

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

Consolidated Financial Statements As at and  
for The Year Ended 31 December 2020  
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 2020, 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 2020;
- 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*

Due to the impact of COVID-19 in 2020, global air traffic has significantly declined and stringent measures have been taken to slow the expansion of the pandemic. Several constraints were imposed and restrictions continue to have a major impact on global aviation industry. 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.

### **Other matter**

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another firm of auditors, whose report, dated 5 March 2020, expressed an unmodified opinion on those statements.

### **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
<p><b>The recognition of the revenue, passenger flight liabilities and the frequent flyer program liabilities</b></p> <p><i>Revenue and passenger flight liabilities (Please refer to Note 2.3.1, 14 and 26)</i></p> <p>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 USD3,792 million for the year ended 31 December 2020. Unused tickets are recognized as passenger flight liabilities, until the flights are completed. Total passenger liabilities amounted to USD580 million as of 31 December 2020.</p> <p>We focused on this area in our audit due to the following reasons:</p> <ul style="list-style-type: none"> <li>- Travel restrictions imposed due to the Covid-19 outbreak have significant effects on the passenger revenues of the Group for the year ended 31 December 2020,</li> <li>- 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,</li> <li>- 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,</li> <li>- The necessity for our IT experts to be involved in the audit process due to the complexity of the systems.</li> </ul>	<p>The following procedures were performed to audit of the revenue and passenger flight liabilities:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- We have understood the business processes and controls over accounting of the passenger revenue.</li> <li>- We have tested key controls over accounting of the passenger revenue processes.</li> <li>- We have tested unredeemed tickets through sampling method.</li> <li>- We have tested consistency and mathematical accuracy of the methods used in calculation of unused ticket revenue which are estimated based on historical data.</li> <li>- We have tested refunds of ticket prices to the passengers which are realized higher than previous years due to the travel restrictions during the Covid-19 outbreak through sampling method,</li> </ul>



Key audit matters	How our audit addressed the key audit matter
<p><b>The recognition of the revenue, passenger flight liabilities and the frequent flyer program liabilities</b></p> <p><i>Frequent flyer program liabilities (Please refer to Note 2.3.19 and 14)</i></p> <p>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 USD199 million in the consolidated financial statements as of 31 December 2020.</p> <p>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”).</p> <p>We focused on this area in our audit due to the following reasons:</p> <ul style="list-style-type: none"> <li>- 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,</li> <li>- Complex calculations are performed in determination of the value of the awards for which they could be redeemed,</li> <li>- The necessity for our IT experts to be involved in the audit process due to the complexity of the systems.</li> </ul>	<p>The following procedures were performed to audit of the frequent flyer program liabilities:</p> <ul style="list-style-type: none"> <li>- We have understood the business processes and controls over accounting of the frequent flyer program liabilities.</li> <li>- 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.</li> <li>- We have tested consistency and mathematical accuracy of the methods used in calculation of frequent flyer liabilities which are estimated based on historical data.</li> <li>- We have controlled consistency of frequent flyer program liabilities calculated at the end of the reporting period with frequent flyer program.</li> <li>- We have controlled breakage estimates through comparing the ratio with the historical usage data.</li> </ul>



Key audit matters	How our audit addressed the key audit matter
<p><b>The Component accounting of aircrafts (Please refer to Note 2.3.3, 2.3.4 and 15)</b></p> <p>The carrying values of aircrafts’ components accounted for property, plant and equipment and right of use assets amounted to USD16,005 million in the consolidated financial statements as of 31 December 2020.</p> <p>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.</p> <p>We focused on this area in our audit due to the following reasons:</p> <ul style="list-style-type: none"> <li>- The impacts to the consolidated financial statements as of 31 December 2020 is significant,</li> <li>- The assessment of determination of components involves significant level of management’s estimates,</li> <li>- The assessment of determination of useful lives of each components and residual values involves managements’ significant estimates.</li> </ul>	<ul style="list-style-type: none"> <li>- The following procedures were performed to audit of the component accounting of aircrafts:</li> <li>- 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”.</li> <li>- 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.</li> <li>- We have compared the consistency of the components and their useful lives with the sectoral applications.</li> <li>- We have recalculated current year’s depreciation expenses.</li> </ul>



