

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

Condensed Consolidated Interim
Financial Statements As at and For
The Three-Month Period
Ended 31 March 2023

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 31 March 2023
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	31 March 2023	31 December 2022
Non-Current Assets			
Financial Investments	6	280	165
Other Receivables			
-Third Parties	10	975	957
Investments Accounted for Using Equity Method	3	237	277
Investment Property		69	69
Property and Equipment	12	5,202	4,654
Right of Use Assets	12	16,280	16,577
Intangible Assets			
- Other Intangible Assets	13	71	77
- Goodwill		27	27
Prepaid Expenses		1,014	914
Deferred Tax Asset	26	3	2
TOTAL NON-CURRENT ASSETS		24,158	23,719
Current Assets			
Cash and Cash Equivalents	5	2,620	4,075
Financial Investments	6	2,660	626
Trade Receivables			
-Related Parties	9	35	31
-Third Parties		870	964
Other Receivables			
-Related Parties	9	13	13
-Third Parties	10	938	864
Derivative Financial Instruments	28	31	44
Inventories		340	331
Prepaid Expenses		273	176
Current Income Tax Assets	26	47	35
Other Current Assets		84	66
TOTAL CURRENT ASSETS		7,911	7,225
TOTAL ASSETS		32,069	30,944

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 31 March 2023

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

LIABILITIES AND EQUITY	Notes	31 March 2023	31 December 2022
Equity			
Share Capital	19	1,597	1,597
Treasury Shares		(16)	-
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial Losses on Retirement Pay Obligation	19	(230)	(228)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	(303)	(294)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	19	585	515
-Losses on Investments Remeasured at FVOCI		(10)	(14)
Restricted Profit Reserves	19	52	36
Previous Years Profit	19	8,114	5,405
Net Profit for the Period		233	2,725
Equity of the Parent		10,022	9,742
Non-Controlling Interests		3	-
TOTAL EQUITY		10,025	9,742
Non- Current Liabilities			
Long-Term Borrowings	7	947	1,115
Long-Term Lease Liabilities	7 and 14	9,307	9,177
Other Payables			
-Third Parties		25	24
Deferred Income	11	105	108
Long-Term Provisions			
-Provisions for Employment Termination Benefits	17	275	273
-Other Provisions		64	61
Deferred Tax Liabilities	26	2,286	2,220
TOTAL NON-CURRENT LIABILITIES		13,009	12,978
Current Liabilities			
Short Term Borrowings	7	1,524	1,058
Short-Term Portion of Long-Term Borrowings	7	920	1,100
Short-Term Portion of Lease Liabilities	7 and 14	1,621	1,589
Other Financial Liabilities	8	3	-
Trade Payables			
-Related Parties	9	247	270
-Third Parties		979	930
Payables Related to Employee Benefits		210	183
Other Payables			
-Related Parties	9	6	13
-Third Parties		148	112
Derivative Financial Instruments	28	38	211
Deferred Income	11	2,911	2,394
Current Tax Provision	26	7	3
Short-Term Provisions			
-Provisions for Employee Benefits	15	53	39
-Other Provisions	15	7	6
Other Current Liabilities		361	316
TOTAL CURRENT LIABILITIES		9,035	8,224
TOTAL LIABILITIES AND EQUITY		32,069	30,944

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Three-Month Period Ended 31 March 2023
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<u>PROFIT OR LOSS</u>	<u>Notes</u>	<u>31 March 2023</u>	<u>31 March 2022</u>
Revenue	20	4,353	3,051
Cost of Sales (-)	21	(3,705)	(2,539)
GROSS PROFIT		648	512
General Administrative Expenses (-)	22	(98)	(69)
Selling and Marketing Expenses (-)	22	(416)	(299)
Other Operating Income	23	106	35
Other Operating Expenses (-)	23	(126)	(16)
OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES		114	163
Income from Investment Activities	24	151	46
Expenses for Investment Activities	24	(12)	(23)
Share of Investments' Profit Accounted for Using The Equity Method	3	(12)	(5)
OPERATING PROFIT		241	181
Financial Income	25	302	74
Financial Expenses (-)	25	(267)	(135)
PROFIT BEFORE TAX		276	120
Tax Expense		(43)	41
Current Tax Expense	26	(4)	(8)
Deferred Tax Expense	26	(39)	49
NET PROFIT FOR THE PERIOD		233	161
<u>OTHER COMPREHENSIVE INCOME</u>			
Items That May Be Reclassified Subsequently To Profit or Loss		65	228
Currency Translation Adjustment		(9)	(14)
Losses on Investments Remeasured at FVOCI		5	(1)
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		100	290
Fair Value (Losses) / Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(12)	20
Related Tax of Other Comprehensive Income		(19)	(67)
Items That Will Not Be Reclassified Subsequently To Profit or Loss		(2)	(3)
Actuarial Losses on Retirement Pay Obligation		(3)	(4)
Related Tax of Other Comprehensive Income		1	1
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		63	225
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		296	386
Basic Earnings Per Share (Full US Cents)	27	0.17	0.12
Diluted Earnings Per Share (Full US Cents)	27	0.17	0.12

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Three-Month Period Ended 31 March 2023
(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	Treasury Shares	Actuarial Losses Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges	Losses on Investments Remeasured at FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	Equity Holders of the Parent	Non- controlling Interests	Total Equity
As of 1 January 2023	1,597	-	(228)	(294)	515	(14)	36	5,405	2,725	9,742	-	9,742
Transfers	-	-	-	-	-	-	16	2,709	(2,725)	-	-	-
Total comprehensive income	-	-	(2)	(9)	70	4	-	-	233	296	-	296
Increase / (decrease) through treasury share transactions	-	(16)	-	-	-	-	-	-	-	(16)	-	(16)
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	3	3
As of 31 March 2023	1,597	(16)	(230)	(303)	585	(10)	52	8,114	233	10,022	3	10,025

	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 on Hedging Instruments Entered Into For Cash Flow Hedges	Losses on Investments Remeasured at FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	Equity Holders of the Parent	Non-controlling Interests	Total Equity
As of 1 January 2022	1,597	(71)	(275)	151	(7)	36	4,446	959	6,836	1	6,837
Transfers	-	-	-	-	-	-	959	(959)	-	-	-
Total comprehensive income	-	(3)	(14)	243	(1)	-	-	161	386	-	386
As of 31 March 2022	1,597	(74)	(289)	394	(8)	36	5,405	161	7,222	1	7,223

