

**TÜRK HAVA YOLLARI ANONİM
ORTAKLIĞI AND ITS SUBSIDIARIES**

Consolidated Financial Statements as at and
for The Year Ended 31 December 2021
with Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türk Hava Yolları Anonim Ortaklığı

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türk Hava Yolları Anonim Ortaklığı (the “Company”) and its subsidiaries (together the “Group”) as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISA”). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Impacts of Covid-19 pandemic

Negative impacts of COVID-19 over aviation industry have continued in 2021. We draw attention to Note 2.8 to the consolidated financial statements, which describes the Group’s assessments regarding the effects of the Covid-19 pandemic. Our opinion is not qualified in respect of this matter.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



Key audit matters

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

Key audit matters	How our audit addressed the key audit matter
The recognition of the revenue, passenger flight liabilities and the frequent flyer program liabilities <i>Revenue and passenger flight liabilities (Please refer to Note 2.3.1, 14 and 26)</i> The major part of the Group's revenue consists of the passenger revenue. The passenger revenue is recognized when the transportation service is completed. Total passenger revenue recognized in the consolidated financial statements of the Group amounted to USD6,390 million for the year ended 31 December 2021. Unused tickets are recognized as passenger flight liabilities, until the flights are completed. Total passenger flight liabilities amounted to USD1,018 million as of 31 December 2021. We focused on this area in our audit due to the following reasons: - Significant estimates and judgments based on historical data and trends are used in calculation of revenue from unused tickets which are accounted for passenger revenue in the consolidated financial statements, - Recognition of passenger revenue upon completion of the services includes complex and different integrated information technology ("IT") systems which processes high volume of transactions and data, - The necessity for our IT experts to be involved in the audit process due to the complexity of the systems.	The following procedures were performed to audit of the revenue and passenger flight liabilities: - Through involvement of our IT experts, we have tested the effectiveness of internal controls on IT systems that are designed to account passenger revenue. Additionally, we have tested accuracy and completeness of the reconciliations among IT systems which have been determined as key systems by us. - We have understood the business processes and controls over accounting of the passenger revenue. - We have tested key controls over accounting of the passenger revenue processes. - We have tested unredeemed tickets through sampling method. - We have tested consistency and mathematical accuracy of the methods used in calculation of unused ticket revenue which are estimated based on historical data.

Key audit matters	How our audit addressed the key audit matter
The recognition of the revenue, passenger flight liabilities and the frequent flyer program liabilities <i>Frequent flyer program liabilities (Please refer to Note 2.3.19 and 14)</i> The Group provides a frequent flyer program named “Miles and Smiles” in the form of free travel award to its members on accumulated mileage earned from flights. Miles are recognized as a separately identifiable component of each sales transactions. Frequent flyer program liabilities amounted to USD198 million in the consolidated financial statements as of 31 December 2021. The amount deferred as a liability is measured based on the fair value of the awarded miles. The fair value is measured on the basis of the value of the awards for which they could be redeemed. The amount deferred is recognized as revenue when Miles and Smiles members fly using their miles or when the Group does not expect that the miles to be redeemed by its customers (“breakage”). We focused on this area in our audit due to the following reasons: - Breakage estimate (“the estimate of miles earned that will not be redeemed”) are complex and highly judgmental due to the significant assumptions used in the estimate, - Complex calculations are performed in determination of the value of the awards for which they could be redeemed, - The necessity for our IT experts to be involved in the audit process due to the complexity of the systems.	The following procedures were performed to audit of the frequent flyer program liabilities: - We have understood the business processes and controls over accounting of the frequent flyer program liabilities. - Through involvement of our IT experts, we have tested the effectiveness of internal controls on IT systems and internal controls that are designed to account frequent flyer program liabilities. - We have tested consistency and mathematical accuracy of the methods used in calculation of frequent flyer liabilities which are estimated based on historical data. - We have controlled consistency of frequent flyer program liabilities calculated at the end of the reporting period with frequent flyer program. - We have controlled breakage estimates through comparing the ratio with the historical usage data.

Key audit matters	How our audit addressed the key audit matter
The Component accounting of aircrafts (Please refer to Note 2.3.3, 2.3.4 and 15) The carrying values of aircrafts' components accounted for property, plant and equipment and right of use assets amounted to USD16,455 million in the consolidated financial statements as of 31 December 2021. The Group accounts for the cost of aircrafts which are acquired directly or through leases separating into the components (fuselage, engine, fuselage overhaul and engine overhaul). Useful lives of these components are determined separately and each components are amortized during their useful lives. We focused on this area in our audit due to the following reasons: - The impacts to the consolidated financial statements as of 31 December 2021 is significant, - The assessment of determination of components involves significant level of management's estimates, - The assessment of determination of useful lives of each components and residual values involves managements' significant estimates.	- The following procedures were performed to audit of the component accounting of aircrafts: - We have inquired with the management to understand the accounting policies applied and how they meet the provisions of IAS 16, "Property, plant and equipment". - The useful life and residual value estimates were controlled by comparing the fleet plan of the Group and the contracts of the aircraft purchases and leasing transactions recently made. - We have compared the consistency of the components and their useful lives with the sectoral applications. - We have recalculated current year's depreciation expenses.



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



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

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

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Baki Erdal, SMMM
Partner

Istanbul, 1 March 2022

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Balance Sheet as at 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	31 December 2021	31 December 2020
Non-Current Assets			
Financial Investments	6	88	75
Other Receivables			
-Third Parties	12	866	1,200
Investments Accounted for Using Equity Method	3	237	256
Property and Equipment	15	4,364	4,145
Right of Use Assets	15	15,110	14,777
Intangible Assets			
- Other Intangible Assets	16	82	89
- Goodwill	17	12	12
Prepaid Expenses	14	839	798
Deferred Tax Asset	32	1	-
TOTAL NON-CURRENT ASSETS		21,599	21,352
Current Assets			
Cash and Cash Equivalents	5	2,677	1,811
Financial Investments	6	5	18
Trade Receivables			
-Related Parties	9	24	18
-Third Parties	10	901	619
Other Receivables			
-Related Parties	9	6	6
-Third Parties	12	791	1,095
Derivative Financial Instruments	34	59	2
Inventories	13	261	305
Prepaid Expenses	14	114	141
Current Income Tax Assets	32	20	38
Other Current Assets	24	80	125
TOTAL CURRENT ASSETS		4,938	4,178
TOTAL ASSETS		26,537	25,530

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Balance Sheet as at 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

LIABILITIES AND EQUITY	Notes	31 December 2021	31 December 2020
Equity			
Share Capital	25	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial Losses on Retirement Pay Obligation	25	(71)	(48)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	25	(275)	(201)
-Fair Value Losses on Hedging Instruments Entered into for Cash Flow Hedges	25	151	(450)
-(Losses) / Gains on Remeasuring FVOCI		(7)	2
Restricted Profit Reserves		76	72
Previous Years Profit	25	4,406	5,246
Net Profit / (Loss) for the Year		959	(836)
Equity of the Parent		6,836	5,382
Non-Controlling Interests		1	1
TOTAL EQUITY		6,837	5,383
Non- Current Liabilities			
Long-Term Borrowings	7 and 18	2,333	2,681
Long-Term Lease Liabilities	7 and 18	8,574	9,579
Other Payables			
-Third Parties		55	22
Deferred Income	14	92	109
Long-Term Provisions			
-Provisions for Employee Benefits	22	113	134
-Other Provisions		46	49
Deferred Tax Liability	32	1,714	1,119
TOTAL NON-CURRENT LIABILITIES		12,927	13,693
Current Liabilities			
Short Term Borrowings	7	883	1,527
Short-Term Portion of Long-Term Borrowings	7 and 18	1,443	1,186
Short-Term Portion of Lease Liabilities	7 and 18	1,670	1,728
Other Financial Liabilities	8	8	17
Trade Payables			
-Related Parties	9	167	141
-Third Parties	10	724	720
Payables Related to Employee Benefits	11	105	90
Other Payables			
-Related Parties	9	5	-
-Third Parties	12	169	88
Derivative Financial Instruments	34	28	64
Deferred Income	14	1,264	614
Current Tax Provision	32	16	-
Short-Term Provisions			
-Provisions for Employee Benefits	20	18	16
-Other Provisions	20	8	10
Other Current Liabilities	24	265	253
TOTAL CURRENT LIABILITIES		6,773	6,454
TOTAL LIABILITIES AND EQUITY		26,537	25,530

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<u>PROFIT OR LOSS</u>	Notes	31 December 2021	31 December 2020
Revenue	26	10,686	6,734
Cost of Sales (-)	27	(8,322)	(6,378)
GROSS PROFIT		2,364	356
General Administrative Expenses (-)	28	(254)	(219)
Selling and Marketing Expenses (-)	28	(835)	(667)
Other Operating Income	29	174	330
Other Operating Expenses (-)	29	(35)	(55)
OPERATING PROFIT / (LOSS) BEFORE INVESTMENT ACTIVITIES		1,414	(255)
Income from Investment Activities	30	207	190
Expenses for Investment Activities	30	(7)	(11)
Share of Investments' Profit / (Loss) Accounted for Using The Equity Method	3	75	(87)
OPERATING PROFIT / (LOSS)		1,689	(163)
Financial Income	31	101	72
Financial Expenses (-)	31	(767)	(835)
PROFIT / (LOSS) BEFORE TAX		1,023	(926)
Tax (Expense) / Income		(64)	90
Current Tax Expense	32	(28)	-
Deferred Tax (Expense) / Income	32	(36)	90
NET PROFIT / (LOSS) FOR THE YEAR		959	(836)
<u>OTHER COMPREHENSIVE INCOME</u>			
Items That May Be Reclassified Subsequently To Profit or Loss		518	(635)
Currency Translation Adjustment		(74)	(17)
(Losses) / Gains on Remeasuring FVOCI		(11)	4
Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges		738	(766)
Fair Value Gains / (Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		13	(11)
Related Tax of Other Comprehensive Income		(148)	155
Items That Will Not Be Reclassified Subsequently To Profit or Loss		(23)	(10)
Actuarial Losses on Retirement Pay Obligation		(29)	(13)
Related Tax of Other Comprehensive Income		6	3
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR		495	(645)
TOTAL COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR		1,454	(1,481)
Basic Earnings / (Losses) Per Share (Full US Cents)	33	0.69	(0.61)
Diluted Earnings / (Losses) Per Share (Full US Cents)	33	0.69	(0.61)

The accompanying notes are an integral part of these consolidated financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss				Retained Earnings				
	Share Capital	Actuarial Losses Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value (Losses) / Gains on Hedging Instruments Entered Into For Cash Flow Hedges	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net (Loss) / Gain for The Year	Equity Holders of the Parent	Non- controlling Interests	Total Equity
As of 1 January 2021	1,597	(48)	(201)	(450)	2	72	5,246	(836)	5,382	1	5,383
Transfers	-	-	-	-	-	-	(836)	836	-	-	-
Total comprehensive income	-	(23)	(74)	601	(9)	4	(4)	959	1,454	-	1,454
As of 31 December 2021	1,597	(71)	(275)	151	(7)	76	4,406	959	6,836	1	6,837

		Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss				Retained Earnings				
	Share Capital	Actuarial Losses Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains / (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Gain / (Loss) for The Year	Equity Holders of the Parent	Non- controlling Interests	Total Equity
As of 1 January 2020	1,597	(38)	(184)	171	(1)	67	4,463	788	6,863	1	6,864
Transfers	-	-	-	-	-	-	788	(788)	-	-	-
Total comprehensive income		(10)	(17)	(621)	3	5	(5)	(836)	(1,481)	-	(1,481)
As of 31 December 2020	1,597	(48)	(201)	(450)	2	72	5,246	(836)	5,382	1	5,383

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	31 December 2021	31 December 2020
Net Profit / (Loss) for the year		959	(836)
Adjustments to Reconcile Loss			
Adjustments for Depreciation and Amortisation Expense	15 and 16	1,740	1,659
Adjustments for Provisions Related to Employee Benefits	20 and 22	27	5
Adjustments for Provisions for Other Accruals	20	3	-
Adjustments for Reversal of Probable Risks		(10)	21
Adjustments for Interest Income	30 and 31	(75)	(77)
Adjustments for Interest Expense	22 and 31	343	285
Adjustments For Unrealised Foreign Exchange (Gains) / Loss		(75)	471
Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments	31	(33)	21
Adjustments for Undistributed (Gains) / Losses of Associates	3	(75)	87
Adjustments for Tax Expense / (Income)	32	52	(90)
Adjustments for Gains Arised From Sale of Tangible Assets	30	(1)	(4)
Adjustments for Losses Arised from Sale of Other Non-Current Assets	15	53	39
Operating Profit Before Changes in Working Capital		2,908	1,581
Increase in Trade Receivables from Related Parties	9	(6)	(18)
Increase in Trade Receivables from Third Parties	10	(274)	(93)
Decrease in Other Receivables from Related Parties	12	-	22
Decrease / (Increase) in Other Receivables from Third Parties	12	217	(259)
Adjustments for Decrease / (Increase) in Inventories	13	44	(15)
Adjustments for (Increase) / Decrease in Prepaid Expenses	14	(14)	74
Increase / (Decrease) in Trade Payables to Related Parties	9	26	(31)
Increase / (Decrease) in Trade Payables to Third Parties	10	4	(238)
Adjustments for Increase / (Decrease) in Payables Due to Employee Benefits	11	15	(70)
Increase in Other Payables to Related Parties	12	5	-
Increase / (Decrease) in Other Payables to Third Parties	12	114	(89)
Increase / (Decrease) in Deferred Income	14	643	(471)
Decrease in Other Assets	24	45	15
Cash Flows From Operations		3,727	408
Payments for Provisions Related with Employee Benefits	22	(6)	(14)
Income taxes (paid)	32	(18)	(5)
Net Cash From Operating Activities		3,703	389
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Proceeds From Sales of Property, Plant and Equipment		81	14
Payments For Purchasing of Property, Plant and Equipment	15 and 16	(850)	(1,153)
Proceeds From Sales of Other Long-term Assets	6	-	397
Other Cash Advances and Loans	12	222	293
Dividends Received		29	3
Interest Received	30	7	9
Net Cash Flows Used In Investing Activities		(511)	(437)
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds From Loans	7	2,790	3,963
Repayments of Loans	7	(3,071)	(2,463)
Payments of Lease Liabilities	7	(1,786)	(1,541)
Interest Paid		(318)	(241)
Interest Received	31	68	68
Other Cash Outflows	8	(9)	(2)
Net Cash Used in Financing Activities		(2,326)	(216)
Net Change in Cash and Cash Equivalents		866	(264)
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE YEAR		1,811	2,075
CASH AND CASH EQUIVALENTS			
AT THE END OF THE YEAR	5	2,677	1,811

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. GROUP ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 31 December 2021 and 2020, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Turkey Wealth Fund	49.12 %	49.12 %
Republic of Turkey Treasury and Finance Ministry Privatization Administration	-	-
Other (publicly held)	50.88 %	50.88 %
Total	<u>100.00 %</u>	<u>100.00 %</u>

The Company is controlled by Turkey Wealth Fund.