## **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 2021

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

**Consolidated Balance Sheet as at 31 December 2020**

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

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Non-Current Assets</b>			
Financial Investments	6	75	90
Other Receivables			
-Third Parties	12	1,200	1,276
Investments Accounted for Using Equity Method	3	256	369
Property and Equipment	15	4,145	3,643
Right of Use Assets	15	14,777	13,618
Intangible Assets			
- Other Intangible Assets	16	89	82
- Goodwill	17	12	12
Prepaid Expenses	14	798	864
<b>TOTAL NON-CURRENT ASSETS</b>		<b>21,352</b>	<b>19,954</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	5	1,811	2,075
Financial Investments	6	18	400
Trade Receivables			
-Related Parties	9	18	-
-Third Parties	10	619	540
Other Receivables			
-Related Parties	9	6	28
-Third Parties	12	1,095	1,053
Derivative Financial Instruments	34	2	52
Inventories	13	305	290
Prepaid Expenses	14	141	149
Current Income Tax Assets	32	38	43
Other Current Assets	24	125	140
<b>TOTAL CURRENT ASSETS</b>		<b>4,178</b>	<b>4,770</b>
<b>TOTAL ASSETS</b>		<b>25,530</b>	<b>24,724</b>

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 2020**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Equity</b>			
Share Capital	25	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	25	( 48)	( 38)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	25	( 201)	( 184)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	25	( 450)	171
-Gains on Remeasuring FVOCI	25	2	( 1)
Restricted Profit Reserves	25	72	67
Previous Years Profit	25	5,246	4,463
Net (Loss) / Profit for the Year		( 836)	788
Equity of the Parent		<b>5,382</b>	<b>6,863</b>
Non-Controlling Interests		1	1
<b>TOTAL EQUITY</b>		<b>5,383</b>	<b>6,864</b>
<b>Non- Current Liabilities</b>			
Long-Term Borrowings	7 and 18	2,681	1,721
Long Term Lease Liabilities	7 and 18	9,579	8,545
Other Payables			
-Third Parties	12	22	37
Deferred Income	14	109	120
Long-Term Provisions			
-Provisions for Employee Benefits	22	134	135
-Other Provisions		49	45
Deferred Tax Liability	32	1,119	1,293
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,693</b>	<b>11,896</b>
<b>Current Liabilities</b>			
Short Term Borrowings	7	1,527	1,241
Short-Term Portion of Long-Term Borrowings	7 and 18	1,186	491
Short Term Portion of Lease Liabilities	7 and 18	1,728	1,374
Other Financial Liabilities	8	17	19
Trade Payables			
-Related Parties	9	141	172
-Third Parties	10	720	958
Payables Related to Employee Benefits	11	90	160
Other Payables			
-Third Parties	12	88	98
Derivative Financial Instruments	34	64	70
Deferred Income	14	614	1,071
Short-Term Provisions			
-Provisions for Employee Benefits	20	16	39
-Other Provisions	20	10	13
Other Current Liabilities	24	253	258
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,454</b>	<b>5,964</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>25,530</b>	<b>24,724</b>