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Statement of Cash Flows

For the Three-Month Period Ended 31 March 2023

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

	Notes	31 March 2023	31 March 2022
Net Profit for the period		233	161
Adjustments to Reconcile Profit			
Adjustments for Depreciation and Amortisation Expense	12 and 13	497	447
Adjustments for Provisions Related to Employee Benefits	15 and 17	22	22
Adjustments for Provisions for Other Accruals	15	1	1
Adjustments for Reversal of Probable Risks		5	(1)
Adjustments for Interest Income	24 and 25	(154)	(34)
Adjustments for Interest Expense	17 and 25	122	76
Adjustments For Unrealised Foreign Exchange Losses / (Gains)		464	(41)
Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments	25	(180)	37
Adjustments for Undistributed Losses of Associates	3	12	5
Adjustments for Tax Expense / (Income)	26	43	(57)
Adjustments for (Gains) / Losses Arised From Sale of Tangible Assets	24	(11)	22
Adjustments for Losses Arised from Sale of Other Non-Current Assets	12	13	11
Operating Profit Before Changes in Working Capital		1,067	649
Increase in Trade Receivables from Related Parties	9	(4)	(5)
Decrease / (Increase) in Trade Receivables from Third Parties		90	(63)
Increase in Other Receivables from Third Parties	10	(81)	(21)
Adjustments for Increase in Inventories		(9)	(25)
Adjustments for Increase in Prepaid Expenses		(197)	(91)
Decrease in Trade Payables to Related Parties	9	(23)	(35)
Increase in Trade Payables to Third Parties		49	13
Adjustments for Increase in Payables Due to Employee Benefits		27	31
(Decrease) / Increase in Other Payables to Related Parties	9	(7)	1
Increase in Other Payables to Third Parties		37	48
Increase in Deferred Income	11	565	676
(Increase) / Decrease in Other Assets		(18)	21
Cash Flows From Operations		1,496	1,199
Payments for Provisions Related with Employee Benefits	17	(4)	(1)
Income Taxes Received / (Paid)	26	12	(8)
Net Cash From Operating Activities		1,504	1,190
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Proceeds From Sales of Property, Plant and Equipment and Intangible Assets		20	6
Payments For Purchasing of Property, Plant and Equipment and Intangible Assets	12 and 13	(457)	(183)
Payments For Purchasing of Other Short and Long-term Assets	6	(2,149)	(609)
Other Cash Advances and Loans	10	(36)	28
Interest Received	24	75	7
Net Cash Flows Used In Investing Activities		(2,547)	(751)
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Payments to Acquire Entity's Shares		(16)	-
Proceeds From Loans	7	968	477
Repayments of Loans	7	(923)	(594)
Payments of Lease Liabilities	7	(428)	(416)
Interest Paid		(95)	(62)
Interest Received	25	79	27
Other Cash Outflows	8	3	(3)
Net Cash Used in Financing Activities		(412)	(571)
Net Change in Cash and Cash Equivalents		(1,455)	(132)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		4,075	2,677
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	2,620	2,545

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Three-Month Period Ended 31 March 2023**

(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 Türkiye in 1933. As of 31 March 2023 and 31 December 2022, the shareholders and their respective shareholdings in the Company are as follows:

	31 March 2023	31 December 2022
Türkiye Wealth Fund	49.12 %	49.12 %
Republic of Türkiye Treasury and Finance Ministry Privatization Administration	-	-
Other	50.88 %	50.88 %
Total	100.00 %	100.00 %

The Company is controlled by Türkiye Wealth Fund.

The number of employees working for the Group as of 31 March 2023 is 41,241 (31 December 2022: 40,264). The average number of employees working for the Group for the period ended 31 March 2023 and 2022 are 40,850 and 37,421 respectively. The Group is registered in İstanbul, Türkiye 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 March 2023 and 2022:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>31 March 2023</u>	<u>31 December 2022</u>	
THY Teknik A.Ş. (Turkish Technic)	Aircraft Maintenance Services	100%	100%	Türkiye
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş. (TAFA)	Training & Airport Operations	100%	100%	Türkiye
THY Uluslararası Yatırım ve Taşımacılık A.Ş.	Cargo and Courier Transportation Information	100%	100%	Türkiye
THY Teknoloji ve Bilişim A.Ş. (Turkish Technology)	Technologies and Consulting	100%	100%	Türkiye
THY Hava Kargo Taşımacılığı A.Ş.	Cargo Transportation	100%	100%	Türkiye
THY Destek Hizmetleri A.Ş. (*)	Support Services	100%	-	Türkiye
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) (**)	Cabin Interior Products	80%	50%	Türkiye

(*) THY Destek Hizmetleri A.Ş. was established on 06.03.2023 in order to meet the support service needs of our Incorporation's and subsidiaries' out of core business activities.

(**) The merger of the subsidiaries established for the design, production, marketing, and sales of cabin interior products, Uçak Koltuk Üretim Sanayi ve Ticaret A.Ş. ("TSI") and Cornea Havacılık Sistemleri Sanayi ve Ticaret A.Ş. ("Cornea") were dissolved without liquidation and TCI Kabin İçi Sistemleri Sanayi ve Ticaret A.Ş. ("TCI") to take over TSI and Cornea with all its assets and liabilities is completed on 15.02.2023.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2023
(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 March 2023 and 2022:

Company Name	Country of Registration and Operations	<u>Ownership Share and Voting Power</u>		Principal Activity
		31 March 2023	31 December 2022	
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Türkiye	50%	50%	Aircraft Transportation
THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO)	Türkiye	50%	50%	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)	Türkiye	49%	49%	Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Türkiye	50%	50%	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)	Türkiye	50%	50%	Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (TNC) (Goodrich)	Türkiye	40%	40%	Maintenance Services
Vergi İade Aracılık A.Ş.	Türkiye	30%	30%	VAT Return and Consultancy
Air Albania	Albania	49%	49%	Aircraft Transportation
We World Express Ltd. (We World Express)	Hong Kong	45%	45%	Cargo and Courier Transportation
TFS Akaryakıt Hizmetleri A.Ş. (TFS Akaryakıt)	Türkiye	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 condensed consolidated interim financial statements as at and for the three-month period ended 31 March 2023 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2022.

Board of Directors has approved the condensed consolidated interim financial statements as of 31 March 2023 on 3 May 2023. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

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 some financial instruments that are stated at fair value, 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*.

IAS 29 requires the financial statements of an entity with a functional currency that is hyperinflationary to be restated for the changes in the general pricing power of the functional currency. The Group uses the USD in measuring items in its financial statements and uses the USD as the functional currency. Therefore, no adjustments have been made for hyperinflation according to IAS 29.

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 ten 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.

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control occurs when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

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

2.1 Basis of Presentation (cont'd)

Business Combinations (cont'd)

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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 period ended 31 March 2023 are consistent with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2022.

2.3 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed consolidated interim financial statements as at 31 March 2023 are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2022.

2.4 New and Revised Standards and Interpretations

a) Standards, amendments and interpretations applicable as at 31 March 2023:

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.

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

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

a) Standards, amendments and interpretations applicable as at 31 March 2023 (cont'd):

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.

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; effective from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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.

b) Standards, amendments and interpretations that are issued but not effective as at 31 March 2023:

Amendment to IAS 1 – Non current liabilities with covenants; effective from annual periods beginning on or after 1 January 2024. These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

Amendment to IFRS 16 – Leases on sale and leaseback; effective from annual periods beginning on or after 1 January 2024. These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

2.5 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).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2023
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

2.6 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.

