

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

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

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

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**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.)

		<b>Current period (Audited) 31 December 2020</b>	<b>Prior period (Audited) 31 December 2019</b>	<b>(*) EUR 31 December 2020</b>	<b>(*) EUR 31 December 2019</b>
	<b>Notes</b>				
<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 (Audited) 31 December 2020	Prior period (Audited) 31 December 2019	(*) EUR 31 December 2020	(*) EUR 31 December 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 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 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- 31 December 2020	1 January- 31 December 2019	1 January- 31 December 2020	1 January- 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					
	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	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' 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	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 (Audited) 1 January- 31 December 2020	Prior period (Audited) 1 January- 31 December 2019	(*) EUR 1 January- 31 December 2020	(*) EUR 1 January- 31 December 2019
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>					
(Loss) / Profit for the period		<b>(1.965.097.057)</b>	<b>1.334.567.915</b>	<b>(210.604.681)</b>	<b>211.583.176</b>
<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>					
BEFORE TRANSLATION EFFECT (A+B+C)		<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>					
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		<b>316.858.725</b>	<b>246.412.665</b>	<b>(65.912.416)</b>	<b>2.027.904</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>					
AT THE BEGINNING OF THE PERIOD	35	4.187.316.581	2.741.044.971	629.614.859	454.718.807
<b>CASH AND CASH EQUIVALENTS</b>					
AT THE END OF THE PERIOD (A+B+C+D+E)	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 2020</b>	<b>31 December 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/TFRS") 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.)

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### 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.

**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**

**2.1 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.)

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**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.

# 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

#### 2.4 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.)

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### 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.)

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**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.)

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**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.

# 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

#### 2.4 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  
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**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.)

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### 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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(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  
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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

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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

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### 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

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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.

# PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

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

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### 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  
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**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

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### 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.

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**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).



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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.

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**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**

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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- 31 Aralık 2020	1 Ocak- 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 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  
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NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

PUEM

	1 January- 31 December 2020	1 January- 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 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 of the joint venture</b>	<b>58.812.540</b>	<b>44.417.911</b>

	1 January- 31 December 2020	1 January- 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 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  
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**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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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

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#### 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- 31 December 2020	1 January- 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- 31 December 2020	1 January- 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  
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**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  
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**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>

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**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>

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**NOTE 10 - PROPERTY AND EQUIPMENT**

<b>31 December 2020</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Owned Aircraft</b>	<b>Construction 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>

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**NOTE 10 - PROPERTY AND EQUIPMENT**

<b>31 December 2019</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Components, spare engine and repairables</b>	<b>Aircraft</b>	<b>Construction 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

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### 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- 31 December 2020</b>	<b>1 January- 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**

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**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).



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**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.

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**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

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#### 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.

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**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).

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(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					
-Collateral	1.308.894.933	141.376.684	27.464.393	13.452.807	10.270.071
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	<b>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  
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(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					
-Collateral	1.664.459.335	269.080.506	6.786.958	13.487.804	7.442.166
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	<b>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  
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**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- 31 December 2020	1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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  
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(Amounts are expressed in TL unless otherwise stated.)

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

**Cost of sales:**

	<b>1 January- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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  
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**NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES**

**Marketing expenses:**

	<b>1 January- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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  
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**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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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- 31 December 2020</b>	<b>1 January- 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>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**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- 31 December 2020	1 January- 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.

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**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>				
	<u>31 December 2020</u>	<u>Currency translation effect</u>	<u>Other comprehensive income tax effect</u>	<u>Deferred tax charge for the year</u>	<u>1 January 2020</u>
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>

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**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>

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**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 before tax	Tax expense	Amount after tax
Change in foreign currency translation	2.034.615.690	-	2.034.615.690
Actuarial gains/(losses)			
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 before tax	Tax income	Amount after tax
Change in foreign currency translation	457.503.847	-	457.503.847
Actuarial gains/(losses)			
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- 31 December 2020</b>	<b>1 January- 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 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 assets.

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### 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- 31 December 2020	1 January- 31 December 2019
(Loss) / profit attributable to the shareholders of the parent	(1.965.097.057)	1.333.369.118
Weighted average number of shares 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>

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

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### 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

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**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

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#### 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.



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### 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:

	<u>1 January 2020</u>	<u>Utilized bank loans and repayments</u>	<u>Finance lease obtained and repayment of principals, (net)</u>	<u>Foreign exchange valuations</u>	<u>31 December 2020</u>
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>

	<u>1 January 2019</u>	<u>Utilized bank loans and repayments</u>	<u>Finance lease obtained and repayment of principals, (net)</u>	<u>TFRS 16 effect</u>	<u>Foreign exchange valuations</u>	<u>31 December 2019</u>
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

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#### 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.

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**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 Overdue</b>	<b>0-1 Months Overdue</b>	<b>1-3 Months Overdue</b>	<b>More than 3 Months 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 Overdue</b>	<b>0-1 Months Overdue</b>	<b>1-3 Months Overdue</b>	<b>More than 3 Months 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

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

**Financial Risk Factors**

*Credit risk management*

31 December 2020	Receivables				Bank Deposits	Financial Investments	Derivative 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.

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

**Financial Risk Factors**

*Credit risk management (cont'd)*

31 December 2019	Receivables				Bank Deposits	Financial Investments	Derivative 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	-	15.055.544	-	2.880.997	-	-	-
- Past due (gross carrying amount)	-	(15.055.544)	-	(2.880.997)	-	-	-
- Impairment(-)	-	-	-	-	-	-	-
- 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 receivables</b>	<b>Other receivables</b>	<b>Bank 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 receivables</b>	<b>Other receivables</b>	<b>Bank 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.

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**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**

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**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	-	-	-	-	-
19b. 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



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**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>

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**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

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

**Fair Value of Financial Instruments**

<b>31 December 2020</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	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.

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

**Fair Value of Financial Instruments**

<b>31 December 2019</b>	<b>Loans and receivables</b>	<b>Derivative instruments which are reflected at fair value in shareholders' equity</b>	<b>Derivative instruments which are reflected at fair value in profit/loss</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying amount (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	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 forward contracts</b>	<b>Fuel purchase option contracts</b>	<b>Currency forward contracts</b>	<b>Interest rate swap 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 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 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 1 January- 31 December 2020	Euro 1 January- 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 1 January- 31 December 2020	Euro 1 January- 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>