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 2020**

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

<b><u>PROFIT OR LOSS</u></b>	<b><u>Notes</u></b>	<b><u>31 December 2020</u></b>	<b><u>31 December 2019</u></b>
Revenue	26	6,734	13,229
Cost of Sales (-)	27	( 6,378)	( 10,928)
<b>GROSS PROFIT</b>		<b>356</b>	<b>2,301</b>
General Administrative Expenses (-)	28	( 219)	( 299)
Selling and Marketing Expenses (-)	28	( 667)	( 1,417)
Other Operating Income	29	330	355
Other Operating Expenses (-)	29	( 55)	( 64)
<b>OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES</b>		<b>( 255)</b>	<b>876</b>
Income from Investment Activities	30	190	169
Expenses from Investment Activities	30	( 11)	( 80)
Share of Investments' (Loss) / Profit Accounted by Using The Equity Method	3	( 87)	82
<b>OPERATING (LOSS) / PROFIT</b>		<b>( 163)</b>	<b>1,047</b>
Financial Income	31	72	139
Financial Expenses (-)	31	( 835)	( 310)
<b>(LOSS) / PROFIT BEFORE TAX</b>		<b>( 926)</b>	<b>876</b>
<b>Tax Income / (Expense)</b>		<b>90</b>	<b>( 88)</b>
Current Tax Expense	32	-	-
Deferred Tax Income / (Expense)	32	90	( 88)
<b>NET (LOSS) / PROFIT FOR THE YEAR</b>		<b>( 836)</b>	<b>788</b>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
<b>Items That May Be Reclassified Subsequently To Profit or Loss</b>		<b>( 635)</b>	<b>152</b>
Currency Translation Adjustment		( 17)	( 24)
Losses on Remeasuring FVOCI		4	7
Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges		( 766)	212
Fair Value (Losses) / Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		( 11)	6
Related Tax of Other Comprehensive Income		155	( 49)
<b>Items That Will Not Be Reclassified Subsequently To Profit or Loss</b>		<b>( 10)</b>	<b>( 3)</b>
Actuarial Losses on Retirement Pay Obligation		( 13)	( 4)
Related Tax of Other Comprehensive Income		3	1
<b>OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR</b>		<b>( 645)</b>	<b>149</b>
<b>TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR</b>		<b>( 1,481)</b>	<b>937</b>
Basic (Loss) / Gain Per Share (Full US Cents)	33	( 0.61)	0.57
Diluted (Loss) / Gain Per Share (Full US Cents)	33	( 0.61)	0.57

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 2020**

(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 Gains 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 Period	Equity Holders of the Parent	Non-controlling Interests	Total Equity
<b>As of 1 January 2020</b>	<b>1,597</b>	<b>(38)</b>	<b>(184)</b>	<b>171</b>	<b>(1)</b>	<b>67</b>	<b>4,463</b>	<b>788</b>	<b>6,863</b>	<b>1</b>	<b>6,864</b>
Transfers	-	-	-	-	-	-	788	(788)	-	-	-
Total comprehensive income	-	(10)	(17)	(621)	3	5	(5)	(836)	(1,481)	-	(1,481)
<b>As of 31 December 2020</b>	<b>1,597</b>	<b>(48)</b>	<b>(201)</b>	<b>(450)</b>	<b>2</b>	<b>72</b>	<b>5,246</b>	<b>(836)</b>	<b>5,382</b>	<b>1</b>	<b>5,383</b>

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 2020**

(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				Total Equity
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains 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 Period	Equity Holders of the Parent	Non-controlling Interests	
<b>As of 1 January 2019</b>	<b>1,597</b>	<b>(35)</b>	<b>(160)</b>	<b>-</b>	<b>(6)</b>	<b>36</b>	<b>3,760</b>	<b>753</b>	<b>5,945</b>	<b>-</b>	<b>5,945</b>
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	(18)	-	(18)	-	(18)
<b>As of 1 January 2019</b>	<b>1,597</b>	<b>(35)</b>	<b>(160)</b>	<b>-</b>	<b>(6)</b>	<b>36</b>	<b>3,742</b>	<b>753</b>	<b>5,927</b>	<b>-</b>	<b>5,927</b>
Transfers	-	-	-	-	-	-	753	(753)	-	-	-
Total comprehensive income	-	(3)	(24)	171	5	31	(32)	788	936	1	937
<b>As of 31 December 2019</b>	<b>1,597</b>	<b>(38)</b>	<b>(184)</b>	<b>171</b>	<b>(1)</b>	<b>67</b>	<b>4,463</b>	<b>788</b>	<b>6,863</b>	<b>1</b>	<b>6,864</b>