2.7 Other

Russia-Ukraine Conflict

Due to the Russia-Ukraine conflict that broke out towards the end of February 2022, Turkish airlines suspended Ukraine and Belarus flights as of February 24, 2022. The closure of the airspaces of these countries to European air carriers caused some airline companies to make route changes, while others were unable to fly to the far east region, the impact of the conflict was limited for the Group due to the geographical location of Istanbul Airport and the Russian airspace being open to Turkish carriers. The Group constantly assesses further developments.

Consecutive Earthquakes

In order to alleviate the impact of social and economic consequences of the consecutive earthquakes which took place on February 6, 2023; passenger and cargo flights were carried out free of charge, a cash donation of USD 107 (TL 2,000) was made and it was decided by the Board of Directors to pursue all necessary work and procedures for the construction of 1,000 homes to be built in the earthquake-affected region. In addition to that, the earthquake does not have a significant impact on the Group's continuing operations.

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	31 March 2023	31 December 2022
TEC	67	65
Sun Express	66	105
TFS Akaryakıt	33	30
Turkish DO&CO	26	26
THY Opet	20	21
TGS	16	17
Goodrich	5	5
We World Express	4	4
TCI (**)	-	4
Vergi İade Aracılık (*)	-	-
	237	277

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

(**) TCI, which was previously consolidated using the Equity method, will be fully consolidated in our financial statements in the following periods.

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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 March 2023	1 January - 31 March 2022
TFS Akaryakıt	5	7
TGS	4	3
Turkish DO&CO	4	3
TEC	3	1
THY Opet	1	3
Goodrich	-	-
Sun Express	(29)	(22)
	<u>(12)</u>	<u>(5)</u>

Financial information for Sun Express as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Total assets	1,807	1,728
Total liabilities	1,674	1,517
Shareholders' equity	133	211
Group's share in joint venture's shareholders' equity	66	105
	1 January - 31 March 2023	1 January - 31 March 2022
Revenue	171	138
Loss for the period	(60)	(45)
Group's share in joint venture's loss for the period	(29)	(22)

Financial information for TEC as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Total assets	268	255
Total liabilities	129	122
Shareholders' equity	139	133
Group's share in joint venture's shareholders' equity	67	65
	1 January - 31 March 2023	1 January - 31 March 2022
Revenue	118	105
Profit for the period	6	2
Group's share in joint venture's profit for the period	3	1

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

Financial information for Turkish DO&CO as of 31 March 2023 and 2022 are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Total assets	176	128
Total liabilities	124	76
Shareholders' equity	52	52
Group's share in joint venture's shareholders' equity	26	26
	<u>1 January - 31 March 2023</u>	<u>1 January - 31 March 2022</u>
Revenue	100	57
Profit for the period	7	5
Group's share in joint venture's profit for the period	4	3

Financial information for THY Opet as of 31 March 2023 and 2022 are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Total assets	151	145
Total liabilities	109	104
Shareholders' equity	41	41
Group's share in joint venture's shareholders' equity	20	21
	<u>1 January - 31 March 2023</u>	<u>1 January - 31 March 2022</u>
Revenue	159	84
Profit for the period	2	5
Group's share in joint venture's profit for the period	1	3

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

Financial information for TGS as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Total assets	174	153
Total liabilities	141	118
Shareholders' equity	33	35
Group's share in joint venture's shareholders' equity	16	17
	1 January - 31 March 2023	1 January - 31 March 2022
Revenue	119	69
Profit for the period	7	7
Group's share in joint venture's profit for the period	4	3

Financial information for TFS Akaryakıt Hizmetleri as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Total assets	504	533
Total liabilities	373	412
Shareholders' equity	132	121
Group's share in joint venture's shareholders' equity	33	30
	1 January - 31 March 2023	1 January - 31 March 2022
Revenue	768	472
Profit for the period	15	29
Group's share in joint venture's profit for the period	5	7

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

Financial information for Goodrich as of 31 March 2023 and 2022 are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Total assets	16	17
Total liabilities	2	4
Shareholders' equity	14	13
Group's share in joint venture's shareholders' equity	5	5
	<u>1 January - 31 March 2023</u>	<u>1 January - 31 March 2022</u>
Revenue	4	6
Profit for the period	-	-
Group's share in joint venture's profit for the period	-	-

Financial information for We World Express as of 31 March 2023 and 2022 are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Total assets	13	14
Total liabilities	4	5
Shareholders' equity	9	9
Group's share in joint venture's shareholders' equity	4	4
	<u>1 January - 31 March 2023</u>	<u>1 January - 31 March 2022</u>
Revenue	9	11
Profit for the period	-	-
Group's share in joint venture's profit for the period	-	-

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 March 2023, the amount is USD 3 (31 December 2022 USD 8).

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

	<u>1 January - 31 March 2023</u>	<u>1 January - 31 March 2022</u>
Opening balance	277	237
Statement of changes in consolidation adjust		
Equity Investment Disposal	(4)	-
Foreign currency translation difference	(10)	(10)
Share of investments' income/(loss) accounted for using the equity method	(12)	(5)
Other expense and income recognized in equity	(14)	13
Closing balance	<u>237</u>	<u>235</u>

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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 20.

4.1 Total Assets and Liabilities

Total Assets	31 March 2023	31 December 2022
Aviation	31,948	30,792
Technical	1,640	1,633
Total	33,588	32,425
Less: Eliminations due to consolidation	(1,519)	(1,481)
Total assets in consolidated financial statements	32,069	30,944
Total Liabilities	31 March 2023	31 December 2022
Aviation	21,814	21,051
Technical	414	422
Total	22,228	21,473
Less: Eliminations due to consolidation	(184)	(271)
Total liabilities in consolidated financial statements	22,044	21,202

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4. SEGMENT REPORTING (cont'd)

4.3 Investment Operations

			Inter-segment elimination	Total
1 January - 31 March 2023	Aviation	Technic		
Purchase of property and equipment and intangible assets	659	105	-	764
Current period depreciation and amortization charge	449	48	-	497
Investments accounted for using equity method	128	109	-	237
1 January - 31 March 2022	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	403	56	-	459
Current period depreciation and amortization charge	405	42	-	447
Investments accounted for using equity method	154	81	-	235

5. CASH AND CASH EQUIVALENTS

	31 March 2023	31 December 2022
Cash	1	1
Banks – Time deposits and Repo	2,120	3,980
Banks – Demand deposits	89	94
Investment Fund	410	-
	2,620	4,075

Details of the time deposits and repo as of 31 March 2023 are as follows:

Original Amount	Currency	Effective Interest Rate	Maturity	31 March 2023
6,695	TL	13.00% - 30.40%	May 2023	360
68	USD	0.50% - 4.00%	April 2023	68
1,535	EUR (*)	1.80% - 10.00%	June 2023	1,688
3	GBP	1.36%	April 2023	4
				2,120

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5. CASH AND CASH EQUIVALENTS (cont'd)

Details of the time deposits as of 31 December 2022 are as follows:

<u>Original Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2022</u>
7,358	TL	6.50% - 27.08%	March 2023	397
186	USD	1.00% - 4.00%	January 2023	186
3,145	EUR (*)	1.00% - 3.15%	March 2023	3,368
3,500	DZD	0.90% - 0.99%	February 2023	25
250	MZN	9.45%	January 2023	4
				<u>3,980</u>

(*) In order to manage the risk resulted from the fluctuations of the USD/EUR parity, the Group implements in USD/EUR derivative instruments amounting to 1,612 USD of time deposits (2022: 1,795 USD).