The number of employees working for the Group as of 31 December 2021 is 37,394 (31 December 2020: 37,896). The average number of employees working for the Group for the year ended 31 December 2021 and 2020 are 37,561 and 38,648 respectively. The Group is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mahallesi, Havaalanı Caddesi No: 3/1
34149 Yeşilköy İSTANBUL.

The Company’s shares have been traded on Borsa İstanbul (“BIST”) since 1990. The Company and its subsidiaries will be referred as “Group”.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 December 2021 and 2020:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>31 December 2021</u>	<u>31 December 2020</u>	
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Training & Airport Operations	100%	100%	Turkey
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş.	Airport Investment	100%	100%	Turkey
THY Uluslararası Yatırım ve Taşımacılık A.Ş.	Cargo and Courier Transportation	100%	100%	Turkey
Cornea Havacılık Sistemleri San. Ve Tic. A.Ş.	Software System Maintenance Services	80%	80%	Turkey
THY Teknoloji ve Bilişim A.Ş.	Information Technologies and Consulting	100%	100%	Turkey
THY Hava Kargo Taşımacılığı A.Ş. (*)	Cargo Transportation	100%	-	Turkey

(*) THY Hava Kargo Taşımacılığı A.Ş. was established in 2021 using the partial demerger method.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. GROUP ORGANIZATION AND ITS OPERATIONS (cont'd)

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Group as 31 December 2021 and 2020:

Company Name	Country of Registration and Operations	<u>Ownership Share and Voting Power</u>		Principal Activity
		31 December 2021	31 December 2020	
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO)	Turkey	50%	50%	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)	Turkey	49%	49%	Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Turkey	50%	50%	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)	Turkey	50%	50%	Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (TNC) (Goodrich)	Turkey	40%	40%	Maintenance Services
Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk)	Turkey	50%	50%	Cabin Interior Products
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI)	Turkey	50%	50%	Cabin Interior Products
Vergi İade Aracılık A.Ş.	Turkey	30%	30%	VAT Return and Consultancy
Air Albania	Albania	49%	49%	Aircraft Transportation
We World Express Ltd.	Hong Kong	45%	45%	Cargo and Courier Transportation
TFS Akaryakıt Hizmetleri A.Ş.	Turkey	25%	25%	Aviation Fuel Services

The Group owns 49%, 49%, 45%, 40%, 30% and 25% equity shares of TEC, Air Albania, We World Express Ltd., Goodrich, Vergi İade Aracılık A.Ş. and TFS Akaryakıt Hizmetleri A.Ş. respectively. However, based on the contractual arrangements between the Group and the other respective investors, decisions about the relevant activities of the arrangements require both the Group and the other respective investor agreement. Thus, the Group concluded that it has joint control over TEC, Air Albania, We World Express, Goodrich, Vergi İade Aracılık A.Ş. and TFS Akaryakıt Hizmetleri A.Ş..

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

Board of Directors has approved the consolidated financial statements as of 31 December 2021 on 28 February 2022. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Basis of Preparation

The consolidated financial statements, except for derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Functional and Reporting Currency

Functional currency

The consolidated financial statements of the Group are presented in USD, which is the functional currency of the Group.

Although the currency of the country in which the Group is domiciled is Turkish Lira (TL), the Group's functional currency is determined as USD. USD is used to a significant extent in, and has a significant impact on the operations of the Group and reflects the economic substance of the underlying events and circumstances relevant to the Group. Therefore, the Group uses the USD in measuring items in its financial statements and as the functional currency. All currencies other than the currency selected for measuring items in the consolidated financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in USD have been remeasured in USD in accordance with the relevant provisions of IAS 21 *the Effects of Changes in Foreign Exchange Rates*.

Except where otherwise indicated, all amounts disclosed in financial statements and notes are rounded the nearest million (USD 000,000).

Basis of Consolidation

- a. The consolidated financial statements include the accounts of the parent company, THY, its subsidiaries and its joint ventures on the basis set out in sections (b) below. Financial statements of the subsidiaries and joint ventures are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.
- b. The Group has twelve joint ventures (Note: 1). These joint ventures are economical activities whereby decisions about strategic finance and operating policy are jointly made by the consensus of the Group and other investors. The joint ventures are controlled by the Group and other shareholders jointly, and are accounted for using the equity method. Under the equity method, joint ventures are initially recognized at cost and adjusted to recognize any distributions received, impairments in the joint ventures and the Group's share of the profit or loss after the date of acquisition. Joint ventures' losses that exceed the Group's share are not recognized, unless the Group has incurred legal or constructive obligations on behalf of the joint venture.
- c. The non-controlling share in the assets and results of subsidiaries for the year are separately classified as "non-controlling interest" in the consolidated statements of financial position and consolidated statements of profit or loss.

2.2 Changes and Errors in Accounting Policies Estimates

The significant estimates and assumptions used in preparation of these consolidated financial statements as at and for the year ended 31 December 2021 are consistent with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2020.

As explained in the accounting policy in Note 2.3.3, the Group accounts the overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Changes and Errors in Accounting Policies Estimates (cont'd)

As of January 1, 2020, maintenance costs with a net book value of 0 USD, which are included in the "Airplanes" and "Spare Engines" items in the movement table of "Property and Equipment" in Note 15, have been reviewed. The cost and accumulated depreciations of 310 USD, which have completed their useful lives, are presented by deducting from the opening balances of 2020.

2.3 Summary of Significant Accounting Policies

2.3.1 Revenue

IFRS 15 Revenue from contracts with customers

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following main principles:

- (a) Identification of customer contracts,
- (b) Identification of performance obligations,
- (c) Determination of transaction price in the contract,
- (d) Allocation of price to performance obligations,
- (e) Recognition of revenue when the performance obligations are fulfilled.

Group recognized revenue from its customers only when all of the following criteria are met:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) Group can identify each party's rights regarding the goods or services to be transferred,
- (c) Group can identify the payment terms for the goods or services to be transferred;
- (d) The contract has commercial substance,
- (e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Rendering of services:

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recognized as operating revenue when the transportation service is provided. Tickets sold but not used (unflown) yet are recognized as passenger flight liabilities in deferred income as a contract liability in accordance with IFRS 15 *Revenue from Contracts with Customers*.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

IFRS 15 Revenue from contracts with customers (cont'd)

Rendering of services (cont'd):

The Group uses estimates based on historical statistics and data for unredeemed tickets. Total estimated amount of unredeemed tickets are recognized as revenue. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

Aircraft maintenance and infrastructure support services are recognized on accrual basis at the fair value of the amount collected or to be collected based on the assumptions that delivery is realized, the income can be reliably determined and the inflow of the economic benefits related with the transaction to the Group is probable.

a) Expired Ticket Revenue

Tickets for which the passenger is not expected to exercise their rights under the ticket contract with the Group will expire. Tickets that expire unused represent unexercised passenger rights and are often referred to as passenger ticket breakage. The Group recognizes breakage (or unexercised rights) as revenue. Since the break date of these specific tickets can not be identified ultimately, the Group estimates and recognizes the expected breakage amount by using historical data and trends. The data used for the estimation for the amount of unredeemed tickets is revised under the IFRS 15 and provisional ticket breakage revenue is calculated with the tickets not flown on their scheduled flight date.

b) Ticket Reissue Revenue

Each fare type provided by the Group have its own conditions attached, which may include it being restricted, non-upgradeable or non-refundable. A change fee may apply if passengers need to make a change to their booking, cancel flights or buy replacement tickets. The change service is not considered distinctly because the customer cannot benefit from it without taking the flight. Although the change service is provided in advance of the flight, the benefit from it is not provided until the customer takes the flight. As a result, the change fee is recognized as revenue together with the original ticket sale on the date of travel.

Dividend and interest income:

Dividend income generated from equity investments is recognized in the period when they are declared.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.3.2 Inventories

Inventories consist of non-repairable spare parts, consumables and supplies such as flight equipment and purchased merchandises.

Inventories are valued at the lower of cost and net realizable value. The cost of inventories consist of costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Average cost method is applied in the calculation of cost of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.3 Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are carried at their costs. Legal fees are also included in cost. Borrowing costs are capitalized for assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use.

Property and equipment other than land and properties under construction depreciated over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

The Group allocates the cost of assets that are acquired directly or through finance leases into the following parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; a) fuselage, b) overhaul maintenance for the fuselage, c) engine and d) overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life.

The gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The useful lives and residual values used for property and equipment are as follows:

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25 and 50	-
- Aircrafts and Engines	25	10%
- Cargo Aircraft and Engines	25	10%
- Overhaul Maintenance for Airframe	6	-
- Overhaul Maintenance for Engines	3-8	-
- Overhaul Maintenance for Spare Engines	3-13	-
- Components	3-18	-
- Repairable Spare Parts	3-7	-
- Simulators	25	10%
- Machinery and Equipment	3-20	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-15	-
- Other Equipment	4-15	-
- Leasehold Improvements	Lease period/5 years	-

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases

The Group – as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset. The Group assess whether:

- a) The contract involved the use of an identified asset – this may be specified explicitly or implicitly.
- b) The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset, If the supplier has a substantive substitution right, the asset is not identified.
- c) The Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
- d) The Group has the right to direct use of the asset, The Group concludes to have the right of use, when it is predetermined how and for what purpose the Group will use the asset. The Group has the right to direct use of asset if either:
 - i. The Group has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
 - ii. The Group designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Right of use asset

The right of use asset is initially recognized at cost comprising of:

- a) Amount of the initial measurement of the lease liability;
- b) Any lease payments made at or before the commencement date, less any lease incentives received;
- c) Any initial direct costs incurred by the Group; and
- d) An estimate of costs to be incurred by the lessee for restoring the underlying asset to the condition required by the terms and conditions of the lease (unless those costs are incurred to produce inventories).

The Group re-measure the right of use asset:

- a) After netting-off depreciation and reducing impairment losses from right of use asset.
- b) Adjusted for certain re-measurements of the lease liability recognized at the present value.

The Group applies IAS16 “Property, Plant and Equipment” to amortize the right of use asset and to assess for any impairment.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases (cont'd)

Aircraft;

For operating lease agreements of aircrafts, the lease term corresponds to the non-cancellable duration of the agreements signed except in cases where the Group is reasonably certain of exercising either an extension option or an early termination option which is included in the agreement. Lease liabilities are discounted to present value by using the Group's incremental borrowing rates for each currency. IFRS 16 requires including maintenance costs in the right of use asset. According to that, the Group decides whether the maintenance cost is capitalized to the right of use asset by analyzing whether the maintenance cost is avoidable or unavoidable. The Group is obliged to return leased aircraft and their engines according to the redelivery condition which is set in the lease agreement. The Group needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor if the condition of the aircraft and its engines differs from the agreed redelivery condition. Maintenance costs can be divided into two groups; costs that incur independent of the usage of the aircraft / leasing period and costs that incur dependent on the usage of the aircraft / leasing period. Costs depending on the usage of the aircraft are not included as part of the right of use asset cost.

Real estate and other leases;

For lease agreements, the lease term corresponds to the non-cancellable duration of the agreements signed except in cases where the Group is reasonably certain of exercising either an extension option or an early termination option which is included in the agreement. Lease liabilities are discounted to present value by using the Group's incremental borrowing rates for each currency. Service agreements which relate to the usage of airports and terminals do not qualify as lease arrangements under IFRS 16. Lease agreements in which the lessor has the right to substitute the leased area with another area, do not qualify as lease contract under IFRS 16. As an exception to this, there are specific lounge areas which are dedicated for the use of the Group and therefore, these are included in the lease agreements.

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted to present value by using the interest rate implicit in the lease if readily determined or with the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- a) Fixed payments, including in-substance fixed payments;
- b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date.
- c) The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewable period if the Group is reasonably certain to exercise an extension option. and penalties for early termination of a lease unless the Group is reasonably certain to terminate early.

After initial recognition, the lease liability is measured:

- a) Increasing the carrying amount to reflect interest on lease liability,
- b) Reducing the carrying amount to reflect the lease payments made and
- c) Remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases (cont'd)

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 recognized as expense on a straight-line basis over the lease term.

2.3.5 Intangible Assets

Intangible assets include rights, information systems and software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Rights and other intangible assets are depreciated over their useful life of 3 and 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with indefinite useful life, as there are no time restrictions on them.

Goodwill

Goodwill that arises upon acquisition of subsidiaries is presented in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.1. Goodwill is measured at cost less accumulated impairment losses.

2.3.6 Impairment on Assets

The carrying amounts of the Group's assets are reviewed at each reporting date and (for assets with indefinite useful lives, whenever there is an indication of impairment) to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted in profit or loss.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount is recognized as income in the consolidated financial statements and cannot exceed the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

Group considers aircrafts, spare engines and simulators together ("Aircrafts") as cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively. In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in USD is used for determination of recoverable amounts. Net selling price for the aircrafts is determined according to second hand prices in international price guides. The differences between net book values of these assets and recoverable amounts are recognized as impairment gains or losses under income and expenses from investment activities.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.7 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. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.3.8 Financial Instruments

(a) Financial assets

Financial assets and liabilities are recognized in the consolidated financial statements when the Group is a legal party to these financial instruments. Financial investments are recognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers 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 are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Investments are recorded or deleted from records on the date of trading activity based on an agreement providing a requirement for investment instrument delivery in compliance with the duration determined by related market.

A financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL (fair value through profit or loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**2.3 Summary of Significant Accounting Policies (cont'd)****2.3.8 Financial Instruments (cont'd)***(a) Financial assets (cont'd)*

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized for the FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized for the FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The corporate debt securities categorized as available-for-sale under IAS 39 are held by the Group's treasury unit in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The corporate debt securities mature in one to two years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9. The fair value differences of government debt securities and corporate debt securities are classified into financial assets recognized in other comprehensive income.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments with their maturities equal or less than three months from date of acquisition that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Loans and receivables

Trade, loan and other receivables are initially recorded at fair value less any transaction costs. At subsequent periods, loans and receivables are measured at amortized cost using the effective interest method.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of trade receivables and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs. The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

(b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below.