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 2020**

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

	Notes	31 December 2020	31 December 2019
Net (Loss) / Profit for the year		(836)	788
<b>Adjustments to Reconcile Loss</b>			
Adjustments for Depreciation and Amortisation Expense	15 and 16	1,659	1,521
Adjustments for Provisions Related with Employee Benefits	20 and 22	5	22
Adjustments for Provisions for Other Accruals	20	-	(2)
Adjustments for Reversal of Probable Risks	35	21	20
Adjustments for Interest Income	30 and 31	(77)	(97)
Adjustments for Interest Expense	22 and 31	285	257
Adjustments For Unrealised Foreign Exchange Losses / (Gains)		471	(802)
Adjustments for Fair Value Gains on Derivative			
Financial Instruments	31	21	23
Adjustments for Undistributed Losses / (Gains) of Associates	3	87	(82)
Adjustments for Tax (Income) / Expense	32	(90)	88
Adjustments for (Gains) / Losses Arised From Sale of Tangible Assets	30	(4)	74
Adjustments for Losses Arised from Sale of Other Non-Current Assets	15	39	39
<b>Operating Profit Before Changes in Working Capital</b>		<b>1,581</b>	<b>1,849</b>
Increase in Trade Receivables from Related Parties	9	(18)	-
Decrease / (Increase) in Trade Receivables from Non Related Parties	10	(93)	15
Decrease in Other Related Party Receivables Related with Operations	9	22	-
(Increase) / Decrease in Other Non-Related Party Receivables			
Related with Operations	12	(259)	66
Adjustments for Increase in Inventories	13	(15)	(100)
Adjustments for Decrease / (Increase) in Prepaid Expenses	14	74	(54)
Decrease in Trade Payables to Related Parties	9	(31)	(59)
(Decrease) / Increase in Trade Payables to Non-Related Parties	10	(238)	167
Adjustments for Decrease in Payables Due to Employee Benefits	11	(70)	(39)
(Decrease) / Increase in Other Operating Payables to			
Non-Related Parties	12	(89)	160
(Decrease) / Increase in Deferred Income	14	(471)	175
Decrease / (Increase) in Other Assets Related with Operations	24	15	(41)
<b>Cash Flows From Operations</b>		<b>408</b>	<b>2,139</b>
Payments for Provisions Related with Employee Benefits	22	(14)	(10)
Income taxes (paid)	32	(5)	(18)
<b>Net Cash From Operating Activities</b>		<b>389</b>	<b>2,111</b>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		14	17
Cash Payments From Purchasing of Property, Plant and Equipment	15 and 16	(1,153)	(1,068)
Cash Receipts From Sales of Other Long-term Assets	6	397	115
Other Cash Advances and Loans	12	293	(225)
Dividends Received		3	61
Interest Received	30 and 31	77	84
<b>Net Cash Flows Used In Investing Activities</b>		<b>(369)</b>	<b>(1,016)</b>
<b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>			
Proceeds From Loans	7	3,963	3,161
Payments of Loans		(2,463)	(2,268)
Payments of Lease Liabilities		(1,541)	(1,315)
Interest Paid		(241)	(247)
Other Cash (Outflows) / Inflows	8	(2)	13
<b>Net Cash Used in Financing Activities</b>		<b>(284)</b>	<b>(656)</b>
<b>Net Change in Cash and Cash Equivalents</b>		<b>(264)</b>	<b>439</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT THE BEGINNING OF THE YEAR</b>		<b>2,075</b>	<b>1,636</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT THE END OF THE YEAR</b>	5	<b>1,811</b>	<b>2,075</b>

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 2020

(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 2020 and 2019, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</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 number of employees working for the Group as of 31 December 2020 is 37,896 (31 December 2019: 38,849). The average number of employees working for the Group for the years ended 31 December 2020 and 2019 are 38,648 and 37,670 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.

#### Subsidiaries and Joint Ventures

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

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of</u>
		<u>31 December 2020</u>	<u>31 December 2019</u>	<u>Registration</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%	-	Turkey

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2020

(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 2020 and 2019:

Company Name	Country of Registration and Operations	Ownership Share and Voting Power		Principal Activity
		31 December 2020	31 December 2019	
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
TFS Akaryakıt Hizmetleri A.Ş.	Turkey	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 2020 on 1 March 2021. 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 2020

(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.

#### **Adjustment of Financial Statements in Hyperinflationary Periods**

As of 1 January 2005, “IAS 29: Financial Reporting in Hyperinflationary Economies” was no longer applied henceforward.

#### **Functional and Reporting Currency**

##### **Functional currency**

The consolidated financial statements of the Group are presented in US Dollars, 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 US Dollar. US Dollar 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 US Dollar 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 US Dollar have been remeasured in US Dollar in accordance with the relevant provisions of IAS 21 *the Effects of Changes in Foreign Exchange Rates*.