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Fair value through profit and loss (FVTPL)		
- Equity securities	14	11
Fair value through other comprehensive income (FVOCI)		
- Currency protected deposit account (*)	2,102	-
- Corporate debt securities	436	1
Time deposits with maturity more than 3 months	108	614
	<u>2,660</u>	<u>626</u>

(*) Currency protected time deposit defined as a hybrid contract with a derivative element in IFRS financial statements hence changes in the fair value is accounted in financial investments.

Time deposit with maturity more than 3 months as of 31 March 2023 and 2022 is as follows:

<u>Original Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 March 2023</u>
99	EUR	3.12%	July 2023	<u>108</u>
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2022</u>
550	EUR	2.76% - 4.20%	April 2023	587
500	TL	27.08%	April 2023	27
				<u>614</u>

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6. FINANCIAL INVESTMENTS (cont'd)

Long-term financial investments are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
FVOCI		
- Government debt securities	153	107
- Corporate debt securities	126	57
Other	1	1
	<u>280</u>	<u>165</u>

Contractual maturity dates of financial investments measured at FVOCI as of 31 March 2023 and 2022 is as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Less than 1 year	436	1
1 to 5 years	74	33
Over 5 years	205	131
	<u>715</u>	<u>165</u>

7. BORROWINGS

Short-term borrowings are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Bank borrowings	1,524	1,058

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

	<u>31 March 2023</u>	<u>31 December 2022</u>
Lease liabilities (Note: 14)	1,621	1,589
Bank borrowings	920	1,100
	<u>2,541</u>	<u>2,689</u>

Long-term borrowings are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Lease liabilities (Note: 14)	9,307	9,177
Bank borrowings	947	1,115
	<u>10,254</u>	<u>10,292</u>

Details of bank borrowings as of 31 March 2023 and 2022 are as follows:

	<u>31 March 2023</u>	<u>31 December 2022</u>
Less than 1 year	2,444	2,158
Between 1 – 5 years	924	1,095
Over 5 years	23	20
	<u>3,391</u>	<u>3,273</u>

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7. BORROWINGS (cont'd)

Details of bank borrowings as of 31 March 2023 and 2022 are as follows (cont'd):

<u>Original Amount</u>	<u>Currency</u>	<u>Interest Rate Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 March 2023</u>
1,928	EUR	Fixed	0.20% - 4.00%	May 2023 - March 2031	2,099
			Euribor + 2.90% -		
1,188	EUR	Floating	Euribor + 5.50%	May 2023 - August 2026	1,292
					3,391
<u>Original Amount</u>	<u>Currency</u>	<u>Interest Rate Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December 2022</u>
1,805	EUR	Fixed	0.20% - 4.00%	January 2023 - March 2025	1,924
			Euribor + 2.90% -		
1,265	EUR	Floating	Euribor + 5.50%	May 2023 - August 2026	1,349
					3,273

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

	<u>31 December 2022</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>31 March 2023</u>
Bank Borrowings	3,273	(923)	(40)	113	968	3,391

	<u>31 December 2021</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>31 March 2022</u>
Bank Borrowings	4,659	(594)	(25)	(42)	477	4,475

	<u>31 December 2022</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>New Leases</u>	<u>31 March 2023</u>
Aircraft	10,171	(413)	(55)	342	247	10,292
Property	593	(15)	-	18	38	634
Other	2	-	-	-	-	2
	10,766	(428)	(55)	360	285	10,928

	<u>31 December 2021</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>New Leases</u>	<u>31 March 2022</u>
Aircraft	10,206	(413)	(37)	(137)	247	9,866
Property	36	(3)	-	-	(1)	32
Other	2	-	-	-	-	2
	10,244	(416)	(37)	(137)	246	9,900

In March 2021, it was announced that USD LIBOR 1-week and 2-month settings ceased on 31 December 2021; US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings ceased on 30 June 2023. Due to the cessation of Swiss franc and Japanese yen LIBOR settings on December 31, 2021, replacement reference rates were determined to be SARON for Swiss franc and TONAR, TORF and TIBOR for Japanese yen denominated finance leases with a total amount of USD 815 million as of the cessation date. Approximately USD 505 million finance lease obligations will mature after the discontinuation of US dollar LIBOR settings on June 30, 2023. 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 expects no material impact after the replacement of relevant rates.

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8. OTHER FINANCIAL LIABILITIES

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

	31 March 2023	31 December 2022
Other financial liabilities	3	-

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:

	31 March 2023	31 December 2022
Air Albania	29	26
We World Express Ltd.	3	4
Sun Express	2	-
Posta ve Telgraf Teşkilatı A.Ş (PTT)	1	1
	35	31

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

	31 March 2023	31 December 2022
THY Opet	7	7
Air Albania	6	6
	13	13

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

	31 March 2023	31 December 2022
TFS Akaryakıt Hizmetleri	105	131
TEC	49	50
TGS	45	38
Turkish DO&CO	31	22
THY Opet	16	17
Goodrich	1	2
Sun Express	-	10
	247	270

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

	31 March 2023	31 December 2022
TFS Akaryakıt Hizmetleri	6	6
Türkiye Sigorta A.Ş.	-	7
	6	13

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9. RELATED PARTIES (cont'd)

Transactions with related parties for the period ended 31 March 2023 and 2022 are as follows:

a) Sales to related parties:

	1 January - 31 March 2023	1 January - 31 March 2022
Sun Express	11	8
TEC	4	11
Air Albania	3	2
PTT A.Ş. (PTT)	2	3
TGS	1	1
Türkiye Sigorta A.Ş.	-	2
We World Express Ltd.	-	2
	<u>21</u>	<u>29</u>

b) Purchases from related parties:

	1 January - 31 March 2023	1 January - 31 March 2022
TFS Akaryakıt Hizmetleri	659	414
TGS	117	67
TEC	115	61
Turkish DO&CO	95	40
THY Opet	93	49
Sun Express	8	22
Turkcell	4	2
Goodrich	2	2
	<u>1,093</u>	<u>657</u>

Details of the financial assets and liabilities for related parties as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Banks - Time deposits	2,274	3,890
Financial investments	1,479	588
Financial assets (*)	741	194
Banks - Demand deposits	7	16
Equity share	1	1
Bank borrowings	(1,019)	(1,069)
	<u>3,483</u>	<u>3,620</u>

(*) This represents the nominal amount.

As of 31 March 2023, the amount of letters of guarantees given to the related parties is USD 720 (31 December 2022: USD 441).