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or loans, borrowings and payables.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value, and at each reporting period revalued at fair value as of balance sheet date. Changes in fair value are recognized in profit and loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(b) Financial liabilities (cont'd)

Derivative financial instruments and hedge accounting

The Group uses various derivative financial instruments such as currency forwards, currency options, interest rate options, oil options and oil swaps are used to protect against currency, fuel price and interest rate risks arising from its ordinary business activities in accordance with IFRS 9.

The Group applies hedge accounting since 2009 to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in interest rates. The major source of interest rate risk is finance lease liabilities. In order to keep interest costs at an affordable level, the Group has hedged a part of floating rate USD, JPY and Euro denominated liabilities arising from financial leasing activities. Effective part of the change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

The Group also enters into derivative financial instruments to hedge against jet fuel price risks since 2009. The Group applies hedge accounting to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in jet fuel prices. In accordance with the Group's latest BOD resolution issued on 14 July 2017, hedging transactions are executed for the tenor of at most 24 months and up to 60% of the forecasted fuel consumption of the following month. Also with this resolution, premium paid options have been included to the instrument list for the first time, in addition to formerly used swap and 2 way, 3way and 4way zero-cost option structures.

In order to manage this risk resulted from the fluctuations of the FX market, the Group started to implement exchange rate risk hedging in 2013. Since the Group is long in EUR and short in USD and TRY, strategy mainly aims to decrease the amount of short position in USD and TRY with the long position in EUR via the derivative instruments. On EUR USD currency hedging, it is decided to execute the transactions in at most 24 months and up to 60% of the forecasted short position of the next month by using forward and 2way, 3way, 4way zero-cost collar option structures. In addition, on EUR/TRY maximum tenor and hedge ratio are 18 months and 50% by using only forward contracts.

Since 2018 The Group, financial lease liabilities for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues.

Use of derivative financial instruments is managed according to the Group policy approved by the Board of Directors and compliant with the risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivative financial instruments are calculated according to the fair value at contract date and again are calculated in the following reporting period at fair value base. The effective portions of changes in the fair value of derivatives which are designated as cash flow hedge are recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivatives is recognized in profit or loss.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.9 Foreign Currency Transactions

Transactions in foreign currencies are translated into US Dollar at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated the rates prevailing at the date when fair value determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising on settlement and translation of foreign currency items are included in profit or loss.

The closing and average US Dollar-TL and US Dollar-EUR exchange rates as at 31 December 2021, 2020 and 2019 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2021	13.329	8.8719
Year ended 31 December 2020	7.3405	7.0034
Year ended 31 December 2019	5.9402	5.6712

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2021	1/ 1.1319	1/ 1.1787
Year ended 31 December 2020	1/ 1.2272	1/ 1.1443
Year ended 31 December 2019	1/ 1.1196	1/ 1.1194

2.3.10 Earnings per Share

Earnings per share are 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.

2.3.11 Events After the Reporting Date

Events after the balance sheet date are those events, which occur between the balance sheet date and the date when the consolidated financial statements are authorized for issue.

If adjustment is necessary for such events, the Group's consolidated financial statements are adjusted to reflect such events.

2.3.12 Provisions, Contingent Liabilities, Contingent Assets

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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.12 Provisions, Contingent Liabilities, Contingent Assets (cont'd)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous Contracts

Present liabilities arising from onerous contracts are calculated and accounted for as provision. It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract.

2.3.13 Segmental Information

There are two main operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Group management uses the operating profit calculated according to IFRS while evaluating the performance of the segments.

2.3.14 Taxation and Deferred Tax

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 current tax and deferred tax expenses.

Current tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and 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 temporary 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.14 Taxation and Deferred Tax (cont'd)

Deferred Tax (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, 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 year

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, where the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

2.3.15 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.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.16 Employee Benefits / Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard 19 (revised) “Employee Benefits” (“IAS 19”).

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses. Actuarial gains and losses are accounted as other comprehensive income.

2.3.17 Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.3.18 Maintenance and Repair Cost

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft. For aircraft held under operating leases the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor upon return of the aircraft. The estimated airframes and engine maintenance costs are accrued and charges to profit or loss over the lease term, based on the present value of the estimated future cost of the major airframe overhaul, engine maintenance calculated by reference to hours or order operated during the year.

2.3.19 Frequent Flyer Program

The Group provides a frequent flyer program (FFP) named “Miles and Smiles” in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s).

The amount deferred as a liability is measured based on the fair value of the awarded miles. The fair value is measured on the basis of the value of the awards for which they could be redeemed. The amount deferred is recognized as revenue on redemption of the points including a portion of the points that the Group does not expect to be redeemed by the customers (“breakage”).

The Group also sells mileage credits to participating partners in “Miles and Smiles” program. Revenue is recognized when transportation is provided.

2.4 Critical Accounting Estimates and Judgements

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. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Critical Accounting Estimates and Judgements (cont'd)

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:

The Determination of Impairment on Long Term Assets:

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Note 2.3.6.

Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.3.19, Group has a FFP program called “Miles and Smiles” for its members. In the calculation of the liability historical statistics are used for miles earned from flights.

Useful Lives and Residual Values of Tangible Assets:

Group has allocated depreciation over tangible assets by taking into consideration the useful lives and residual values explained in Note 2.3.3.

Deferred Tax:

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. There are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future in the Group. Based on available evidence, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

Corporate Tax Law 32/A and the effects of Resolution issued on “Government Assistance for Investments” by the Council of Ministers:

An incentive standard that reconstitutes government assistance for investments initiated effective from 28 February 2009 with the clause 32/A of the Corporate Tax Law by the 9th article of the 5838 numbered Law in order to support investments through taxes on income.

The new investment system becomes effective upon the issuance of the Council of Ministers’ resolution “Government Assistance for Investments” No: 2009/15199 on 14 July 2009. Apart from the previous “investment incentive” application, which provides the deduction of certain portion of investment expenditures against corporate tax base, the new support system aims to provide incentive support to companies by deducting “contribution amount”, which is calculated by applying the “contribution rate” prescribed in the Council of Ministers’ resolution over the related investment expenditure, against the corporate tax imposed on the related investment to the extent the amount reaches to the corresponding “contribution amount”.

The Group has right to benefit from some incentives in “Investment Incentive System” due to airline cargo and passenger transportation activities. As a result of the applications within this scope, Investment Incentive Certificates are obtained for supply of aircraft and ground handling services.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Critical Accounting Estimates and Judgements (cont'd)

Corporate Tax Law 32/A and the effects of Resolution issued on “Government Assistance for Investments” by the Council of Ministers (cont'd):

The information on the Investment Incentive Certificates that may have an impact on the current or future financial reports of the Incorporation and the incentives utilized are listed below:

Date of Cabinet Decree	Number of Cabinet Decree	Date of Inv. Incentive Certificate	Investment Status	Tax Reduction	Total Amount of Investment USD: (*)	Utilized Contribution Amount of Investment USD: (**)
20.01.2018	2017/11133	9.08.2018	Continue	Tax Reduction %90 / Contribution rate to Investment %50	4,017	-
15.06.2012	2012/3305	18.12.2014	Completed	Tax Reduction %50 / Contribution rate to Investment %15	1,273	-
14.07.2009	2009/15199	28.12.2010	Completed	Tax Reduction %50 / Contribution rate to Investment %20	995	1
20.01.2018	2017/11133	11.09.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %25	189	-
15.06.2012	2012/3305	1.03.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %15	167	45
15.06.2012	2012/3305	11.07.2017	Continue	Tax Reduction %50 / Contribution rate to Investment %15	-	-
15.06.2012	2012/3305	18.09.2017	Continue	General Investment Incentive	-	-

(*) Because the investments are realized in foreign currency and revisions made on investments, the amount of investment at the time of application and the amount of investment at the time of completion may vary.

(**) The contribution amount of investment, which is not utilizable when there is no tax base, is transferrable by indexing with revaluation rate in accordance with the provisions of the relevant legislation.

There is no clear guidance in regards to the accounting for government tax incentives on investments in IAS 12 “Income Tax” and IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. Since the use of “contribution amount” depends on future earnings from the related investment for aircrafts over many years, the Group management considers that the accounting for the related investment contribution will be more appropriate if the grant is classified as profit or loss on a systematic and rational basis over the useful life of the related assets. In addition, investments on other tangible assets, the Group management considers that the accounting of grant contribution in a shorter period of time and as profit or loss will be more appropriate for the nature of investment support in the period when it is possible to benefit from the incentive.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 New and Revised Standards and Interpretations

a) Standards, amendments and interpretations applicable as at 31 December 2021:

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2; effective from annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Amendments IFRS 4, 'Insurance contracts', deferral of IFRS 9; effective from annual periods beginning on or after 1 January 2023. These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2021:

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions Extension of the Practical expedient; as of March 2021, this amendment extended till June 2022 and effective from 1 April 2021. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities; effective date deferred until accounting periods starting not earlier than 1 January 2024. These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8; effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction; from annual periods beginning on or after 1 January 2023. These amendments require companies to recognize deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 New and Revised Standards and Interpretations (cont'd)

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2021 (cont'd):

A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16; effective from annual periods beginning on or after 1 January 2022.

- **Amendments to IFRS 3**, ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **Amendments to IAS 16**, ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- **Amendments to IAS 37**, ‘Provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, IAS 41, ‘Agriculture’ and the Illustrative Examples accompanying IFRS 16, ‘Leases’. These amendments do not have a significant impact on the financial position and performance of the Group.

2.6 Determination of Fair Values

Various accounting policies and explanations of the Group necessitate to determinate the fair value of both financial and non-financial assets and liabilities. If applicable, additional information about assumptions used for determination of fair value are presented in notes particular to assets and liabilities.

Evaluation methods in terms of levels are described as follows:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.
- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.
- Level 3: Variables, which are not related to observable market variable for assets and liabilities (unobservable variables).

2.7 Going Concern

The Group has prepared its consolidated financial statements with the assumption on the Group’s ability to continue its operations in the foreseeable future as a going concern. The Group’s current liabilities exceed its current assets by USD 1,835 as of 31 December 2021.

The Group generated USD 389 net cash from its operating activities for the period ending 31 December 2020, whereas it increased to USD 3,703 for the period ending 31 December 2021. In addition, current liabilities exceeding current assets decreased by USD 441 compared to 2020. The Group expects cash flows from operations will be positively affected in 2022 thanks to the deferred demand and the proactive actions taken by the management.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.7 Going Concern (cont'd)

The Group maintains its available credit lines to use when necessary. Bank loans in 2021 decreased by USD 735 compared to 2020. The Group's available bank loan limits are USD 3,166 as of 31 December 2021 (31 December 2020: USD 2,356).

2.8 Impact of Covid-19 Pandemic on Group Activities

The COVID-19 pandemic has significantly affected global air traffic. Stringent measures have been taken around the world to prevent the spread of the pandemic. As of December 2021, travel restrictions were loosened and demand for travel expanded with the increase in vaccination rates in Turkey and around globe.

As the effects of the pandemic diminished, THY has taken several actions to meet the increasing demand and constantly assesses further developments. The actions taken are listed below:

Passenger business

While Covid-19 vaccine booster shots are administered around the world, Omicron variant has emerged in the last quarter of the year. While some countries have begun to lift Covid-19 restrictions, relatively weaker restrictions in most countries have been continuing. The Grup continued to implement flexible and effective capacity management according to the developments regarding the pandemic. The Group, adopted quickly to precautions brought on health and fully cooperated with local authorities resulting in closer available capacity to 2019 levels. In the last quarter of 2021, the Group reached 84% of its capacity supplied in the same period of 2019. While domestic capacity was 10% below the 2019 level, international capacity reached 83% of 2019. In the last quarter of 2021, the Group reached 81% of the number of passengers carried domestically, 74% internationally and 77% in total in the same period of 2019. Thanks to the advantage it has on the cost side, wide flight network, effective capacity management, rapid recovery in diversified passenger segments and successful cargo operations, the Group showed a faster recovery than its competitors in both financial and operational results.

Cargo business

Cargo operations are continuing at full capacity with freighters and about 15 wide body passenger aircraft are being utilized for cargo operations. As a result, 47% increase was recorded in 2021 fiscal year cargo revenues, the contribution of cargo operations to total revenue and profit increased significantly compared to 2020 fiscal year. Recovery in passenger operations leads to rising supply of belly cargo capacity which in turn positively impacts total cargo capacity.

Cost controls

Group is taking actions to decrease the operational expenses and secure the financial liquidity of the Group. Cost saving actions taken in other fixed or operational costs to minimize COVID-19's adverse financial effects resulted approximately in an amount of USD 700 total cost savings in 2021. Discretionary capital expenditures are postponed. Aircraft delivery plans determined before the pandemic for 2020-2021 are discussed together with OEMs and aircraft deliveries are postponed.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.8 Impact of Covid-19 Pandemic on Group Activities (cont'd)

Asset valuation

Related to the COVID-19 pandemic, Group paid attention to the recoverability of fleet, right of use assets and deferred tax assets and conducted impairment tests under different scenarios. As a result, no impairment related to fleet and right of use assets was recognized.

Accounting estimates and assumptions

Due to COVID-19 pandemic, THY reviewed accounting estimates and assumptions.

According to IFRS 9, ECL estimations, especially historical loss rates, for trade receivables was reviewed to include forward-looking information with regard to COVID-19. In addition, estimates used in the calculation of provisions for receivables from pilots for flight training were reviewed to reflect current environment.

Discount rates and inflation rates used in calculations of provisions for employee benefits were revised to incorporate related COVID-19 impact.

