



PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ
2021 MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

This Management Discussion & Analysis (“MD&A”) is published to complement Pegasus Airlines Annual Activity Report of the Board of Directors for the period January 1 – December 31, 2021 (“**2021 Annual Report**”).

Operational, financial and non-financial KPIs reported in Section 5C (Financial Status – Operational Results Compared Against Previous Years) of the 2021 Annual Report are copied below. MD&A of all three sets of results are complemented in this document.

OPERATIONAL PERFORMANCE

Overall Traffic Results	Jan. – Dec. 2021	Jan. – Dec. 2020	Y-O-Y Change %
Number of passengers (<i>million</i>)	20.16	14.71	37.0
Cycle	138,436	99,289	39.4
Number of seats (<i>million</i>)	26.07	18.45	41.3
Load factor (%)	77.3	79,7	-2.4
ASK ⁽¹⁾ (<i>million</i>)	33,052	22,278	48.4
Passengers per cycle	146	148	-1.7
Avg. daily aircraft utilization (<i>hours</i>) ⁽²⁾	9.4	6.2	52.1
Domestic			
Number of passengers (<i>million</i>)	11.99	9.60	25.0
Cycle	78,266	62,755	24.7
Number of seats (<i>million</i>)	14.70	11.66	26.1
Load factor (%)	81.6	82.3	-0.9
ASK (1) (<i>million</i>)	11,491	9,164	25.4
Passengers per cycle	153	153	0.2
International			
Number of passengers (<i>million</i>)	8.01	4,99	60.4
Cycle	59,243	35,782	65.6
Number of seats (<i>million</i>)	11.21	6,67	68.1
Load factor (%)	71.4	74.9	-3.4
ASK (1) (<i>million</i>)	21,348	12,938	65.0
Passengers per cycle	135	139	-3.1
Charter			
Number of passengers (<i>million</i>)	0.16	0.13	24.6
Cycle	927	752	23.3
Number of seats (<i>million</i>)	0.16	0.13	24.6
ASK (1) (<i>million</i>)	213	177	20.6

⁽¹⁾ Refers to available seat kilometers and is equal to the number of seats available for passengers during a specified period multiplied by the number of kilometers that those seats are flown.

⁽²⁾ Refers to the hours from an aircraft’s take-off to landing (including taxi time).



2021 was a year of partial recovery from Covid-19's devastating impact on air travel demand and travel restrictions in 2020. Travel restrictions continued into 2021 through new variants and placed more pressure on international travel recovery compared to domestic travel demand.

Overall, capacity in ASK increased by 48%, average aircraft utilization per day increased by 52%, while total number of passengers increased by 37% compared to 2020, still lagging behind 2019 figures, which was the last pre-Covid-19 full year of operations. Load factors remained below pre-Covid-19 performance slightly fell behind 2020 performance due to significant capacity increase.

Charter operations remained minimal due to ongoing travel restrictions on international travel.

FINANCIAL PERFORMANCE

Summary Balance Sheet ('000 TL)	31.12.2021	31.12.2020	Change (%)
Current assets	12,687,115	5,519,473	130%
Non-current assets	40,209,484	23,551,200	71%
Total assets	52,896,599	29,070,673	82%
Current liabilities	12,679,118	6,505,675	95%
Non-current liabilities	33,414,087	17,178,580	95%
Shareholders' equity	6,803,394	5,386,418	26%
Summary P&L ('000 TL)	31.12.2021	31.12.2020	Change (%)
Sales	10,664,407	4,803,560	122%
Gross (loss) / profit	117,538	(1,258,703)	-109%
(Loss) /profit from operations	(611,876)	(1,360,924)	-55%
Operating (loss) / profit before financial income/(expense)	(570,741)	(1,541,589)	-63%
(Loss) / profit before tax	(2,056,786)	(2,024,845)	2%
(Loss) / profit for the period	(1,972,478)	(1,965,097)	0%
(Loss) / profit per share	(19,28)	(19,21)	0%
Changes in Financial Position ('000 TL)	31.12.2021	31.12.2020	Change (%)
Cash and cash equivalents	6,976,780	3,605,571	94%
Financial Investments	2,739,459	234,036	1071%
Financial liabilities	36,665,967	19,012,093	93%
Net debt position ⁽¹⁾	26,949,728	15,172,486	78%

⁽¹⁾ Net debt position = Financial liabilities - Cash and cash equivalents – Financial Investments

Operational performance metrics directly reflected on financial performance in 2021. Increase in revenues with increased operational activity led to balance sheet growth. Liabilities, financial liabilities and net debt position increased with new aircraft deliveries and borrowings, including the Company's debut US\$375 million offering of 5-year term Eurobond.

Sales increased significantly by 122% over 2020, due to increased operational volume, higher flight revenues and ancillary revenue. Performance still remained below the pre-Covid-19 performance of 2019, due to lower operational volume. While the Company was able to record gross profit, the year ended with a net loss.