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9. RELATED PARTIES (cont'd)

Details of the time deposits at related parties as of 31 March 2023 and 2022 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 March 2023</u>
10,265	TL	25.65% - 30.40%	May 2023	545
1,506	EUR	1.80% - 9.99%	June 2023	1,657
68	USD	2.20%	April 2023	68
3	GBP	1.36%	April 2023	4
				<u>2,274</u>
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2022</u>
7,354	TL	6.50% - 27.08%	March 2023	397
3,095	EUR	1.00% - 3.15%	March 2023	3,314
175	USD	1.00% - 4.00%	January 2023	175
250	MZN	9.45%	January 2023	4
				<u>3,890</u>

Details of the financial investments at related parties as of 31 March 2023 and 2022 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 March 2023</u>
99	EUR	3.12%	July 2023	108
24,030	TL	8.50% - 15.00%	September 2023	1,371
				<u>1,479</u>
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2022</u>
525	EUR	2.76% - 3.15%	April 2023	561
500	TL	27.08%	April 2023	27
				<u>588</u>

Details of the financial assets at related parties as of 31 March 2023 and 2022 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 March 2023</u>
			April 2023 -	
301	USD	5.38% - 8.60%	September 2023	301
			April 2023 -	
405	EUR	3.25% - 5.70%	September 2023	440
				<u>741</u>
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2022</u>
			January 2023 -	
194	USD	5.38% - 8.60%	June 2023	194

Details of the bank borrowings at related parties as of 31 March 2023 and 2022 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 March 2023</u>
936	EUR	2.55% - Euribor + 5.50%	March 2026	1,019
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2022</u>
1,003	EUR	2.55% - Euribor + 5.50%	March 2026	1,069

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9. RELATED PARTIES (cont'd)

Interest income from related parties:

	1 January - 31 March 2023	1 January - 31 March 2022
Türkiye Vakıflar Bankası T.A.O. (Türkiye Vakıflar Bankası)	55	21
Türkiye Halk Bankası A.Ş. (Halk Bankası)	10	7
T.C. Ziraat Bankası A.Ş. (Ziraat Bankası)	9	5
	<u>74</u>	<u>33</u>

Interest expense to related parties:

	1 January - 31 March 2023	1 January - 31 March 2022
Türkiye Vakıflar Bankası	9	9
Ziraat Bankası	5	6
	<u>14</u>	<u>15</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 Turkcell are related to telecommunication services; transactions between the Group and Goodrich are related to maintenance services; transactions between the Group and Türkiye Sigorta are related to insurance 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 all short-term benefits, including salaries, bonuses, vehicles allocated for their use and communication expenses provided for the Board Members, General Managers and Deputy General Managers of THY AO, THY Teknik A.Ş., THY Uçuş Eğitim ve Havalimanı İşletme A.Ş., THY Teknoloji ve Bilişim A.Ş. and TCI Kabin İçi Sistemleri San ve Tic. A.Ş. are USD 1 for the period between 1 January- 31 March 2023 (1 January- 31 March 2022: USD 1).

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10. OTHER RECEIVABLES

Other short-term receivables from third parties as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Predelivery payments made for aircrafts	490	511
Receivables from technical purchases	154	100
Bank deposits with transfer limitations (*)	137	113
Value added tax receivables	66	69
Receivables from pilots for flight training	26	24
Others	65	47
	938	864

(*) As of 31 March 2023, 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, Republic of Angola, Republic of Cameroon, Republic of Chad, Gabon, Benin, Republic of Lebanon, Democratic Republic of the Congo, Republic of Ghana, Egypt, Republic of Pakistan and Iran. (As of 31 December 2022, 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, Egypt, Ukraine and Iran.).

Other long-term receivables from third parties as of 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Receivables related to investment incentives (**)	454	415
Predelivery payments made for aircrafts	323	291
Receivables from pilots for flight training	153	148
Deposits and guarentees given	45	45
Interest and commodity swap agreement deposits	-	58
	975	957

(**) This represents the accrued amount as of 31 March 2023. Total contribution of government incentives related to fleet investments amounts to USD 3,631 (31 December 2022: USD 3,452).

11. DEFERRED INCOME

Deferred income is as follows:

	31 March 2023	31 December 2022
Passenger flight liabilities	2,808	2,291
Other short-term deferred income	103	103
	2,911	2,394

Passenger flight liability is as follows:

	31 March 2023	31 December 2022
Flight liability for ticket sales	2,645	2,107
Frequent flyer program liability	163	184
	2,808	2,291

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11. DEFERRED INCOME (cont'd)

Other short-term deferred income is as follows:

	31 March 2023	31 December 2022
Deferred finance income	81	81
Advances received	9	11
Unearned bank protocol income	8	-
Other	5	11
	<u>103</u>	<u>103</u>

Long-term deferred income is as follows:

	31 March 2023	31 December 2022
Deferred finance income	104	107
Other	1	1
	<u>105</u>	<u>108</u>

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12. PROPERTY AND EQUIPMENT

	Land improvements and buildings	Technical equipment, simulator and vehicles	Other equipment, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2023	1,600	759	279	5,028	750	746	210	242	9,614
Additions	-	7	12	82	22	61	1	65	250
Transfers (*)	-	1	-	21	10	-	2	(55)	(21)
Transfers between the account	-	-	-	921	33	-	-	-	954
Disposals	-	(1)	(1)	(112)	(16)	(30)	-	-	(160)
Closing balance at 31 March 2023	1,600	766	290	5,940	799	777	213	252	10,637
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2023	406	385	229	3,108	319	387	126	-	4,960
Depreciation charge	18	10	5	80	20	27	4	-	164
Transfers between the account	-	-	-	434	17	-	-	-	451
Disposals	-	(1)	(1)	(105)	(16)	(17)	-	-	(140)
Closing balance at 31 March 2023	424	394	233	3,517	340	397	130	-	5,435
Net book value at 31 March 2023	1,176	372	57	2,423	459	380	83	252	5,202
Net book value at 31 December 2022	1,194	374	50	1,920	431	359	84	242	4,654

(*) The amount of USD 21 transferred to right of use asset from construction in progress.

USD 479 of depreciation and amortization expenses recognized in cost of sales (31 March 2022: USD 429), USD 17 of general administrative expenses (31 March 2022: USD 16) and USD 1 of marketing and sales expenses (31 March 2022: USD 2) in total of USD 497 as of 31 March 2023 (31 March 2022: USD 447).

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

There is no mortgage on property, plant and equipment as of March 31, 2023 (December 31, 2022: None).

