled flight and service revenue | 611.519.422                            | 1.678.529.974                          |
| <i>International flight revenue</i>  | 242.252.445                            | 884.117.456                            |
| <i>Domestic flight revenue</i>       | 156.266.871                            | 335.551.635                            |
| <i>Service revenue</i>               | 213.000.106                            | 458.860.883                            |
| Charter flight and service revenue   | 6.435.523                              | 47.401.530                             |
| <i>Charter flight revenue</i>        | 6.387.082                              | 47.367.878                             |
| <i>Service revenue</i>               | 48.441                                 | 33.652                                 |
| Other revenue                        | 11.924.722                             | 13.526.206                             |
|                                      | <b>629.879.667</b>                     | <b>1.739.457.710</b>                   |

#### Expenses by Nature

|   | Euro<br>1 January-<br>31 December 2020 | Euro<br>1 January-<br>31 December 2019 |
|---|--|--|
| Jet fuel expenses                       | 199.877.812                            | 496.662.778                            |
| Depreciation and amortisation expenses  | 271.958.825                            | 243.869.288                            |
| Personnel expenses                      | 121.136.259                            | 222.898.391                            |
| Handling and station fees               | 53.956.427                             | 113.267.623                            |
| Navigation expenses                     | 44.741.312                             | 92.457.046                             |
| Maintenance expenses                    | 22.857.210                             | 61.270.090                             |
| Landing expenses                        | 19.873.988                             | 50.372.008                             |
| Commission expenses                     | 8.350.887                              | 21.554.662                             |
| Advertising expenses                    | 5.034.306                              | 14.398.195                             |
| Passenger service and catering expenses | 5.438.284                              | 15.232.583                             |
| Other expenses                          | 55.984.502                             | 71.275.221                             |
|   | <b>809.209.812</b>                     | <b>1.403.257.885</b>                   |