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

	31 December 2021	31 December 2020
Sun Express	84	64
TEC	57	59
Turkish DO&CO	29	47
THY Opet	21	28
TGS	19	34
TFS Akaryakıt	10	8
TCI	5	4
Goodrich	5	4
Uçak Koltuk	4	6
We World Express	3	2
Vergi İade Aracılık (*)	-	-
	237	256

(*) The Group's share in the shareholders' equity of Vergi İade Aracılık is less than USD 1.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Share of investments' profit / (loss) accounted by using the equity method are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Sun Express	17	(99)
THY Opet	17	3
TGS	16	3
TFS Akaryakıt	13	-
TEC	8	1
Turkish DO&CO	5	6
Goodrich	1	-
We World Express	-	-
TCI	-	(1)
Uçak Koltuk	(2)	-
	<u>75</u>	<u>(87)</u>

Financial information for Sun Express as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	1,838	1,728
Total liabilities	1,670	1,600
Shareholders' equity	168	128
Group's share in joint venture's shareholders' equity	84	64
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	880	564
Profit / (Loss) for the year	34	(198)
Group's share in joint venture's profit / (loss) for the year	17	(99)

Financial information for TEC as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	204	198
Total liabilities	87	77
Shareholders' equity	117	121
Group's share in joint venture's shareholders' equity	57	59
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	391	349
Profit for the year	17	3
Group's share in joint venture's profit for the year	8	1

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Turkish DO&CO as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	115	160
Total liabilities	58	65
Shareholders' equity	57	95
Group's share in joint venture's shareholders' equity	29	47
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	158	116
Profit for the year	11	11
Group's share in joint venture's profit for the year	5	6

Financial information for THY Opet as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	82	169
Total liabilities	40	113
Shareholders' equity	42	56
Group's share in joint venture's shareholders' equity	21	28
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	451	286
Profit for the year	33	6
Group's share in joint venture's profit for the year	17	3

Financial information for TGS as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	119	187
Total liabilities	81	119
Shareholders' equity	38	68
Group's share in joint venture's shareholders' equity	19	34
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	256	180
Profit for the year	31	5
Group's share in joint venture's profit for the year	16	3

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for TFS Akaryakıt Hizmetleri as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	244	212
Total liabilities	204	182
Shareholders' equity	40	30
Group's share in joint venture's shareholders' equity	10	8
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	1,227	524
Profit / (Loss) for the year	54	(1)
Group's share in joint venture's profit / (loss) for the year	13	-

Financial information for TCI as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	15	15
Total liabilities	6	6
Shareholders' equity	9	9
Group's share in joint venture's shareholders' equity	5	4
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	6	3
Loss for the year	-	(3)
Group's share in joint venture's loss for the year	-	(1)

Financial information for Goodrich as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	15	12
Total liabilities	3	3
Shareholders' equity	12	9
Group's share in joint venture's shareholders' equity	5	4
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	21	16
Profit for the year	3	1
Group's share in joint venture's profit for the year	1	-

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Uçak Koltuk as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	25	33
Total liabilities	17	21
Shareholders' equity	8	12
Group's share in joint venture's shareholders' equity	4	6
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	16	20
(Loss) / Profit for the year	(4)	1
Group's share in joint venture's (loss) / profit for the year	(2)	-

Financial information for We World Express as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Total assets	21	8
Total liabilities	13	5
Shareholders' equity	8	3
Group's share in joint venture's shareholders' equity	3	2
	1 January - 31 December 2021	1 January - 31 December 2020
Revenue	50	24
Profit for the year	1	1
Group's share in joint venture's profit for the year	-	-

Since 31 December 2019, the loss of Air Albania, which is exceeding the Group's total share in joint venture's shareholders' equity, has not been accounted in the consolidated financial statements. As of 31 December 2021, the amount is USD 5 (31 December 2020 USD 5).

Movement in investments accounted by using the equity method is as follows:

	31 December 2021	31 December 2020
Opening balance	256	369
Share of investments' income/(loss) accounted for using the equity method	75	(87)
Other expense and income recognized in equity	9	(11)
Capital reductions	-	(29)
Statement of changes in consolidation adjust	(1)	7
Dividends to shareholders	(29)	(3)
Foreign currency translation difference	(73)	10
Closing balance	<u>237</u>	<u>256</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENT REPORTING

Group management makes decisions regarding resource allocation to segments based upon the results and the activities of its air transport and aircraft technical maintenance services segments for the purpose of segments' performance evaluation. The Group's main activities can be summarized as follows:

Air Transport ("Aviation")

The Group's aviation activities consist of mainly domestic and international passenger and cargo air transportation.

Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector. The detailed information about the revenue of the Group is given in Note 26.

4.1 Total Assets and Liabilities

Total Assets	31 December 2021	31 December 2020
Aviation	26,504	25,425
Technical	1,615	1,547
Total	28,119	26,972
Less: Eliminations due to consolidation	(1,582)	(1,442)
Total assets in consolidated financial statements	26,537	25,530
Total Liabilities	31 December 2021	31 December 2020
Aviation	19,737	20,096
Technical	407	370
Total	20,144	20,466
Less: Eliminations due to consolidation	(444)	(319)
Total liabilities in consolidated financial statements	19,700	20,147

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENT REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 31 December 2021	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	10,433	253	-	10,686
Inter-Segment Sales	63	792	(855)	-
Revenue	10,496	1,045	(855)	10,686
Cost of Sales (-)	(8,319)	(827)	824	(8,322)
Gross Profit	2,177	218	(31)	2,364
Administrative Expenses (-)	(192)	(96)	34	(254)
Selling and Marketing Expenses (-)	(827)	(9)	1	(835)
Other Operating Income	162	32	(20)	174
Other Operating Expenses (-)	(43)	(8)	16	(35)
Operating Profit Before Investment Activities	1,277	137	-	1,414
Income from Investment Activities	207	-	-	207
Expenses from Investment Activities	(7)	-	-	(7)
Share of Investments' Profit Accounted for Using The Equity Method	66	9	-	75
Operating Profit	1,543	146	-	1,689
Financial Income	135	1	(35)	101
Financial Expense (-)	(802)	0	35	(767)
Profit Before Tax	876	147	-	1,023

1 January - 31 December 2020	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	6,559	175	-	6,734
Inter-Segment Sales	30	702	(732)	-
Revenue	6,589	877	(732)	6,734
Cost of Sales (-)	(6,383)	(731)	736	(6,378)
Gross Loss	206	146	4	356
Administrative Expenses (-)	(143)	(80)	4	(219)
Selling and Marketing Expenses (-)	(662)	(6)	1	(667)
Other Operating Income	325	17	(12)	330
Other Operating Expenses (-)	(33)	(25)	3	(55)
Operating Loss Before Investment Activities	(307)	52	-	(255)
Income from Investment Activities	190	-	-	190
Expenses from Investment Activities	(11)	-	-	(11)
Share of Investments' Loss Accounted for Using The Equity Method	(88)	1	-	(87)
Operating Loss	(216)	53	-	(163)
Financial Income	81	1	(10)	72
Financial Expense (-)	(837)	(8)	10	(835)
Loss Before Tax	(972)	46	-	(926)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENT REPORTING (cont'd)

4.3 Investment Operations

1 January - 31 December 2021	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	2,250	168	-	2,418
Current period depreciation and amortization charge	1,589	151	-	1,740
Investments accounted for using equity method	160	77	-	237
1 January - 31 December 2020	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	3,191	185	-	3,376
Current period depreciation and amortization charge	1,515	144	-	1,659
Investments accounted for using equity method	181	75	-	256

5. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash	2	2
Banks – Time deposits	2,597	1,749
Banks – Demand deposits	78	60
	2,677	1,811

Details of the time deposits as of 31 December 2021 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2021
8,882	TL	5.00% - 24.70%	February 2022	671
265	USD	0.90% - 2.25%	March 2022	265
1,455	EUR	0.24% - 1.10%	March 2022	1,648
1,310	DZD	1.49% - 1.53%	February 2022	9
280	MZN	7.65%	January 2022	4
				2,597

Details of the time deposits as of 31 December 2020 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2020
6,230	TL	9.00% - 18.50%	March 2021	857
186	USD	1.80% - 2.85%	January 2021	186
565	EUR	1.88% - 2.35%	March 2021	693
1,180	DZD	1.89%	January 2021	9
295	MZN	5.20%	January 2021	4
				1,749

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	31 December 2021	31 December 2020
Fair value through profit and loss (FVTPL)		
- Equity securities	5	18

Long-term financial investments are as follows:

	31 December 2021	31 December 2020
FVOCI		
- Government debt securities	67	42
- Corporate debt securities	20	32
Other	1	1
	88	75

Contractual maturity dates of financial investments measured at FVOCI as of 31 December 2021 and 2020 is as follows:

	31 December 2021	31 December 2020
Less than 1 year	3	-
1 to 5 years	1	4
Over 5 years	83	70
	87	74

7. BORROWINGS

Short-term borrowings are as follows:

	31 December 2021	31 December 2020
Bank borrowings	883	1,527

Short-term portions of long-term borrowings are as follows:

	31 December 2021	31 December 2020
Lease liabilities (Note: 18)	1,670	1,728
Bank borrowings	1,443	1,186
	3,113	2,914

Long-term borrowings are as follows:

	31 December 2021	31 December 2020
Lease liabilities (Note: 18)	8,574	9,579
Bank borrowings	2,333	2,681
	10,907	12,260

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS (cont'd)

Details of bank borrowings as of 31 December 2021 and 2020 are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Less than 1 year	2,326	2,713
Between 1 – 5 years	2,307	2,615
Over 5 years	26	66
	<u>4,659</u>	<u>5,394</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u> <u>Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December</u> <u>2021</u>
381	TRY	Floating	BIST TLREF(*) + 1.25% -		
2,333	EUR	Fixed	BIST TLREF(*) + 1.50%	May 2022	29
			0.20% - 4.00%	January 2022 - March 2025	2,640
			Euribor + 2.90% -		
1,758	EUR	Floating	Euribor + 5.50%	May 2023 - August 2026	1,990
					<u>4,659</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u> <u>Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December</u> <u>2020</u>
590	TRY	Fixed	8.50% - 9.25%	February 2021 - June 2021	80
1,652	EUR	Fixed	0.30% - 4.00%	January 2021 - March 2025	3,413
			Euribor + 2.45% -		
1,549	EUR	Floating	Euribor + 5.50%	August 2021 - August 2026	1,901
					<u>5,394</u>

(*) It is a floating interest rate calculated by using the current BIST TLREF Index announced by Borsa İstanbul A.Ş. The floating interest rate is calculated for each interest period of time.

Reconciliation of bank borrowings and lease liabilities arising from financing activities:

	<u>31 December</u> <u>2020</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>31 December</u> <u>2021</u>
Bank Borrowings	5,394	(3,071)	(158)	(296)	2,790	<u>4,659</u>

	<u>31 December</u> <u>2019</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>31 December</u> <u>2020</u>
Bank Borrowings	3,453	(2,463)	(81)	522	3,963	<u>5,394</u>

	<u>31 December</u> <u>2020</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>New</u> <u>Leases</u>	<u>31 December</u> <u>2021</u>
Aircraft	11,259	(1,774)	(160)	(483)	1,364	10,206
Property	47	(10)	-	(2)	1	36
Other	1	(2)	-	(2)	5	2
	<u>11,307</u>	<u>(1,786)</u>	<u>(160)</u>	<u>(487)</u>	<u>1,370</u>	<u>10,244</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS (cont'd)

Reconciliation of bank borrowings and lease liabilities arising from financing activities (cont'd):

	<u>31 December</u>				<u>New</u>	<u>31 December</u>
	<u>2019</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Leases</u>	<u>2020</u>
Aircraft	9,858	(1,527)	(160)	868	2,220	11,259
Property	58	(12)	-	-	1	47
Other	3	(2)	-	-	-	1
	<u>9,919</u>	<u>(1,541)</u>	<u>(160)</u>	<u>868</u>	<u>2,221</u>	<u>11,307</u>

As of 31 December 2021, there are two loan agreements with covenant breaches. The financial ratios in the loan agreements have been met.

In March 2021, it was announced that certain LIBOR settings would cease to be published after December 31, 2021 and the remainder of the LIBOR settings will continue to be published until end-June 2023. The publication of JPY LIBOR settings have ceased after December 31, 2021 and FCA (Financial Conduct Authority) designated temporary publication of “synthetic” JPY LIBOR settings until end-December 2022. Due to the cessation of Swiss franc and Japanese yen LIBOR settings on December 31, 2021, replacement reference rates are determined and agreed with the lenders for Swiss franc and Japanese yen LIBOR based finance leases maturing after this date with a total amount of USD 815. In addition, approximately USD 510 finance lease obligations will mature after the discontinuation of US dollar LIBOR settings on June 30, 2023. In total, USD 1,325 of LIBOR-based financing is to be affected. Discussions with the relevant finance lease lenders have been initiated in order to ensure all effected transactions include the necessary replacement rate and fallback mechanisms before the cessation date. The Group had no material LIBOR-related contract modifications during the year ended December 31, 2021. In addition, the Group expects no material modifications and impacts after the replacement of relevant rates.

8. OTHER FINANCIAL LIABILITIES

Short-term other financial liabilities of the Group are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Other financial liabilities	<u>8</u>	<u>17</u>

Other financial liabilities consist of overnight interest-free borrowings from banks obtained for settlement of monthly tax and social security premium payments.