Except where otherwise indicated, all values are rounded the nearest million (US Dollar 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 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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)

#### 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.

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 year ended 31 December 2020 are consistent with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2019.

### 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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)

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*.

The Group develops estimates using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating 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 obtained or to be obtained 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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):*

###### **b) Ticket Reissue Revenue**

Each fare type that the Group issues will have its own conditions attached, which may include it being restricted, non-upgradeable or non-refundable. This means that if passengers need to make a change to their booking, cancel flights or buy replacement tickets then a change fee may apply. 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 as shareholders gain the dividend rights.

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 stated at the lower of cost and net realizable value. Cost of inventories is the sum of all 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.

#### 2.3.3 Property and Equipment

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

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.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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 (cont'd)

The Group has classified 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.

They are capitalized subsequent to overhaul maintenance for the fuselage and engines and are depreciated over the shorter of the next maintenance period or the remaining period of the aircraft's useful life.

The gain or loss arising on 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	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipment	4-15	-
- Leasehold Improvements	Lease period/5 years	-

#### 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:

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly.
- 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.
- 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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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)**

**2.3.4 Leases (cont'd)**

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 TAS16 “Property, Plant and Equipment” to amortize the right of use asset and to asses for any impairment.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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)

#### 2.3.4 Leases (cont'd)

##### *Aircraft;*

For the aircraft operating 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. For each currency, Group's incremental borrowing rate is used to determine the lease liability. 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. For each currency Group's incremental borrowing rate is used to determine the lease liability. Service agreements which relate to the usage of airports and terminals do not qualify as lease arrangements under IFRS 16. In the agreements, the lessor has the right to substitute the leased area with another area, meaning that these agreements do not qualify as leasing 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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)

#### 2.3.4 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 US Dollars 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 2020

(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 2020

(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.

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
<b>Financial assets at amortized cost</b>	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.
<b>Debt investments at FVOCI</b>	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.
<b>Equity investments at FVOCI</b>	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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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 2020

(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 2020

(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 a 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 EURUSD 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 EURTRY 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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)

#### 2.3.9 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 2020, 2019 and 2018 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2020	7.3405	7.0034
Year ended 31 December 2019	5.9402	5.6712
Year ended 31 December 2018	5.2609	4.8301

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2020	1/ 1.2272	1/ 1.1443
Year ended 31 December 2019	1/ 1.1196	1/ 1.1194
Year ended 31 December 2018	1/ 1.1458	1/ 1.1757

#### 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 2020

(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 2020

(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 2020

(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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

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

### 2.4 Important Accounting Estimates, Assumptions and Key Accounting 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.

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 Salvage 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 9<sup>th</sup> 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.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

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

**2.4 Important Accounting Estimates, Assumptions and Key Accounting 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	4,821	-
15.06.2012	2012/3305	18.12.2014	Completed	Tax Reduction %50 / Contribution rate to Investment %15	2,312	-
14.07.2009	2009/15199	28.12.2010	Completed	Tax Reduction %50 / Contribution rate to Investment %20	1,807	2
20.01.2018	2017/11133	11.09.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %25	343	-
15.06.2012	2012/3305	1.03.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %15	213	38
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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

## 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 2020:

**Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

These changes have no material impacts on the financial position and performance of the Group.

**Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

**Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

**Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions;** effective from Annual periods beginning on or after 1 June 2020. 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.

#### b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2020:

**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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

## 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 2020 (cont'd):

**Amendments to IAS 1, Presentation of financial statements' on classification of liabilities;** effective from 1 January 2022. 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.

**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 recognise 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'.

**Amendments to IFRS 9, IAS 39, 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.

**Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9;** effective from annual periods beginning on or after 1 January 2021. 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.

The new standards, amendments and improvements have no material impacts 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

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

### 2.6 Determination of Fair Values (cont'd)

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. However, as disclosed in Note 2.8, as a result of negative impacts of Covid-19 pandemic, the Group had a net loss of USD 836 for the year ended 31 December 2020. In addition, the Group's current liabilities exceed its current assets by USD 2,276 as of 31 December 2020.