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12. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipment, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2022	1,650	734	259	4,341	697	692	196	179	8,748
Additions	-	4	1	30	27	43	-	31	136
Transfers	-	1	-	7	4	-	-	(14)	(2)
Transfers between the accounts	-	-	-	91	19	-	-	-	110
Disposals	(2)	(2)	(1)	(50)	-	(28)	(1)	-	(84)
Closing balance at 31 March 2022	1,648	737	259	4,419	747	707	195	196	8,908
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2022	336	344	211	2,709	288	385	111	-	4,384
Depreciation charge	18	10	5	63	15	24	4	-	139
Transfers between the accounts	-	-	-	30	11	-	-	-	41
Disposals	(1)	(1)	(1)	(29)	-	(17)	(1)	-	(50)
Closing balance at 31 March 2022	353	353	215	2,773	314	392	114	-	4,514
Net book value at 31 March 2022	1,295	384	44	1,646	433	315	81	196	4,394

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12. 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 2023	21,737	369	654	7	22,767
Additions	477	-	36	-	513
Transfers	21	-	-	-	21
Disposals	(67)	-	-	-	(67)
Transfers between the accounts (*)	(921)	(33)	-	-	(954)
Closing balance at 31 March 2023	21,247	336	690	7	22,280

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2023	6,044	83	59	4	6,190
Depreciation charge	311	6	9	2	328
Disposals	(67)	-	-	-	(67)
Transfers between the account (*)	(434)	(17)	-	-	(451)
Closing balance at 31 March 2023	5,854	72	68	6	6,000
Net book value at 31 March 2023	15,393	264	622	1	16,280

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Cost</u>					
Opening balance at 1 January 2022	20,348	301	75	9	20,733
Additions	323	-	-	-	323
Transfers	2	-	-	-	2
Disposals	(93)	-	(1)	-	(94)
Transfers between the accounts (*)	(110)	-	-	-	(110)
Closing balance at 31 March 2022	20,470	301	74	9	20,854

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2022	5,525	62	31	5	5,623
Depreciation charge	296	5	2	-	303
Disposals	(89)	-	-	-	(89)
Transfers between the account (*)	(41)	-	-	-	(41)
Closing balance at 31 March 2022	5,691	67	33	5	5,796
Net book value at 31 March 2022	14,779	234	41	4	15,058

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

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13. INTANGIBLE ASSETS

	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
<u>Cost</u>				
Opening balance at 1 January 2023	44	263	5	312
Additions	-	1	-	1
Disposals	-	(2)	-	(2)
Closing balance at 31 March 2023	44	262	5	311

Accumulated Amortization

Opening balance at 1 January 2023	-	232	3	235
Amortization charge	-	5	-	5
Closing balance at 31 March 2023	-	237	3	240
Net book value at 31 March 2023	44	25	2	71
Net book value at 31 December 2022	44	31	2	77

	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
<u>Cost</u>				
Opening balance at 1 January 2022	44	239	5	288
Additions	-	-	-	-
Transfers	-	-	-	-
Closing balance at 31 March 2022	44	239	5	288

Accumulated Amortization

Opening balance at 1 January 2022	-	203	3	206
Amortization charge	-	5	-	5
Closing balance at 31 March 2022	-	208	3	211
Net book value at 31 March 2022	44	31	2	77

(*) The Group accounts slot rights as intangible assets with indefinite useful lives because these assets do not have any expiry date and are usable in the foreseeable future.

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14. LEASES

Maturities of lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022	31 March 2023	31 December 2022
Less than 1 year	1,941	1,883	(320)	(294)	1,621	1,589
Between 1 – 5 years	6,175	6,081	(808)	(732)	5,367	5,349
Over 5 years	4,532	4,370	(592)	(542)	3,940	3,828
	<u>12,648</u>	<u>12,334</u>	<u>(1,720)</u>	<u>(1,568)</u>	<u>10,928</u>	<u>10,766</u>

	31 March 2023	31 December 2022
Interest Range:		
Floating rate obligations	5,377	5,355
Fixed rate obligations	<u>5,551</u>	<u>5,411</u>
	<u>10,928</u>	<u>10,766</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 March 2023, the USD, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 5.56% (31 December 2022: 5.82%) for the fixed rate obligations and 1.54% (31 December 2022: 1.53%) for the floating rate obligations.

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 March 2023 and 2022 are as follows:

Short-term provision for employee benefits is as follows:

	31 March 2023	31 December 2022
Provisions for unused vacation	<u>53</u>	<u>39</u>

Changes in the provisions for the period ended 31 March 2023 and 2022 are set out below:

	1 January - 31 March 2023	1 January - 31 March 2022
Provisions at the beginning of the period	39	18
Provisions for the current period	122	85
Provisions released (-)	(108)	(66)
Foreign currency translation differences	-	(3)
Provisions at the end of the period	<u>53</u>	<u>34</u>

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

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

Other short-term provision is as follows:

	31 March 2023	31 December 2022
Provisions for legal claims	<u>7</u>	<u>6</u>

Changes in the provisions for legal claims for the period ended 31 March 2023 and 2022 are set out below:

	1 January - 31 March 2023	1 January - 31 March 2022
Provisions at the beginning of the period	6	8
Provisions for the current period	1	1
Provisions released (-)	-	-
Foreign currency translation differences	-	(1)
Provisions at the end of the period	<u>7</u>	<u>8</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 advices from the legal advisors.

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16. COMMITMENTS

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

Amount of letters of guarantees given as of 31 March 2023 is USD 1,679 (31 December 2022: USD 1,675).

As of 31 March 2023, the letters of guarantee are given to various authorities (i.e. various banks and vendors.)

	31 March 2023		31 December 2022	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,679	-	1,675
-Collaterals				
TL	55	3	75	4
EUR	1,482	1,612	1,530	1,632
USD	56	56	30	30
Other	-	8	-	9
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>1,679</u>		<u>1,675</u>

b) Aircraft purchase commitments:

The Group has signed agreements for 82 aircrafts which will be delivered between the years 2023 and 2028, (77 of aircrafts are contractual and 5 of them are optional) with a list price value of USD 13,134 each. The Group has made a predelivery payment of USD 860 relevant to these purchases as of 31 March 2023 (31 December 2022: USD 846).

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17. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 March 2023 and 2022 is comprised of the following:

	31 March 2023	31 December 2022
Provision for retirement pay liability	<u>275</u>	<u>273</u>

Under Labor Law effective in Türkiye, 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 1,041 (full) (equivalent of TL 19,983 (full)) as of 31 March 2023. (31 December 2022: USD 821 (full) equivalent of TL 15,371 (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 March 2023 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 10.08% annual inflation rate (31 December 2022: 10.08%) and 10.62% interest rate (31 December 2022: 10.62%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.25% (31 December 2022: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of USD 1,041 (full) (equivalent of TL 19,983 (full)) which is in effect since 1 January 2023 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 March 2023	1 January - 31 March 2022
Provision at the beginning of the period	273	113
Service charge for the period	8	3
Interest charges	7	5
Actuarial loss	3	4
Payments	(4)	(1)
Foreign currency translation difference	(12)	(15)
Provision at the end of the period	<u>275</u>	<u>109</u>