9. RELATED PARTIES

Short-term trade receivables from related parties are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Air Albania	<u>22</u>	<u>14</u>
We World Express Ltd.	<u>2</u>	<u>4</u>
	<u>24</u>	<u>18</u>

Other short-term receivables from related parties are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Air Albania	<u>6</u>	<u>6</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTIES (cont'd)

Short-term trade payables to related parties that are accounted by using the equity method are as follows:

	31 December 2021	31 December 2020
TFS Akaryakıt Hizmetleri	97	37
Turkish DO&CO	20	23
TGS	17	39
TEC	15	10
THY Opet	14	18
Sun Express	3	10
Goodrich	1	4
	<u>167</u>	<u>141</u>

Other short-term payables from related parties are as follows:

	31 December 2021	31 December 2020
TFS Akaryakıt Hizmetleri	5	-
	<u>5</u>	<u>-</u>

Transactions with related parties for the year ended 31 December 2021 and 2020 are as follows:

a) Sales to related parties:

	1 January - 31 December 2021	1 January - 31 December 2020
Sun Express	33	24
TEC	28	46
We World Express Ltd.	15	16
PTT A.Ş. (PTT)	9	5
Air Albania	5	5
TGS	3	3
Goodrich	3	2
Uçak Koltuk	1	-
	<u>97</u>	<u>101</u>

b) Purchases from related parties:

	1 January - 31 December 2021	1 January - 31 December 2020
TFS Akaryakıt Hizmetleri	1,040	492
THY Opet	283	217
TGS	238	174
TEC	220	192
Turkish DO&CO	134	111
Sun Express	96	114
Uçak Koltuk	10	8
Goodrich	6	15
Turkcell	6	-
TCI	1	1
Air Albania	1	-
PTT	-	1
	<u>2,035</u>	<u>1,325</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTIES (cont'd)

Details of the financial assets and liabilities for related parties as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Banks - Time deposits	2,130	1,524
Financial assets	85	71
Banks - Demand deposits	18	12
Equity share	1	2
Bank borrowings	(1,673)	(1,854)
	561	(245)

As of 31 December 2021, the amount of letters of guarantees given to the related parties is USD 942. (31 December 2020: USD 1,236)

Details of the time deposits at related parties as of 31 December 2021 and 2020 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2021
7,882	TL	5.00% - 24.46%	February 2022	595
1,187	EUR	0.24% - 1.10%	March 2022	1,344
191	USD	0.92% - 1.81%	March 2022	191
				2,130
Amount	Currency	Effective Interest Rate	Maturity	31 December 2020
4,905	TL	9.00% - 18.50%	March 2021	673
564	EUR	1.88% - 2.24%	March 2021	693
158	USD	2.28%	January 2021	158
				1,524

Details of the financial assets at related parties as of 31 December 2021 and 2020 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2021
85	USD	5.75% - 8.00%	January 2022 - June 2022	85
Amount	Currency	Effective Interest Rate	Maturity	31 December 2020
71	USD	4.88% - 8.50%	January 2021 - June 2021	71

Details of the bank borrowings at related parties as of 31 December 2021 and 2020 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2021
1,478	EUR	2.55% - Euribor + 5.50%	March 2026	1,673
Amount	Currency	Effective Interest Rate	Maturity	31 December 2020
1,499	EUR	2.55% - Euribor + 5.50%	December 2025	1,840
101	TRY	9.25%	June 2021	14
				1,854

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTIES (cont'd)**Interest income from related parties:**

	1 January - 31 December 2021	1 January - 31 December 2020
Türkiye Halk Bankası A.Ş. (Halk Bankası)	37	24
Türkiye Vakıflar Bankası T.A.O. (Türkiye Vakıflar Bankası)	21	13
T.C. Ziraat Bankası A.Ş. (Ziraat Bankası)	5	5
	<u>63</u>	<u>42</u>

Interest expense to related parties:

	1 January - 31 December 2021	1 January - 31 December 2020
Türkiye Vakıflar Bankası	46	17
Ziraat Bankası	29	13
	<u>75</u>	<u>30</u>

Transactions between the Group and THY Opet are related to the supply of aircraft fuel; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and Sun Express are related to wet lease, seat sales operations and maintenance services; transactions between the Group and TGS are related to ground services; transactions between the Group and TEC are related to engine maintenance services; transactions between the Group and PTT are related to cargo transportation; transactions between the Group and Halk Bankası, Ziraat Bankası and Türkiye Vakıflar Bankası are related to banking services, transactions between the Group and We World Express are related to cargo transportation and transactions between the Group and TFS Akaryakıt Hizmetleri A.Ş. are related to the supply of aircraft fuel. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short-term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 2 for the period between 1 January-31 December 2021 (1 January- 31 December 2020: USD 3).

10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from third parties as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Trade receivables	992	718
Allowance for doubtful receivables (-)	(91)	(99)
	<u>901</u>	<u>619</u>

Provision for doubtful receivables has been determined based on past experience for uncollectible receivables, and also ECL calculation in accordance with IFRS 9. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 35.

Trade payables to third parties as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Trade payables	724	720

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Salary accruals	81	66
Social security premiums payable	24	24
	105	90

12. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables from third parties as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Predelivery payments made for aircrafts	546	731
Receivables from technical purchases	97	223
Bank deposits with transfer limitations (*)	84	39
Value added tax receivables	30	30
Receivables from pilots for flight training	27	32
Others	7	40
	791	1,095

(*) As of 31 December 2021, the balance of this account includes bank deposits in Ethiopia, Bangladesh, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Angola, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Benin, Republic of Zimbabwe, Republic of Cuba, Republic of Lebanon, Democratic Republic of the Congo, Republic of Ghana, Sri Lanka and Iran. (As of 31 December 2020, the balance of this account includes bank deposits in Ethiopia, Bangladesh, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Angola, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Benin, Republic of Zimbabwe, Democratic Republic of the Congo, Republic of Cuba, Republic of Lebanon and Iran).

Other long-term receivables from third parties as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Receivables related to investment certificates (***)	349	409
Predelivery payments made for aircrafts	279	515
Receivables from pilots for flight training	193	199
Deposits and guarentees given	41	42
Bank deposits with transfer limitations (**)	4	4
Interest and commodity swap agreement deposits	-	31
	866	1,200

(**) As of 31 December 2021, the balance of this account includes bank deposits in Syria.

(***) This represents the accrued amount as of 31 December 2021. Total contribution of government incentives related to fleet investments amounts to USD 2,802. See note 2.3 for accounting policy.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. OTHER RECEIVABLES AND PAYABLES (cont'd)

Other short-term payables to third parties are as follows:

	31 December 2021	31 December 2020
Taxes and funds payable	50	39
Payables to insurance companies	7	-
Deposits and guarantees received	6	5
Payables to lessors	-	9
Other liabilities	106	35
	<u>169</u>	<u>88</u>

Other long-term payables to third parties are as follows:

	31 December 2021	31 December 2020
Interest and commodity swap agreement deposits	32	-
Deposits and guarantees received	23	22
	<u>55</u>	<u>22</u>

13. INVENTORIES

	31 December 2021	31 December 2020
Spare parts	200	231
Other inventories	75	83
	<u>275</u>	<u>314</u>
Provision for impairment (-)	(14)	(9)
	<u>261</u>	<u>305</u>

The change in the value of provision for impairment for the years ended 31 December 2021 and 2020 is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Provision at the beginning of the year	9	12
Release during the year	5	(3)
Provision at the end of the year	<u>14</u>	<u>9</u>

14. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses are as follows:

	31 December 2021	31 December 2020
Advances given for purchases	59	77
Prepaid sales commissions	13	10
Prepaid advertising expenses	10	12
Prepaid operating lease expenses	1	10
Other prepaid expenses	31	32
	<u>114</u>	<u>141</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

14. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

Long-term prepaid expenses are as follows:

	31 December 2021	31 December 2020
Prepaid engine maintenance expenses	709	627
Advances given for property and equipment purchases	67	107
Prepaid aircraft financing expenses	58	60
Other prepaid expenses	5	4
	<u>839</u>	<u>798</u>

Deferred income is as follows:

	31 December 2021	31 December 2020
Passenger flight liabilities	1,216	580
Other short-term deferred income	48	34
	<u>1,264</u>	<u>614</u>

Passenger flight liability is as follows:

	31 December 2021	31 December 2020
Flight liability for ticket sales	1,018	381
Frequent flyer program liability	198	199
	<u>1,216</u>	<u>580</u>

Other short-term deferred income is as follows:

	31 December 2021	31 December 2020
Advances received	34	21
Unearned bank protocol income	8	2
Deferred finance income	6	11
	<u>48</u>	<u>34</u>

Long-term deferred income is as follows:

	31 December 2021	31 December 2020
Deferred finance income	83	109
Unearned bank protocol income	9	-
	<u>92</u>	<u>109</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

15. PROPERTY AND EQUIPMENT

	Land improvements and buildings	Technical equipment, simulator and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2021	1,175	636	250	3,853	657	688	179	587	8,025
Additions	129	73	11	118	79	102	3	22	537
Transfer (*)	346	28	-	2	11	-	18	(430)	(25)
Transfers between the account	-	-	-	631	12	-	-	-	643
Disposals	-	(3)	(2)	(263)	(62)	(98)	(4)	-	(432)
Closing balance at 31 December 2021	1,650	734	259	4,341	697	692	196	179	8,748
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2021	275	307	193	2,416	235	353	101	-	3,880
Depreciation charge	61	39	20	239	63	77	14	-	513
Transfers between the account	-	-	-	282	9	-	-	-	291
Disposals	-	(2)	(2)	(228)	(19)	(45)	(4)	-	(300)
Closing balance at 31 December 2021	336	344	211	2,709	288	385	111	-	4,384
Net book value at 31 December 2021	1,314	390	48	1,632	409	307	85	179	4,364
Net book value at 31 December 2020	900	329	57	1,437	422	335	78	587	4,145

(*) In total of USD 25 of construction in progress has been transferred to intangible fixed assets amounting to USD 7 and right-of-use assets amounting to USD 18.

USD 1,664 of depreciation and amortization expenses recognized in cost of sales (31 December 2020: USD 1,591), USD 69 of general administrative expenses (31 December 2020: USD 60) and USD 7 of marketing and sales expenses (31 December 2020: USD 8) in total of USD 1,740 as of 31 December 2021 (31 December 2020: USD 1,659).

The Group's construction in progress balances mainly consist of İstanbul Airport buildings, aircraft modifications, engine maintenance, backup engines and simulators.

Capitalization rates and amounts other than borrowings made specially for the purpose of acquiring and qualifying asset are 8% and 34% and USD 12 and 33 for the years ended 31 December 2021 and 2020 respectively.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

15. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2020	874	585	239	2,905	613	660	183	692	6,751
Additions	92	22	12	75	39	103	4	202	549
Transfer	210	31	2	4	19	-	1	(307)	(40)
Transfers between the accounts	-	-	-	933	-	-	-	-	933
Disposals	(1)	(2)	(3)	(45)	(14)	(75)	(9)	-	(149)
Transfer to Assets held-for-sale	-	-	-	(19)	-	-	-	-	(19)
Closing balance at 31 December 2020	1,175	636	250	3,853	657	688	179	587	8,025
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2020	232	268	173	1,833	192	315	95	-	3,108
Depreciation charge	44	41	22	190	57	74	15	-	443
Transfers between the accounts	-	-	-	448	-	-	-	-	448
Disposals	(1)	(2)	(2)	(45)	(14)	(36)	(9)	-	(109)
Transfer to Assets held-for-sale	-	-	-	(10)	-	-	-	-	(10)
Closing balance at 31 December 2020	275	307	193	2,416	235	353	101	-	3,880
Net book value at 31 December 2020	900	329	57	1,437	422	335	78	587	4,145

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

15. PROPERTY AND EQUIPMENT (cont'd)

Right of use assets are as follows:

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Cost</u>					
Opening balance at 1 January 2021	19,381	202	75	6	19,664
Additions	1,776	88	1	5	1,870
Transfer	7	11	-	-	18
Disposals	(173)	-	(1)	(2)	(176)
Transfers between the accounts (*)	(643)	-	-	-	(643)
Closing balance at 31 December 2021	20,348	301	75	9	20,733

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2021	4,813	48	21	5	4,887
Depreciation charge	1,176	14	10	2	1,202
Disposals	(173)	-	-	(2)	(175)
Transfers between the account (*)	(291)	-	-	-	(291)
Closing balance at 31 December 2021	5,525	62	31	5	5,623
Net book value at 31 December 2021	14,823	239	44	4	15,110

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Cost</u>					
Opening balance at 1 January 2020	17,647	165	74	6	17,892
Additions	2,784	28	1	-	2,813
Transfers	15	11	-	-	26
Disposals	(132)	(2)	-	-	(134)
Transfers between the accounts (*)	(933)	-	-	-	(933)
Closing balance at 31 December 2020	19,381	202	75	6	19,664

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2020	4,222	39	10	3	4,274
Depreciation charge	1,171	11	11	2	1,195
Disposals	(132)	(2)	-	-	(134)
Transfers between the account (*)	(448)	-	-	-	(448)
Closing balance at 31 December 2020	4,813	48	21	5	4,887
Net book value at 31 December 2020	14,568	154	54	1	14,777

(*) Transfers are mainly consists of aircraft that lease payments have been acquired and ownership has been transferred to the Group.

The Group is still carrying out negotiations with the airport operator company (İGA Havalimanı İşletmesi A.Ş.) regarding the rental areas, rental fee, renting conditions and period for İstanbul Airport. As of 31 December 2021, no agreement is signed and there is no Board Decision about the above mentioned rental matters. Despite the fact that there is a PPP tariff issued by State Airports Authority (DHMI), it does not eliminate the uncertainties regarding rental areas, rental fee, renting conditions and period which are considered as material terms of a contract. Thus, it is not considered as appropriate to consider them under IFRS16 scope and no calculations for assets or liabilities are made concerning the İstanbul Airport rentals at December 2021 financial statements. However, the payments for the areas used at İstanbul Airport are made with reservation according to PPP tariff and they are recorded under rent expense accounts for the period.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
<u>Cost</u>				
Opening balance at 1 January 2021	44	221	5	270
Additions	-	11	-	11
Transfers	-	7	-	7
Closing balance at 31 December 2021	44	239	5	288
 <u>Accumulated Amortization</u>				
Opening balance at 1 January 2021	-	178	3	181
Amortization charge	-	25	-	25
Closing balance at 31 December 2021	-	203	3	206
Net book value at 31 December 2021	44	36	2	82
Net book value at 31 December 2020	44	43	2	89
	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
<u>Cost</u>				
Opening balance at 1 January 2020	44	193	5	242
Additions	-	14	-	14
Transfers	-	14	-	14
Closing balance at 31 December 2020	44	221	5	270
 <u>Accumulated Amortization</u>				
Opening balance at 1 January 2020	-	157	3	160
Amortization charge	-	21	-	21
Closing balance at 31 December 2020	-	178	3	181
Net book value at 31 December 2020	44	43	2	89
Net book value at 31 December 2019	44	36	2	82

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

18. LEASING TRANSACTIONS

Maturities of lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Less than 1 year	1,844	1,934	(174)	(206)	1,670	1,728
Between 1 – 5 years	5,710	6,275	(396)	(455)	5,314	5,820
Over 5 years	3,401	3,931	(141)	(172)	3,260	3,759
	<u>10,955</u>	<u>12,140</u>	<u>(711)</u>	<u>(833)</u>	<u>10,244</u>	<u>11,307</u>

	31 December 2021	31 December 2020
Interest Range:		
Floating rate obligations	5,314	5,788
Fixed rate obligations	<u>4,930</u>	<u>5,519</u>
	<u>10,244</u>	<u>11,307</u>

The Group's assets which are acquired by leasing have average lease term of 1 to 45 years. The Group has options to purchase related assets for an insignificant amount at the end of lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased asset.

As of 31 December 2021, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 3.77% (31 December 2020: 3.74%) for the fixed rate obligations and 1.56% (31 December 2020: 1.42%) for the floating rate obligations.