In 2021, the Company was able to regenerate net cash from operations.



NON FINANCIAL KPIs

We regularly monitor certain non-financial key performance indicators in the performance of our operations that relate to flight safety, carbon emissions, waste management, customer satisfaction, employee composition, professional and organizational development, succession planning, operational efficiency and Board of Directors effectiveness, among others. In 2021, we launched a process to consolidate and share certain aspects of this performance monitoring as part of our Corporate Sustainability actions. While we continue our work to identify better reporting platforms, an overview of these indicators is provided below:

Non-Financial Indicator	ESG	Indicator	Target	2021	2020	2019
CO2 grams per revenue passenger km (RPK)	E	Emissions Intensity	Mid-Term Intensity Target for 2030	70.8	71.1	64.9
CDP Report Score	E	Emissions Reporting	Attain Top 3 Level Score	B	A-	B
Waste Recycle & Reuse Contribution Ratio % for Ground Ops., Technic and Administrative Waste	E	Waste Management	Remain Above 99.50%	99.97%	99.95%	-
Total Passengers Carried (millions)	S	Low-Fare Accessibility	Increase	20.16	14.71	30.76
Destinations and Countries Served	S	Network Accessibility	Increase	120 & 44	111 & 43	111 & 42
Safety Assessment of Foreign Aircraft (SAFA) Ratio	S	Flight Safety Assessment	Do Not Exceed National Average (0.17 for 2021)	0.10	0.13	0.19
% of Female Employees in Workforce	S	Gender Equality	Increase / Minima Target for 2025	31.15%	31.99%	32.02%
Insourced Successor Readiness for Key Positions	S	Succession Planning	-	70%	69%	82%
Turnover Rate in Critical Positions	S	Retaining Employees	-	6.7%	9.1%	3.4%
Employee Trainings Total in Hours and by Subject	S	Personal & Professional Development	-	176,691 & 1,269	-	-
Number of Digitalization Initiatives Reported Annually	S	Digital Airline Proposition	-	17	16	-
% of ESG-linked KPIs in Key Company KPIs	G	ESG Focus on Company Targets	Remain Above 33%	50%	50%	50%



Board & Committee Attendance %	G	Board Effectiveness	-	100%	100%	96.9%
Board & Committee Actions Completed in %	G	Board Effectiveness	-	91.2%	-	-
BIST Corporate Governance Index Rating	G	Governance Performance	-	96.8%	96.3%	96.2%

Environmental Metrics

In October 2021, Pegasus Airlines joined other leading global airlines to commit to the "2050 Net Zero Carbon Emissions" target set at the 77th Annual General Assembly of the International Air Transport Association (IATA). Under the motto "Fly Net Zero," we commit to reaching net zero carbon emissions by 2050.

In December 2021, we strengthened our 2050 net zero commitment by setting an interim carbon emissions intensity goal for 2030. With this target, we aim to decrease flight-related carbon emissions per unit per passenger kilometer (RPK) by 20% by 2030, compared to 2019.

As of October 2021, we started announcing our carbon emission data benchmarked against previous years as part of our [monthly traffic data](#).

In 2019, our flight-related carbon emissions were 64.9 grCO₂/RPK. Due to COVID-19-related restrictions, our seat capacity offered dropped significantly, and our performance deteriorated in 2020 (71.1 grCO₂/RPK) and 2021 (70.8 grCO₂/RPK). The improvement in 2021 suggests recovery in emissions intensity performance as capacity recovers and business grows with post-Covid-19 normalization.

Our CDP Report score was B in 2021, compared to A- in 2020. We remain among the highest scored transportation entities in Türkiye and abroad and remain within our target of attaining Top 3 Level Score. Deterioration is mainly caused by inability to fully implement planned improvements due to limitations caused by Covid-19.

Waste management performance is well above our target and is better compared to 2020 in 2021.

Social Metrics

Through capacity recovery and partial and limited ease of travel restrictions, we were able to increase the number of passengers carried and the destinations and countries served in 2021, compared to 2020. Our coverage is still somewhat behind overall 2019 performance as Covid-19 impact remained throughout the year.

SAFA performance was in line with target and better compared to 2020.

Female employment and successor readiness performance slightly deteriorated through 2020 and 2021. We were unable to fully implement planned initiatives in 2021 in light of capacity, operational and workforce restrictions triggered by the Covid-19 impact. In contrast, turnover rate in critical positions improved over 2020, through management actions and limited operational recovery.



Living up to our Digital Airline proposition we continued to implement digitalization initiatives all of which were explained in the 2021 Annual Report. Through punctuality and customer metrics, ESG focus on Company Targets remained at 50%.

Governance Metrics

We completed another year of efficient Board and overall Governance performance. Board members' attendance to Board & Committee meetings was impeccable. Board & Committee actions requested for the year were completed at a rate of 91%. We continued to increase our BIST Corporate Governance Index Rating by 0.5pp y-o-y and became the highest ranked aviation entity.

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