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18. EXPENSES BY NATURE

Expenses by nature for the three-month period ended 31 March 2023 and 2022 are as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Fuel	1,477	957
Personnel	726	443
Depreciation and amortisation	497	447
Ground services	262	182
Aircraft maintenance	241	172
Airport	202	135
Passenger services and catering	186	97
Air traffic control	160	125
Commissions and incentives	150	97
Reservation systems	82	75
Service	42	23
Advertisement and promotion	35	18
Wet lease	30	28
Taxes and duties	19	20
Insurance	16	15
Transportation	13	13
Utility	12	8
IT and communication	11	7
Call center	9	5
Rents	8	14
Systems use and associateship	5	4
Consultancy	5	3
Aircraft rent	5	2
Other	26	17
	<u>4,219</u>	<u>2,907</u>

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19. SHAREHOLDERS' EQUITY

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

(Millions of TL)	Class	%	31 March		31 December	
			2023	%	2022	
Türkiye Wealth Fund	A	49.12	678	49.12	678	
Republic of Türkiye Treasury and Finance Ministry Privatization Administration	C	-	-	-	-	
Treasury Shares (**)	A	0.16	2		-	
Other (publicly held)	A	50.72	700	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	

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

(**) In accordance with the Capital Market Board's Communiqué II-22.1 on treasury shares and the related announcement dated 14.02.2023, in order to contribute to the fair price formation of Company's share, Board of Directors of THY A.O. decided to launch a Share Buy-back program covering 3 calendar years and to allocate a maximum of USD 480 (TL 9,000) for treasury shares from Company's cash portfolio, while limiting the number of shares that may be subject to buy-back be at most 5% of the issued share capital. According to share buy-back program, company purchased 2.232.800 shares with the amount of USD 16 as of 31.03.2023.

As of 31 March 2023, 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 Türkiye 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%.)
 - 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.

19. SHAREHOLDERS' EQUITY (cont'd)

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

According to 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 2023, 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 fully covered borrowings of such foreign currency, while Japanese Yen revenue covered %81 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

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20. REVENUE

Breakdown of gross profit is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Passenger revenue		
Scheduled	3,641	1,983
Unscheduled	7	7
Total passenger revenue	3,648	1,990
Cargo revenue		
Carried by passenger aircraft	287	391
Carried by cargo aircraft	304	589
Total cargo revenue	591	980
Total passenger and cargo revenue	4,239	2,970
Technical revenue	107	77
Other revenue	7	4
Net sales	4,353	3,051
Cost of sales (-)	(3,705)	(2,539)
Gross profit	648	512

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

	1 January - 31 March 2023	1 January - 31 March 2022
International flights		
- Europe	1,203	751
- Asia and Far East	1,048	805
- Americas	893	654
- Middle East	431	263
- Africa	402	310
Total	3,977	2,783
Domestic flights	262	187
Total passenger and cargo revenue	4,239	2,970

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21. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Fuel	1,477	957
Personnel	579	346
Depreciation and amortisation	479	429
Ground services	262	182
Aircraft maintenance	241	172
Airport	202	135
Passenger services and catering	186	97
Air traffic control	160	125
Wet lease	30	28
Service	19	9
Insurance	15	14
Transportation	13	13
Utility	10	7
Taxes and duties	6	5
Rents	5	8
Aircraft rent	5	2
IT and communication	3	2
Systems use and associateship	2	-
Other	11	8
	<u>3,705</u>	<u>2,539</u>

22. GENERAL ADMINISTRATIVE EXPENSES AND SELLING AND MARKETING EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Personnel	47	27
Depreciation and amortisation	17	16
Service	17	11
IT and communication	6	3
Consultancy	2	1
Utility	2	1
Systems use and associateship	1	2
Taxes and duties	1	2
Insurance	1	1
Rents	1	1
Other	3	4
	<u>98</u>	<u>69</u>

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

Breakdown of selling and marketing expenses is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Commissions and incentives	150	97
Personnel	100	70
Reservation systems	82	75
Advertisement and promotion	35	18
Taxes and duties	12	13
Call center	9	5
Service	6	3
Consultancy	3	2
Rents	2	5
IT and communication	2	2
Systems use and associateship	2	2
Depreciation and amortisation	1	2
Other	12	5
	416	299

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Insurance, indemnities, penalties income	60	3
Manufacturers' credits	29	16
Rent income	7	4
Turnover premium from suppliers	6	1
Non- interest income from banks	2	2
Foreign exchange gains from operational activities, net	-	5
Provisions released	-	2
Other	2	2
	106	35

Breakdown of other operating expenses is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Donation	107	-
Foreign exchange losses from operational activities, net	10	-
Provisions	5	2
Indemnity and penalty expenses	2	3
Adjustments for ECL provision	2	-
Rediscount interest expenses	-	8
Other	-	3
	126	16

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24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Interest income from financial investment	75	7
Income from investment incentives	49	36
Gain on sale of financial investments	16	2
Gain on sale of fixed assets	11	1
	151	46

Breakdown of expense from investment activities is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Loss on sale of financial investments	12	-
Loss on sale of fixed assets	-	23
	12	23

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Fair value gains on derivative financial instruments, net	180	-
Interest income	79	27
Reversal of ECL provision	2	-
Foreign exchange gains from financial activities, net	-	47
Other	41	
	302	74

Breakdown of financial expenses is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Foreign exchange losses on financial activities, net	133	-
Interest expense from leasing liabilities	81	39
Interest expense from financial activities	34	32
Interest expenses on employee benefits	7	5
Aircraft financing expenses	6	5
Rediscount interest expense from repayments of aircrafts	3	15
Fair value losses on derivative financial instruments, net	-	37
Other	3	2
	267	135

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26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	31 March 2023	31 December 2022
Prepaid taxes	47	35

Tax liability is as follows:

	31 March 2023	31 December 2022
Provisions for corporate tax	38	35
Prepaid taxes and funds	(31)	(32)
Corporate tax liability	7	3

Tax expense is as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Current period tax expense	4	8
Deferred tax expense/(income)	39	(49)
Tax expense/(income)	43	(41)

Tax effect related to other comprehensive income is as follows:

	1 January - 31 March 2023			1 January - 31 March 2022		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Change in cash flow hedge reserve	88	(18)	70	310	(67)	243
Change in actuarial losses from retirement pay obligation	(3)	1	(2)	(4)	1	(3)
Losses on Remeasuring FVOCI	5	(1)	4	(1)	-	(1)
Changes in foreign currency translation difference	(9)	-	(9)	(14)	-	(14)
Other comprehensive income	81	(18)	63	291	(66)	225

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

Corporate Tax

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

As of 31 March 2023, the corporate tax rate is 20% in Türkiye (December 31, 2022: 23%). Corporation tax rate is applied to net income of the companies after adjusting for certain disallowable expenses, exempt income and allowances.

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26. TAX ASSETS AND LIABILITIES (cont'd)

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 Türkiye, 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 are calculated with 20% tax rate for those which will be realized 2023 and onwards.