19. GOVERNMENT GRANTS AND INCENTIVES

Incentive certificates dated, 28 December 2010, 18 December 2014, 11 July 2017, 18 September 2017, 1 March 2018, 9 August 2018 and 11 September 2018 were obtained from Ministry of Industry and Technology for investment of aircrafts. These certificates provide the Group with certain advantages on reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.4 for the accounting of corporate tax effect of these investment certificates.

There is no time limit for the use of incentives received in this scope. As of 31 December 2021, the Group has a discount and exemption amounting to USD 2,802, which can be used in the future within the scope of these incentives (31 December 2020: USD 3,469).

20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 December 2021 and 2020 are as follows:

Short-term provision for employee benefits is as follows:

	31 December 2021	31 December 2020
Provisions for unused vacation	<u>18</u>	<u>16</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Changes in the provisions for the period ended 31 December 2021 and 2020 are set out below:

	1 January - 31 December 2021	1 January - 31 December 2020
Provisions at the beginning of the year	16	39
Provisions for the current year	204	293
Provisions released	(191)	(305)
Foreign currency translation differences	(11)	(11)
Provisions at the end of the year	<u>18</u>	<u>16</u>

The Group recognizes an obligation for unused vacation days based on salaries of employees at the end of each reporting period.

Other short-term provision is as follows:

	31 December 2021	31 December 2020
Provisions for legal claims	<u>8</u>	<u>10</u>

Changes in the provisions for legal claims for the period ended 31 December 2021 and 2020 are set out below:

	1 January - 31 December 2021	1 January - 31 December 2020
Provisions at the beginning of the year	10	13
Provisions for the current year	4	1
Provisions released	(1)	(1)
Foreign currency translation differences	(5)	(3)
Provisions at the end of the year	<u>8</u>	<u>10</u>

The Group provides with provisions for lawsuits initiated against itself due to its operations. The lawsuits initiated against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

21. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group:

Amount of letters of guarantees given as of 31 December 2021 is USD 1,530 (31 December 2020: USD 1,956).

As of 31 December 2021, the letters of guarantee are given to various authorities (i.e. various banks and vendors.)

	31 December 2021		31 December 2020	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,530	-	1,956
-Collaterals				
TL	62	5	52	7
EUR	1,295	1,466	1,511	1,854
USD	50	50	59	59
Other	-	9	-	36
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>1,530</u>		<u>1,956</u>

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 31 December 2021 (31 December 2020: 0%)

b) Aircraft purchase commitments:

To be delivered between the years 2021-2028, the Group signed an agreement for 93 aircrafts, (83 of aircrafts are contractual and 10 of them are optional) with a list price value of USD 13,211. The Group has made a predelivery payment of USD 836 relevant to these purchases as of 31 December 2021 (31 December 2020: USD 1,253).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

22. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 December 2021 and 2020 is comprised of the following:

	31 December 2021	31 December 2020
Provision for retirement pay liability	113	134

Under Labor Law effective in Turkey, it is an obligation to make legal retirement pay to employees whose employment is terminated in certain ways. Also, according to Article 60 of Social Security Law numbered 506 which was revised by the laws 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is an obligation to make legal retirement pay to those who entitled to receive retirement pay when leaving their work. Some transfer provisions related to employment conditions prior to retirement are removed from the Law by the revise made on 23 May 2002. Retirement pay liability assumptions and calculations are changed in line with the revise made on 8 May 2008, which altered age of retirement.

Retirement pay liability is subject to an upper limit of monthly USD 812 (full) (equivalent of TL 10,849 (full)) as of 31 December 2021. (31 December 2020: USD 970 (full) equivalent of TL 7,117 (full)).

Retirement pay liability is not subject to any funding legally. Provisions for retirement pay liability are calculated by estimating the present value of probable liability that will arise due to retirement of employees.

IAS 19 ("Employee Benefits") stipulates the progress of the Group's liabilities by use of actuarial valuation methods under defined benefit plans. Actuarial assumptions used in calculation of total liabilities are described as follows:

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2021 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 15.55% annual inflation rate (31 December 2020: 9%) and 20% interest rate (31 December 2020: 13.20%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.45% (31 December 2020: 2.53%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of USD 812 (full) which is in effect since 31 December 2021 is used in the calculation of Group's provision for retirement pay liability.

Movement in the provisions for retirement pay liability is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Provision at the beginning of the year	134	135
Actuarial loss	29	13
Service charge for the year	14	17
Interest charges	14	13
Payments	(6)	(14)
Foreign currency translation difference	(72)	(30)
Provision at the end of the year	113	134

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

23. EXPENSES BY NATURE

Expenses by nature for the year ended 31 December 2021 and 2020 are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Fuel expenses	2,756	1,638
Depreciation and amortisation charges	1,740	1,659
Personnel expenses	1,298	1,097
Ground services expenses	680	485
Aircraft maintenance expenses	573	546
Airport expenses	508	315
Air traffic control expenses	455	296
Passenger services and catering expenses	271	217
Commissions and incentives	253	176
Wet lease expenses	190	224
Reservation systems expenses	162	84
Service expenses	78	67
Advertisement and promotion expenses	76	82
Insurance expenses	53	48
Rents	48	68
IT and communication expenses	46	41
Transportation expenses	43	37
Taxes and duties	37	41
Consultancy expenses	25	18
Systems use and associateship expenses	13	13
Aircraft rent expenses	7	20
Other	99	92
	9,411	7,264

24. OTHER ASSETS AND LIABILITIES

Other current assets as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Deffered VAT	68	121
Personnel and business advances	12	3
Assets held-for-sale	-	1
	80	125

Other current liabilities as of 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Accruals for maintenance expenses of aircraft under operating lease	241	229
Accruals for other expenses	22	20
Other	2	4
	265	253

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

25. SHAREHOLDERS' EQUITY

The ownership structure of the Company's share capital is as follows:

(Millions of TL)	Class	%	31 December		31 December	
			2021	%	2020	
Turkey Wealth Fund (*)	A	49.12	678	49.12	678	
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	C	-	-	-	-	
Other (publicly held)	A	50.88	702	50.88	702	
Paid-in capital (Turkish Lira)			1,380		1,380	
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124	
Share capital (Turkish Lira)			2,504		2,504	
Share capital (USD Equivalent)			1,597		1,597	

(*) 1,644 (full) shares belonging to various private shareholders were not taken into consideration when the Group was included to the privatization program in 1984. Subsequently, these shares were registered on behalf of Privatization Administration according to Articles of Association of the Company, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

49.12% share of the Company and its subsidiaries (together the "Group") owned by Republic of Turkey Prime Ministry Privatisation Administration has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 2017.

(**) Inflation adjustment on share capital represents inflation uplift of historical capital payments based on inflation indices until 31 December 2004.

As of 31 December 2021, Registered paid-in share capital of the Company comprised 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. The Class C share belongs to the Republic of Turkey Treasury and Finance Ministry Privatization Administration and has the following privileges:

- Articles of Association 7: Positive vote of the board member representing class C share with Board's approval is necessary for transfer of shares issued to the name.
- Articles of Association 10: The Board of Directors consists of nine members of which one member has to be nominated by the class C shareholder and the rest eight members has to be elected by class A shareholders.
- Articles of Association 14: The following decisions of the Board of Directors are subject to the positive vote of the class C Shareholder:
 - a) Decisions that will negatively affect the Group's mission Defined in Article 3.1. of the Articles of Association,
 - b) Suggesting change in the Articles of Association at General Assembly,
 - c) Increasing share capital,
 - d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
 - e) Every decision or action which directly or indirectly put the Group under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Group's shares held by Turkish State decrease under 20%.)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

25. SHAREHOLDERS' EQUITY (cont'd)

- Articles of Association 14: The following decisions of the Board of Directors are subject to the positive vote of the class C Shareholder (cont'd):

f) Decisions relating to merges and liquidation,

g) Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

Restricted Profit Reserves

Turkish Commercial Code (TCC) stipulates that the general legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's paid-in share capital. Additionally, not limited with 20% of paid-in share capital, the general legal reserve is appropriated at the rate of 10% per annum of all cash dividends in excess of 5% of the paid-in share capital. Under TCC, the legal reserves can only be used to offset losses, to sustain business when conditions get worse, to prevent unemployment and are not available for any other usage unless they exceed 50% of paid-in share capital.

Foreign Currency Translation Differences

Currency translation differences under equity arise from Group's joint ventures, provisions for unused vacation, legal claims and retirement pay liability accounted under equity method which have functional currencies other than USD.

Distribution of Dividends

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly in accordance with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with their dividend policy or articles of associations. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on financial statements of the Group.

Actuarial Differences on Defined Benefit Plans

As a result of the adoption of IAS 19, all actuarial differences are recognized in other comprehensive income.

Gains/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 hedged item impacts profit or loss.

As of 2021, lease liabilities and investment borrowings in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %54, Euro revenue covered %28, Swiss Frank covered %12 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. REVENUE

Breakdown of gross profit is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Passenger revenue		
Scheduled	6,311	3,755
Unscheduled	79	37
Total passenger revenue	6,390	3,792
Cargo revenue		
Carried by passenger aircraft	1,172	448
Carried by cargo aircraft	2,843	2,274
Total cargo revenue	4,015	2,722
Total passenger and cargo revenue	10,405	6,514
Technical revenue	253	175
Other revenue	28	45
Net sales	10,686	6,734
Cost of sales (-)	(8,322)	(6,378)
Gross profit	2,364	356

Breakdown of total passenger and cargo revenue by geography is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
International flights		
- Asia and Far East	2,770	1,970
- Europe	2,663	1,638
- Americas	2,306	1,191
- Africa	1,015	664
- Middle East	835	497
Total	9,589	5,960
Domestic flights	816	554
Total passenger and cargo revenue	10,405	6,514

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

27. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Fuel expenses	2,756	1,638
Depreciation and amortisation charges	1,664	1,591
Personnel expenses	998	833
Ground services expenses	680	485
Aircraft maintenance expenses	573	546
Airport expenses	508	315
Air traffic control expenses	455	296
Passenger services and catering expenses	271	217
Wet lease expenses	190	224
Insurance expenses	49	44
Transportation expenses	43	37
Service expenses	37	31
Rents	26	49
Taxes and duties	20	20
Aircraft rent expenses	7	20
IT and communication expenses	6	4
Other	39	28
	8,322	6,378

28. GENERAL ADMINISTRATIVE EXPENSES AND SELLING AND MARKETING EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Personnel expenses	73	64
Depreciation and amortisation charges	69	60
IT and communication expenses	31	29
Service expenses	30	27
Consultancy expenses	16	11
Systems use and associateship expenses	8	8
Rents	5	2
Insurance expenses	4	4
Taxes and duties	2	2
Other	16	12
	254	219

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

28. GENERAL ADMINISTRATIVE EXPENSES AND SELLING AND MARKETING EXPENSES (cont'd)

Breakdown of selling and marketing expenses is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Commissions and incentives	253	176
Personnel expenses	227	200
Reservation systems expenses	162	84
Advertisement and promotion expenses	76	82
Rents	17	17
Taxes and duties	15	19
Service expenses	11	9
IT and communication expenses	9	8
Consultancy expenses	9	7
Depreciation and amortisation charges	7	8
Systems use and associateship expenses	5	5
Other	44	52
	835	667

29. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Manufacturers' credits	51	145
Insurance, indemnities, penalties income	43	62
Foreign exchange gains from operational activities, net	20	52
Rent income	13	17
Provisions released	12	12
Non- interest income from banks	8	10
Turnover premium from suppliers	3	4
Reversal of ECL provision	1	-
Delay interest income	1	-
Rediscount interest income	-	4
Other	22	24
	174	330

Breakdown of other operating expenses is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Provisions	7	27
Indemnity and penalty expenses	6	4
Rediscount interest expenses	3	-
Adjustments for ECL provision	-	7
Other	19	17
	35	55

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

30. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Income from investment incentives	187	164
Interest income from financial investment	7	9
Gain on sale of fixed assets	7	5
Gain on sale of financial investments	6	12
	<u>207</u>	<u>190</u>

Breakdown of expense from investment activities is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Loss on sale of fixed assets	6	1
Loss on sale of financial investments	1	1
Loss on valuation of assets held-for-sale	-	9
	<u>7</u>	<u>11</u>

31. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Interest income	68	53
Fair value gains on derivative financial instruments, net	33	-
Rediscount interest income from repayments of aircrafts	-	15
Other	-	4
	<u>101</u>	<u>72</u>

Breakdown of financial expenses is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Foreign exchange losses on financial activities, net (*)	381	498
Interest expense from leasing liabilities	193	209
Interest expense from financial activities	136	63
Aircraft financing expenses	30	22
Interest expenses on employee benefits	14	13
Rediscount interest expense from repayments of aircrafts	3	-
Fair value losses on derivative financial instruments, net	-	21
Other	10	9
	<u>767</u>	<u>835</u>

(*) As of 31 December,2021, foreign exchange losses included in financial expenses mainly consist of foreign exchange losses arising from loan and lease liabilities.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

32. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	31 December 2021	31 December 2020
Prepaid taxes	20	38

Tax liability is as follows:

	31 December 2021	31 December 2020
Provisions for corporate tax	27	-
Prepaid taxes and funds	(11)	-
Corporate tax liability	16	-

Tax income is as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Current year tax expense	28	-
Deferred tax expense/ (income)	36	(90)
Tax expense/ (income)	64	(90)

Tax effect related to other comprehensive income is as follows:

	1 January - 31 December 2021			1 January - 31 December 2020		
	Amount before tax	Tax income	Amount after tax	Amount before tax	Tax expense	Amount after tax
Change in cash flow hedge reserve	751	(150)	601	(777)	156	(621)
Losses on Remeasuring FVOCI	(11)	2	(9)	4	(1)	3
Change in actuarial losses from retirement pay obligation	(29)	6	(23)	(13)	3	(10)
Changes in foreign currency translation difference	(74)	-	(74)	(17)	-	(17)
Other comprehensive income	637	(142)	495	(803)	158	(645)

There is no taxation effect for the changes in foreign currency translation difference that is included in other comprehensive income.