The Group has managed to preserve its cash at the same level as of 2019 year-end thanks to cost saving actions, postponement of supplier payments and Bank credits as well as tax&legal liabilities. In addition, an amount of USD 1 billion of ticket refunds as a result of cancelled flights was paid to passengers and the Group still preserved its cash at 2019 year-end levels. The Group also used bank loans to preserve its cash level which is a sign of its high credibility before creditors. Cost saving actions, short term working capabilities put in place by the Government and the employee pay agreements with the Unions also contributed to the Group's ability to minimize Covid-19's adverse financial effects. The employee pay agreements will be valid till the end of 2021 which will contribute positively to the Group's 2021 operational results. Saving actions taken in other fixed or operational costs together with employee costs resulted in an amount of USD 1,1 billion total cost savings for 2020. Also actions taken for capital expenditure resulted in savings of USD 300 million for investments other than aircrafts. Furthermore, Cargo revenues in this period increased by 61% as a result of increase in unit revenues. In addition, cargo related costs are managed carefully. Cash flow from cargo activities contributed positively to the preservation of Group's cash level. The Group also managed to maintain contribution margin of passenger operations to the cash flow at the 2019 levels which is also a positive contributor to cash preservation. As a result of all these financial and operational actions, the Group was able to keep the shrink in Shareholder's Equity limited.

The Group predicts passenger operations will be affected positively from the widespread use of Covid-19 vaccinations in 2021 and beyond. The agreements with the Unions and suppliers will enable to continue cost savings in employee and some other fixed costs. The Group foresees positive cash flows and high unit revenues for cargo operations will continue also in 2021.

Some of the capital expenditure for 2021 and beyond are also postponed or cancelled. The negotiations with aircraft manufacturers nearly came to an end, so the agreements for postponement and cancellation of aircraft deliveries will be signed very soon. These agreements will have very positive impacts on the Group's finance needs for the period between 2022 and 2028. In addition the Group maintains its credit limits in banks and does not expect any hardship for future bank loan needs. The Group does not predict any important risk in terms of cash and equities as the adverse effects of the pandemic diminishes throughout time.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

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

### 2.8 Impact of Covid-19 Pandemic on Group Activities

Due to the impact of COVID-19 in the first half of 2020, global air traffic has significantly declined and stringent measures have been taken to slow the expansion of the pandemic. Several constraints were imposed and restrictions continue to have a major impact on global aviation industry.

To mitigate the effect of the pandemic, THY has taken several measures and assesses further developments. The actions taken are listed below:

#### *Capacity*

After the easing of travel restrictions in summer season, Turkish Airlines increased its domestic and international passenger flights and reached 39% of 2019 capacity in the last quarter. Due to second wave of Covid-19 expectations, many countries started to implement new measures including flight restrictions. While THY reopened some of closed international destinations in the countries where flight restrictions are abolished, negotiations with competent authorities to open some of closed international destinations depending on the pandemic situation in the corresponding routes continue. In 2020, THY reached 40% of ASK, 38% of passenger number compared to 2019. Thanks to lower cost base and wide flight network of THY, the Group realized a faster recovery than its competitors in financial and operational results; especially due to faster recovery in ethnic and opportunistic leisure passenger segments.

#### *Cargo business*

Cargo operations are continuing at full capacity with freighters and more than 10 wide body passenger aircraft are being utilized for cargo operations. The number of passenger aircraft utilized in cargo operations may also be increased depending on the cargo demand environment and passenger flight restrictions. As a result, 61% increase was recorded in cargo revenues compared to the same period of last year. Cargo operations made a significant contribution to total revenue and profit compared to those of the previous year, thanks to increasing unit revenues and declining operational costs led by the drop in fuel prices.

#### *Government support*

THY is continually communicating with government authorities for alternative scenarios to alleviate the effects arising from the unfavorable environment. In this respect, the Ministry of Finance and Treasury of Turkey gradually introduces economic packages to prevent the impact of the novel coronavirus on Turkish Economy and includes measures for groups and companies.