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

	<u>31 March 2023</u>	<u>31 December 2022</u>
Deferred tax asset	3	2
Deferred tax liability	(2,286)	(2,220)
Deferred tax liability	<u>(2,283)</u>	<u>(2,218)</u>

	<u>31 March 2023</u>	<u>31 December 2022</u>
Fixed assets	(2,781)	(2,770)
Right of use asset	(476)	(456)
Adjustments for passenger flight liabilities	(65)	(46)
Change in fair value of derivative instruments	(59)	33
Accruals for expenses	(19)	82
Lease liabilities	494	465
Carry forward tax losses	196	233
Income and expense for future years	143	118
Provisions for employee benefits	55	55
Miles accruals	22	24
Provisions for unused vacation	11	8
Other	196	36
Deferred tax liabilities	<u>(2,283)</u>	<u>(2,218)</u>

The changes of deferred tax liability for the period ended 1 January – 31 March 2023 and 2022 are as follows:

	<u>1 January - 31 March 2023</u>	<u>1 January - 31 March 2022</u>
Opening balance at 1 January	2,218	1,713
Deferred tax expense	39	(49)
Tax expense from hedging reserves	20	63
Foreign currency translation difference	5	84
Tax income from FVOCI	1	-
Tax income of actuarial losses on retirement pay obligation	-	(1)
Deferred tax liability at the end of the period	<u>2,283</u>	<u>1,810</u>

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26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Reconciliation with current tax charge for the period 1 January – 31 March 2023 and 2022 are as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
<u>Reconciliation of effective tax charge</u>		
Profit from operations before tax	276	120
Domestic expense tax rate of 20% / 23%	(55)	(28)
Taxation effects on:		
- foreign currency translation difference	19	100
- income from investment certificates	10	2
- investment incentive	2	7
- adjustment for prior year loss	-	(1)
- investments accounted by using the equity method	(2)	(1)
- non deductible expenses	(17)	(38)
Tax charge in statement of profit	(43)	41

27. 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 Türkiye, 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.

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27. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of profits / losses per share at 1 January – 31 March 2023 and 2022:

	1 January - 31 March 2023	1 January - 31 March 2022
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
Number of shares outstanding at 31 March (in full)	137,997,767,199	138,000,000,000
Weighted average number of shares outstanding during the period (in full)	137,999,429,881	138,000,000,000
Net profit for the period	233	161
Basic earnings per share (Full US Cents) (*)	0.17	0.12
Diluted earnings per share (Full US Cents) (*)	0.17	0.12

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 March 2023 and 2022 are as follows:

<u>Derivative financial assets</u>	31 March 2023	31 December 2022
Derivative instruments for interest rate		
cash flow hedge	15	16
Derivative instruments for cross currency rate		
cash flow hedge	7	16
Derivative instruments not subject to hedge accounting	5	-
Derivative instruments for fuel prices		
cash flow hedge	4	12
	31	44

<u>Derivative financial liabilities</u>	31 March 2023	31 December 2022
Derivative instruments not subject to hedge accounting	31	208
Derivative instruments for fuel prices		
cash flow hedge	4	1
Derivative instruments for cross currency rate		
cash flow hedge	2	-
Derivative instruments for interest rate		
cash flow hedge	1	2
	38	211

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29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

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 March 2023					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	1,100	167	84	9	19	821
2a.Monetary Financial Assets	5,217	2,479	2,667	4	2	65
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	577	156	191	-	6	224
4.Current Assets (1+2+3)	6,894	2,802	2,942	13	27	1,110
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	656	454	196	-	-	6
8.Non Current Assets (5+6+7)	656	454	196	-	-	6
9.Total Assets (4+8)	7,550	3,256	3,138	13	27	1,116
10.Trade Payables	893	598	241	1	4	49
11.Financial Liabilities (*)	3,689	6	3,281	379	23	-
12a.Other Liabilities, Monetary	535	223	233	3	6	70
12b.Other Liabilities, Non Monetary	60	60	-	-	-	-
13.Current Liabilities (10+11+12)	5,177	887	3,755	383	33	119
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities (*)	7,943	50	6,303	1,514	76	-
16a.Other Liabilities, Monetary	20	4	6	-	-	10
16b.Other Liabilities, Non Monetary	275	275	-	-	-	-
17.Non Current Liabilities (14+15+16)	8,238	329	6,309	1,514	76	10
18.Total Liabilities (13+17)	13,415	1,216	10,064	1,897	109	129
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)	(5,865)	2,040	(6,926)	(1,884)	(82)	987
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(6,763)	1,765	(7,313)	(1,884)	(88)	757
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	1,612	-	1,612	-	-	-
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 aircraft 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 7,504 as of 31 March 2023 (31 December 2022: USD 7,679).

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

Foreign currency risk management (cont'd)

	31 December 2022					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	891	99	108	10	14	660
2a.Monetary Financial Assets	4,521	440	3,976	4	3	98
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	526	150	182	-	5	189
4.Current Assets (1+2+3)	5,938	689	4,266	14	22	947
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	585	585	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	640	416	218	-	-	6
8.Non Current Assets (5+6+7)	1,225	1,001	218	-	-	6
9.Total Assets (4+8)	7,163	1,690	4,484	14	22	953
10.Trade Payables	841	562	210	1	4	64
11.Financial Liabilities	3,529	4	3,160	342	23	-
12a.Other Liabilities, Monetary	441	185	197	3	6	50
12b.Other Liabilities, Non Monetary	45	45	-	-	-	-
13.Current Liabilities (10+11+12)	4,856	796	3,567	346	33	114
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	8,009	39	6,427	1,462	81	-
16a.Other Liabilities, Monetary	18	3	6	-	-	9
16b.Other Liabilities, Non Monetary	273	273	-	-	-	-
17.Non Current Liabilities (14+15+16)	8,300	315	6,433	1,462	81	9
18.Total Liabilities (13+17)	13,156	1,111	10,000	1,808	114	123
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)	(5,993)	579	(5,516)	(1,794)	(92)	830
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(6,841)	331	(5,916)	(1,794)	(97)	635
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	1,795	-	1,795	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

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 includes 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 March 2023			
	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	204	(204)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	204	(204)	-	-
4- Euro net asset / liability	(93)	93	(600)	600
5- Part hedged from Euro risk (-)	161	(161)	-	-
6- Euro net effect (4+5)	68	(68)	(600)	600
7- JPY net asset / liability	(47)	47	(141)	141
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(47)	47	(141)	141
10- CHF net asset / liability	2	(2)	(10)	10
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	2	(2)	(10)	10
13- Other foreign currency net asset / liability	99	(99)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	99	(99)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	326	(326)	(751)	751

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

Foreign currency risk management (cont'd)

	31 December 2022			
	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	58	(58)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	58	(58)	-	-
4- Euro net asset / liability	60	(60)	(612)	612
5- Part hedged from Euro risk (-)	180	(180)	-	-
6- Euro net effect (4+5)	240	(240)	(612)	612
7- JPY net asset / liability	(33)	33	(146)	146
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(33)	33	(146)	146
10- CHF net asset / liability	1	(1)	(10)	10
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	1	(1)	(10)	10
13- Other foreign currency net asset / liability	83	(83)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	83	(83)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	349	(349)	(768)	768

30. EVENTS AFTER THE BALANCE SHEET DATE

None.