Corporate Tax

The effective tax rate is 25%. In accordance with the Temporary Artical 13 of regulation numbered 7316, published in Offical Gazzete Article which published on 22 April 2021, "Legislation on the Procedure for the Collection of Public Receivables and Other Certain Legislation", corporate tax rate has increased from %20 to %25 for 2021. For the year 2022, corporate tax rate will be %23.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

32. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. However, losses cannot be carried back for offset against profits from previous periods. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of immovable properties and participation shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity until the end of the fifth year following the sale. The remaining 25% of such capital gains are subject to corporate tax. However, according to the amendments by Law numbered 7061, this rate is reduced from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their corporate tax returns between 1-25 April following the close of the accounting year. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

The law on amending the Tax Procedure Law and the Corporate Tax Law was enacted on January 20, 2022, It has been enacted with the number 7352 and it has been decided that the financial statements will not be subject to inflation adjustment in the 2021 and 2022 accounting periods, including the temporary accounting periods, and in the provisional tax periods of the 2023 accounting period, regardless of whether the conditions for the inflation adjustment within the scope of the repeated Article 298 are met. POA made a declaration on the Implementation of Financial Reporting in High Inflation Economies under TFRS on January 20, 2022, and it was stated that there was no need to make any adjustments within the scope of TAS 29 Financial Reporting in Hyperinflationary Economies in the consolidated financial statements for 2021.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for dividend receiving companies who are Turkish residents and Turkish branches of foreign companies. Income withholding tax rate is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

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

In Turkey, the companies cannot declare a consolidated tax return; therefore, subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and they are disclosed separately.

Deferred tax assets and liabilities as of 31 December 2021 are calculated with 23% tax rate for the temporary differences which will be realized in 2022, and with 20% tax rate for those which will be realized after 2022 and onwards.

Breakdown of the deferred tax assets / (liabilities) is as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Deferred tax asset	1	-
Deferred tax liability	(1,714)	(1,119)
Deferred tax liability	<u>(1,713)</u>	<u>(1,119)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

32. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Breakdown of the deferred tax assets / (liabilities) is as follows (cont'd):

	31 December 2021	31 December 2020
Fixed assets	(2,614)	(1,972)
Right of use asset	(268)	(312)
Adjustments for passenger flight liabilities	(22)	(133)
Change in fair value of derivative instruments	(7)	12
Tax loss carried forward	634	764
Lease liabilities	346	311
Accruals for expenses	79	65
Income and expense for future years	69	88
Miles accruals	27	16
Provisions for employee benefits	23	27
Provisions for unused vacation	4	3
Incentives	-	13
Other	16	(1)
Deferred tax liabilities	<u>(1,713)</u>	<u>(1,119)</u>

The changes of deferred tax liability for the period ended 1 January – 31 December 2021 and 2020 are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Opening balance at 1 January	1,119	1,293
Foreign currency translation difference	418	72
Tax expense / (income) from hedging reserves	148	(154)
Deferred tax expense/(income)	36	(90)
Tax (income)/expense from FVOCI	(2)	1
Tax income of actuarial losses on retirement pay obligation	(6)	(3)
Deferred tax liability at the end of the period	<u>1,713</u>	<u>1,119</u>

The redemption schedule of carry forward tax losses, which are considered in deferred tax calculation, is as follows:

	31 December 2021	31 December 2020
Expired as of 2022	-	127
Expired as of 2023	249	415
Expired as of 2025	1,294	930
Expired as of 2026	1,629	2,348
	<u>3,172</u>	<u>3,820</u>

As of 31 December 2021, tax losses amount is USD 4,093. The Group has accounted for deferred income tax assets on carry forward tax losses amounting to USD 3,172, since it is considered as probable that sufficient taxable profit will be available to allow the benefit of all that deferred income tax asset to be utilized.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

32. TAX ASSETS AND LIABILITIES (cont'd)Deferred Tax (cont'd)

Reconciliation with current tax charge for the period 1 January – 31 December 2021 and 2020 are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Reconciliation of effective tax charge		
Profit/(Loss) from operations before tax	1,023	(926)
Domestic expense tax rate of 25% / 20%	(256)	185
Taxation effects on:		
- foreign currency translation difference	261	36
- investment incentive	37	33
- income from investment incentive	24	-
- effect of the change in the deferred tax rate	22	(10)
- investments accounted by using the equity method	15	(17)
- deduction	2	1
- adjustment for prior year loss	1	(133)
- non deductible expenses	(170)	(5)
Tax (income) / charge in statement of profit	<u>(64)</u>	<u>90</u>

33. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated profit or loss and other comprehensive income is determined by dividing the net income by the weighted average number of shares that have been outstanding during the relevant period.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus interest”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares are regarded as issued shares. Accordingly, the weighted average number of shares outstanding during the years has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and for each earlier year.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

33. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of profits / losses per share at 1 January – 31 December 2021 and 2020:

	1 January - 31 December 2021	1 January - 31 December 2020
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
Number of shares outstanding at 31 December (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net profit / (loss) for the year	959	(836)
Basic earnings / (losses) per share (Full US Cents) (*)	0.69	(0.61)
Diluted earnings / (losses) per share (Full US Cents) (*)	0.69	(0.61)

(*) Basic and diluted earnings / (losses) per share are the same as there are no dilutive potential ordinary shares.

34. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2021 and 2020 are as follows:

<u>Derivative financial assets</u>	31 December 2021	31 December 2020
Derivative instruments for fuel prices cash flow hedge	50	-
Derivative instruments not subject to hedge accounting	9	2
	<u>59</u>	<u>2</u>
 <u>Derivative financial liabilities</u>	 31 December 2021	 31 December 2020
Derivative instruments for interest rate cash flow hedge	16	32
Derivative instruments for fuel prices cash flow hedge	6	18
Derivative instruments not subject to hedge accounting	6	13
Derivative instruments for cross currency rate cash flow hedge	-	1
	<u>28</u>	<u>64</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**(a) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt. The overall strategy of the Group has not changed compared to 2020.

	31 December 2021	31 December 2020
Total debts (*)	4,891	5,521
Lease liabilities	10,244	11,307
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(2,770)	(1,904)
Net debt (A)	12,365	14,924
Total shareholders' equity (B)	6,837	5,383
Total capital stock (A+B)	19,202	20,307
Net debt/total capital stock ratio	0.64	0.73

(*) Total debts consist of bank borrowings, other financial liabilities and other payables.

(b) Financial Risk Factors

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from different financial risks.

Risk management is carried out in line with policies approved by the Board of Directors. According to risk policy, financial risk is identified and assessed. Working together with Group's operational units, relevant instruments are used to reduce the risk.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management

31 December 2021	Receivables				Deposits in Banks	Derivative Instruments	Government Debt Securities	Corporate Debt Securities	Equity Securities
	Trade receivables		Other receivables						
	Related Party	Third Party	Related Party	Third Party					
Maximum credit risk as of balance sheet date (*)	24	703	6	1,657	2,675	59	67	20	5
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	(198)	-	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	24	-	6	-	78	59	67	20	5
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	-	-	-	-	-	-	-	-
-The part under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets									
-Past due (gross carrying amount)	-	158	-	-	-	-	-	-	-
-Impairment(-)	-	(89)	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	834	-	1,662	2,598	-	-	-	-
-Impairment (-)	-	(2)	-	(5)	(1)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-	-	-	-

(*)The guarantees that increase credit reliability are not included in the balance.

(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

31 December 2020	Receivables				Deposits in Banks (***)	Derivative Instruments	Government Debt Securities	Corporate Debt Securities	Equity Securities
	Trade receivables		Other receivables						
	Related Party	Third Party	Related Party	Third Party					
Maximum credit risk as of balance sheet date (*)	18	433	6	2,295	1,809	2	42	32	18
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	(186)	-	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	18	-	6	-	60	2	42	32	18
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	-	-	-	-	-	-	-	-
-The part under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-	-	-	-
-Past due (gross carrying amount)	-	230	-	-	-	-	-	-	-
-Impairment(-)	-	(97)	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	488	-	2,299	1,750	-	-	-	-
-Impairment (-)	-	(2)	-	(4)	(1)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-	-	-	-

(*)The guarantees that increase credit reliability are not included in the balance.

(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

(***)Deposits in Banks consist of financial investments with maturity more than 3 months.

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

The Group's credit risk is related to its receivables, cash and derivative financial assets. The balance shown in the consolidated balance sheet is the result of the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on previous experience and current economy conditions. Since the customers are diversified, the Group's credit risk is dispersed and there is no material credit risk concentration.

The aging of past due receivables as of 31 December 2021 are as follows:

31 December 2021	<u>Receivables</u>					<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>	
Past due 1-30 days	35	-	-	-	-	35
Past due 1-3 months	26	-	-	-	-	26
Past due 3-12 months	55	-	-	-	-	55
Past due 1-5 years	117	-	-	-	-	117
Total past due receivables	233	-	-	-	-	233
The part under guarantee with collateral etc.	198	-	-	-	-	198

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The aging of past due receivables as of 31 December 2020 are as follows:

31 December 2020	<u>Receivables</u>					<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>	
Past due 1-30 days	83	-	-	-	-	83
Past due 1-3 months	21	-	-	-	-	21
Past due 3-12 months	49	-	-	-	-	49
Past due 1-5 years	128	-	-	-	-	128
Total past due receivables	281	-	-	-	-	281
The part under guarantee with collateral etc.	186	-	-	-	-	186

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The aging of financial assets as of 31 December 2021 are as follows:

<u>Equivalent to External</u> <u>Credit Rating</u>	<u>Weighted Average</u> <u>Lost Rate</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Impairment Loss</u> <u>Allowance</u>
AA2	0.02%	1,019	-
BA3	0.05%	2,730	1
B2	2.00%	220	4
		<u>3,969</u>	<u>5</u>

<u>Maturity Ranges</u> <u>As of 31.12.2021</u>	<u>Weighted Average</u> <u>Lost Rate</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Impairment Loss</u> <u>Allowance</u>
Current	0.27%	834	2
1-30 days past due	1.48%	35	1
30-90 days past due	9.05%	26	2
90-360 days past due	2.71%	55	2
More than 1 year past due	15.72%	26	4
		<u>976</u>	<u>11</u>

The aging of financial assets as of 31 December 2020 are as follows:

<u>Equivalent to External</u> <u>Credit Rating</u>	<u>Weighted Average</u> <u>Lost Rate</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Impairment Loss</u> <u>Allowance</u>
AA2	0.02%	1,549	-
BA3	0.05%	1,832	-
B2	2.00%	228	5
		<u>3,609</u>	<u>5</u>

<u>Maturity Ranges</u> <u>As of 31.12.2020</u>	<u>Weighted Average</u> <u>Lost Rate</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Impairment Loss</u> <u>Allowance</u>
Current	0.34%	488	2
1-30 days past due	1.85%	83	1
30-90 days past due	4.42%	21	1
90-360 days past due	5.96%	49	3
More than 1 year past due	17.18%	29	5
		<u>670</u>	<u>12</u>

As of balance sheet date, total amount of cash collateral and letter of guarantee received by Group for past due and not impaired receivable is USD 198 (31 December 2020: USD 186).

As of the balance sheet date, the Group has no guarantee for past due receivables for which provisions were recognized.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.2) Impairment

Provisions for doubtful trade receivables consist of provisions for receivables in legal dispute and provisions calculated based on experiences on uncollectible receivables.

Changes in provisions for doubtful receivables for the years ended 31 December 2021 and 2020 are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Opening Balance	99	85
Charge for the year	3	26
Collections during the year	(11)	(11)
(Reversal) / Adjustment for ECL	(2)	6
Currency translation adjustment	2	(7)
Closing Balance	<u>91</u>	<u>99</u>

b.3) Liquidity risk management

The main responsibility for liquidity risk management rests with the Board of Directors. The Board designed an appropriate risk management policy for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities.

Liquidity risk table:

31 December 2021

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Bank borrowings	4,659	(4,929)	(583)	(1,871)	(2,448)	(27)
Lease liabilities	10,244	(10,955)	(476)	(1,368)	(5,710)	(3,401)
Trade payables	891	(895)	(895)	-	-	-
Other payables	-	-	-	-	-	-
Other financial liabilities	8	(8)	(8)	-	-	-
Total	<u>15,802</u>	<u>(16,787)</u>	<u>(1,962)</u>	<u>(3,239)</u>	<u>(8,158)</u>	<u>(3,428)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Liquidity risk management (cont'd)

31 December 2020

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Bank borrowings	5,394	(5,570)	(821)	(1,877)	(2,803)	(69)
Lease liabilities	11,307	(12,140)	(482)	(1,452)	(6,275)	(3,931)
Trade payables	861	(861)	(861)	-	-	-
Other payables	9	(9)	(2)	(7)	-	-
Other financial liabilities	17	(17)	(17)	-	-	-
Total	17,588	(18,597)	(2,183)	(3,336)	(9,078)	(4,000)

31 December 2021

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial (liabilities) / assets, net						
Derivative cash inflows	59	55	27	27	1	-
Derivative cash outflows	(28)	(24)	(7)	-	(10)	(7)
Derivative cash inflows/outflows, net	31	31	20	27	(9)	(7)

31 December 2020

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial (liabilities) / assets, net						
Derivative cash inflows	2	2	2	-	-	-
Derivative cash outflows	(64)	(64)	(14)	(18)	(16)	(16)
Derivative cash inflows/outflows, net	(62)	(62)	(12)	(18)	(16)	(16)

b.4) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are evaluated using sensitivity analysis. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities as monetary and non-monetary items are below:

	31 December 2021					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	854	58	147	4	16	629
2a.Monetary Financial Assets	2,415	678	1,658	3	2	74
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	380	122	79	-	5	174
4.Current Assets (1+2+3)	3,649	858	1,884	7	23	877
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	974	974	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	574	350	217	-	-	7
8.Non Current Assets (5+6+7)	1,548	1,324	217	-	-	7
9.Total Assets (4+8)	5,197	2,182	2,101	7	23	884
10.Trade Payables	646	392	189	1	2	62
11.Financial Liabilities (*)	3,439	38	3,112	266	23	-
12a.Other Liabilities, Monetary	97	6	48	2	3	38
12b.Other Liabilities, Non Monetary	25	25	-	-	-	-
13.Current Liabilities (10+11+12)	4,207	461	3,349	269	28	100
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities (*)	8,846	3	7,559	1,180	104	-
16a.Other Liabilities, Monetary	24	15	7	-	-	2
16b.Other Liabilities, Non Monetary	113	113	-	-	-	-
17.Non Current Liabilities (14+15+16)	8,983	131	7,566	1,180	104	2
18.Total Liabilities (13+17)	13,190	592	10,915	1,449	132	102
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(7,993)	1,590	(8,814)	(1,442)	(109)	782
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(8,809)	1,256	(9,110)	(1,442)	(114)	601
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	1,570	-	1,570	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

(*) Net foreign exchange position of Group is mainly due to long term foreign currency borrowings denominated in Euro, Japanese Yen, Swiss Frank to funds its investments. Group uses these long term foreign currency borrowings to manage the risk of exchange differences with highly probable future foreign currency revenues. The USD equivalent of these borrowings amount to USD 7,824 as of 31 December 2021 (31 December 2020: USD 7,798).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

	31 December 2020					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	516	13	122	1	11	369
2a.Monetary Financial Assets	1,635	874	698	4	1	58
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	417	161	137	-	5	114
4.Current Assets (1+2+3)	2,568	1,048	957	5	17	541
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	743	743	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	652	409	236	-	-	7
8.Non Current Assets (5+6+7)	1,395	1,152	236	-	-	7
9.Total Assets (4+8)	3,963	2,200	1,193	5	17	548
10.Trade Payables	595	298	244	-	4	49
11.Financial Liabilities	3,884	99	3,521	241	23	-
12a.Other Liabilities, Monetary	114	87	19	1	-	7
12b.Other Liabilities, Non Monetary	26	26	-	-	-	-
13.Current Liabilities (10+11+12)	4,619	510	3,784	242	27	56
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	10,099	6	8,365	1,598	130	-
16a.Other Liabilities, Monetary	29	18	8	-	-	3
16b.Other Liabilities, Non Monetary	134	134	-	-	-	-
17.Non Current Liabilities (14+15+16)	10,262	158	8,373	1,598	130	3
18.Total Liabilities (13+17)	14,881	668	12,157	1,840	157	59
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(10,918)	1,532	(10,964)	(1,835)	(140)	489
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(11,827)	1,122	(11,337)	(1,835)	(145)	368
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	506	-	506	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

The Group is exposed to foreign exchange risk primarily from TL, EURO, JPY and CHF. The following table details the Group's sensitivity to a 10% increase and decrease in TL, EURO, JPY and CHF against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss with a same effect on equity. The Group accounted investment loans and aircraft financial liabilities in scope of cash flow hedge accounting and foreign exchange income/expense arising from these loans and liabilities are recognized in equity. 10% increase and decrease effect of foreign exchange rates are calculated with the same method and the calculated foreign exchange gains/losses are presented as hedged portion in the foreign exchange sensitivity table. Furthermore, the hedged portion of foreign exchange gains/losses via forwards and cross currency swap transactions is classified as the amount hedged against USD in the statement of exchange rate sensitivity analysis.

	31 December 2021			
	Profit / (Loss)		Equity	
	Before Tax			
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	159	(159)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	159	(159)	-	-
4- Euro net asset / liability	(197)	197	(684)	684
5- Part hedged from Euro risk (-)	157	(157)	-	-
6- Euro net effect (4+5)	(40)	40	(684)	684
7- JPY net asset / liability	(94)	94	(50)	50
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(94)	94	(50)	50
10- CHF net asset / liability	2	(2)	(13)	13
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	2	(2)	(13)	13
13- Other foreign currency net asset / liability	78	(78)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	78	(78)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	105	(105)	(747)	747

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

	31 December 2020			
	Profit / (Loss)		Equity	
	Before Tax			
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	153	(153)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	153	(153)	-	-
4- Euro net asset / liability	(369)	369	(727)	727
5- Part hedged from Euro risk (-)	51	(51)	-	-
6- Euro net effect (4+5)	(318)	318	(727)	727
7- JPY net asset / liability	(120)	120	(64)	64
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(120)	120	(64)	64
10- CHF net asset / liability	1	(1)	(15)	15
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	1	(1)	(15)	15
13- Other foreign currency net asset / liability	49	(49)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	49	(49)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	(235)	235	(806)	806

b.4.2) Interest rate risk management

The Group has been borrowing at both fixed and floating interest rates. Considering the interest conditions of the current borrowings, the majority of the borrowings are at floating interest rates. In addition to this; under the condition that the cost of financing of aircraft purchases are reasonable, the Group has been trying to increase the amount of the fixed interest rate borrowings in order to create a partial balance between the fixed and floating interest rate borrowings. Due to the fact that the floating interest rates of the Group are dependent on Libor and Euribor, exposure to local interest rate is low.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2021**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

*b.4) Market risk management (cont'd)**b.4.2) Interest rate risk management (cont'd)*

Interest Rate Position Table

	<u>31 December 2021</u>	<u>31 December 2020</u>
<u>Instruments with fixed interest rate</u>		
Financial Liabilities	4,930	5,519
<u>Financial Instruments with Variable Interest Rate</u>		
Financial Liabilities	5,314	5,788
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	-	-
Interest Swap Agreements Subject to Hedge Accounting (Net)	(16)	(32)

As indicated in Note 36, the Group fixed the interest rate for 1,856 USD of floating-interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2021.

Interest rate sensitivity

The following sensitivity analysis are done considering the interest rate exposure in the reporting date and possible changes on this rate and are fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the basis for floating interest rates, fluctuate 0.5% and reports the effects to the top management.

Assuming that there is a 0.5% increase in Libor and Euribor interest rates and all other floatings are kept constant:

Current profit before tax of the Group for the year will decrease by USD 37 (For the year ended 31 December 2020 profit before tax will decrease by USD 38). In contrast, if Libor and Euribor interest rate decrease by 0.5%, profit before tax will increase by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in the event of a 0.5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by USD 11, excluding the deferred tax effect. (For the year ended 31 December 2020 the shareholders' equity of the Group will increase by USD 18, excluding the deferred tax effect.) In the event of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amounts, excluding the deferred tax effect.

b.4.3) Fuel prices sensitivity

As explained in Note 36, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by USD 44, excluding the deferred tax effect. (For the year ended 31 December 2020, the shareholders' equity of the Group will increase by USD 21 excluding deferred tax effect.)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by USD 46, excluding the deferred tax effect. (For the year ended 31 December 2020, the shareholders' equity of the Group will decrease by USD 22, excluding deferred tax effect.)

36. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- Under standard maturities and conditions, fair values of financial assets and liabilities traded in an active market are determined using quoted market prices.
- Fair values of derivative instruments:
 - Fixed-paid/floating received interest swap contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.
 - Forward fuel purchase contracts and fuel collar contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward fuel prices (from observable forward fuel prices at the end of the reporting period) and contract fuel prices, discounted at a rate that reflects the credit risk of various counterparties.
 - Forward currency contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
 - Cross-currency swap contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward interest rates and forward exchange rates (from observable yield curves and forward exchange rates at the end of the reporting period) and contract interest rates and forward exchange rates, discounted at a rate that reflects the credit risk of various counterparties.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2021 Balance Sheet	Financial assets at amortized cost	Financial instruments at FVOCI	Financial instruments at FVTPL	Financial instruments FVOCI at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	2,677	-	-	-	-	2,677	5
Financial investments and derivative financial instruments	-	137	14	1	-	152	6 and 34
Trade receivables	925	-	-	-	-	925	9 and 10
Other receivables	1,663	-	-	-	-	1,663	9 and 12
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	4,659	4,659	7 and 18
Lease liabilities	-	-	-	-	10,244	10,244	7 and 18
Other financial liabilities and derivative financial instruments	-	22	6	-	8	36	8 and 34
Trade payables	-	-	-	-	891	891	9 and 10

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2020 Balance Sheet	Financial assets at amortized cost	Financial instruments at FVOCI	Financial instruments at FVTPL	Financial instruments FVOCI at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	1,811	-	-	-	-	1,811	5
Financial investments and derivative financial instruments	-	74	20	1	-	95	6 and 34
Trade receivables	637	-	-	-	-	637	9 and 10
Other receivables	2,301	-	-	-	-	2,301	9 and 12
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	5,394	5,394	7 and 18
Lease liabilities	-	-	-	-	11,307	11,307	7 and 18
Other financial liabilities and derivative financial instruments	-	51	13	-	17	81	8 and 34
Trade payables	-	-	-	-	861	861	9 and 10

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair values of financial assets and liabilities are determined as follows:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.
- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1. These assets and liabilities consist of derivative transactions' fair values which include such as fuel prices, foreign currency changes and interest rates in the market.
- Level 3: Variables which are not related to observable market variable for assets and liabilities (unobservable variables).

Financial assets and liabilities, measured at their fair values are classified as below:

	31 December 2021	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Financial assets				
Financial assets on remeasuring FVOCI	87	87	-	-
Financial assets on remeasuring FVTPL	5	5	-	-
Derivative instruments at fair value through profit or loss	9	-	9	-
Total	101	92	9	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	6	-	6	-
Derivative instruments accounted for hedge accounting	22	-	22	-
Total	28	-	28	-

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

	31 December 2020	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Financial assets				
Financial assets on remeasuring FVOCI	74	74	-	-
Financial assets on remeasuring FVTPL	18	18	-	-
Derivative instruments at fair value through profit or loss	2	-	2	-
Total	94	92	2	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	13	-	13	-
Derivative instruments accounted for hedge accounting	51	-	51	-
Total	64	-	64	-

Derivative Instruments and Hedging Transactions

The financial risk management strategy of the Group aims to ensure a healthy cash flow and liquidity in the future. For this purpose, derivative financial instruments such as currency forwards, currency options, interest rate swaps, interest rate options, oil options and oil swaps are used to protect against the financial risks arising from the fluctuation of exchange rates, interest rates and jet fuel price.

The floating-rate financial liabilities of the Group are explained in Note 35 b.4.2. In order to keep interest costs at an affordable level, the Group has hedged approximately 20% of floating rate USD, JPY and Euro denominated liabilities arising from financial leasing activities. Effective part of the change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

Within the scope of the financial risk management strategy, the Group started fuel price risk hedging in 2009, in order to manage the cash flow effect that may arise from the fluctuation of the fuel price. Fuel price risk management strategy was updated several times over the years with the experience gained. In accordance with the Group's latest BOD resolution issued on 14 July 2017, hedging transactions are executed for the tenor of at most 24 months and up to 60% of the forecasted fuel consumption of the following month. Also with this resolution, premium paid options have been included to the instrument list for the first time, in addition to formerly used swap and zero-cost option structures. The tenor, ratio and instrument to-be-used are chosen based on the current market conditions and future expectations. As a result of these changes, hedging strategy has become more flexible and accommodative to fuel market conditions. It is aimed to either fix the fuel price or keep it in a restrained range. The effective portion of fair value of fuel hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

The mismatch between Group's income and expense currencies causes to the exchange rate risk. In order to manage this risk resulted from the fluctuations of the FX market, the Group started to implement exchange rate risk hedging in 2013. Exchange rate risk management strategy of the Group was updated in 2015 and 2018 as a result of the gained experience and the needs. Since the Group is long in EUR and short in USD and TRY, strategy mainly aims to decrease the amount of short position in USD and TRY with the long position in EUR via the derivative instruments. In this context, on EUR/USD currency hedging, it is decided to execute the transactions in at most 24 months and up to 60% of the forecasted short position of the next month by using forward and zero-cost option structures. Likewise, on EUR/TRY maximum tenor and hedge ratio are 18 months and 50%, respectively. Only forwards are used for these transactions. In accordance with the strategy, current market conditions and future expectations are analyzed dynamically, and the hedge tenor, ratio and instrument to be used are determined accordingly. With these transactions, the Company aims to fix the exchange rate at a single level or to keep it within a certain range. The effective portion of fair value of currency hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

As of 2021, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %54, Euro revenue covered %28, Swiss Frank revenue %12 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2021 and 2020 are as follows:

Derivative Instruments Accounted in Assets and Liabilities

31 December 2021	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(16)	(16)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	-	-
Collar contracts for hedging against cash flow risk of fuel prices	50	(6)	44
Forward currency contracts for hedging purposes	-	-	-
Fair values of derivative instruments for hedging purposes	50	(22)	28
Cross-currency swap contracts not subject to hedge accounting	-	-	-
Interest rate swap contracts not subject to hedge accounting	-	-	-
Forward currency contracts not for hedging purposes	9	(6)	3
Fair values of derivative instruments not for hedging purposes	9	(6)	3
Total	59	(28)	31

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2021 and 2020 are as follows (cont'd):

Derivative Instruments Accounted in Assets and Liabilities

31 December 2020	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(32)	(32)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	-	-
Collar contracts for hedging against cash flow risk of fuel prices	-	(18)	(18)
Forward currency contracts for hedging purposes	-	(1)	(1)
Fair values of derivative instruments for hedging purposes	-	(51)	(51)
Cross-currency swap contracts not subject to hedge accounting	-	-	-
Interest rate swap contracts not subject to hedge accounting	-	-	-
Forward currency contracts not for hedging purposes	2	(13)	(11)
Fair values of derivative instruments not for hedging purposes	2	(13)	(11)
Total	2	(64)	(62)

Derivative Instruments Accounted in the Equity

31 December 2021	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	48	(16)	2	34
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(18)	-	-	(18)
Inefficient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	173	173
Total	30	(16)	175	189
Deferred tax	(6)	3	(35)	(38)
Hedge reserve as of 31 December 2021	24	(13)	140	151

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2021 and 2020 are as follows (cont'd):

Derivative Instruments Accounted in the Equity

31 December 2020	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	(19)	(32)	(9)	(60)
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	6	-	-	6
Inefficient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	(511)	(511)
Total	(13)	(32)	(520)	(565)
Deferred tax	3	6	106	115
Hedge reserve as of 31 December 2020	(10)	(26)	(414)	(450)

37. FEES FOR SERVICES RECEIVED FROM INDEPENDENT AUDITOR/INDEPENDENT AUDIT FIRMS

The Group's explanation regarding the fees for the services received from the independent audit firms, which is based on the letter of POA dated August 19, 2021, the preparation principles of which are based on the Board Decision published in the Official Gazette on March 30, 2021, are as follows (Thousand USD):

	31 December 2021	31 December 2020
Audit and assurance fee	166	132
Other assurance services fee	5	16
	<u>171</u>	<u>148</u>

The fees above have been determined through including the statutory audit and other related service fees of all subsidiaries and joint ventures, and the foreign currency fees of foreign subsidiaries and joint ventures have been converted into USD using the annual average rates of the relevant years.

38. EVENTS AFTER THE BALANCE SHEET DATE

On January 27, 2021, The Group's Board of Directors appointed Prof. Dr. Ahmet Bolat as the Chairman of the Board of Directors and the Executive Committee; Mr. Şekib Avdagiç, as the Independent Member of the Board and Mr. Mehmet Kadaifçiler as the Member of the Board. The appointments will be submitted for approval of the next General Assembly.