On 17 April 2020, with the related law entered into force, THY has been put into place the new Short Term Employment status starting from April 1st of 2020, where the employees work on part-time basis without harming ongoing operations and get paid accordingly. As the government provided a reduced-time work law to support Turkish companies, some part of the Group's personnel cost (USD 52 as of 1 September 2020) was covered by government depending on the number of working days. As of 1 September, THY ceased to benefiting from Short Term Employment Incentive.

In addition, Turkish Government introduced a support package for the pandemic. The value-added tax rate is dropped from 18% to 1% for three months with regard to domestic air transportation to support demand via reduced ticket price (until 30 June 2020). Payments of withholding tax and social security premiums of April, May and June 2020 are deferred for six months to the first quarter of 2021. THY deferred a portion of principal and interest payments related to commercial loans at least for three months. Government support package resulted in decrease of cash outflows and led in cash savings.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

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

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

#### *Cost reductions*

THY is taking actions to decrease the operational expenses and secure the financial liquidity of the Group. These include reducing or postponing uncommitted capital expenditures, cutting non-urgent and non-operational expenses and discussing with the authorities for possible deferral of fees and tax payments. Some long-term contracts, such as fuel expenses and lease agreements, for three to six months to reduce short-term outflow. THY is renegotiating with service providers to lower fees due to weaker demand environment. Original aircraft delivery plan for 2020- 2021 and related pre-delivery payments are being reevaluated together with OEMs.

#### *Asset valuation*

Related to the COVID-19 pandemic, THY 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. However, the recoverability on deferred tax was revised and a write-off of USD 131 has been 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.

#### *Hedge Accounting*

Commodity fuel prices fell dramatically following the spread of COVID-19 globally in March, barrel price of Brent oil fell below \$50, which has been the lowest level since 2017. Although there was a partial recovery during the remainder of the year, prices were still at levels much lower than 2019. As a result of the impact of Covid-19, expected operating capacity in 2020 was lower than that originally anticipated when fuel hedging derivatives were put in place. In 2020, fuel hedge option losses amount to USD 222 which is classified under "Fuel Expenses" in profit or loss statements (2019: USD 16 profit).

Cash flow hedge relation based on highly probable future revenues denominated in Euro, Japanese Yen and Swiss Frank are revisited and re-estimated because of the decrease in Net Revenues due to Covid-19. In consequence of reestimation, Group's Euro and Japanese Yen denominated revenues does not cover all of its same foreign currency financial lease liabilities and investment financings. In 2020, foreign exchange losses arising from Euro, Japanese Yen and Swiss Frank denominated liabilities amount to USD 744 which is accounted for other comprehensive income (2019: USD 66 gains).

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2020**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

**3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD**

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
Sun Express	64	166
TEC	59	59
Turkish DO&CO	47	55
TGS	34	40
THY Opet	28	33
TFS Akaryakıt	8	-
Uçak Koltuk	6	6
TCI	4	6
Goodrich	4	3
We World Express	2	1
Vergi İade Aracılık (*)	-	-
	<u>256</u>	<u>369</u>

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

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

	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Turkish DO&CO	6	13
TGS	3	22
THY Opet	3	16
TEC	1	(3)
Uçak Koltuk	-	2
Goodrich	-	1
TFS Akaryakıt	-	-
We World Express	-	-
TCI	(1)	-
Sun Express	(99)	31
	<u>(87)</u>	<u>82</u>

Financial information for Sun Express as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	1,728	1,865
Total liabilities	1,600	1,533
Shareholders' equity	128	332
Group's share in joint venture's shareholders' equity	64	166
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	564	1,567
(Loss) / Profit for the year	(198)	62
Group's share in joint venture's (loss) / profit for the year	(99)	31

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 TEC as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Total assets	198	219
Total liabilities	77	99
Shareholders' equity	121	120
Group's share in joint venture's shareholders' equity	59	59
	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Revenue	349	399
Profit / (loss) for the year	3	(6)
Group's share in joint venture's profit / (loss) for the year	1	(3)

Financial information for Turkish DO&CO as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Total assets	160	190
Total liabilities	65	80
Shareholders' equity	95	110
Group's share in joint venture's shareholders' equity	47	55
	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Revenue	116	344
Profit for the year	11	26
Group's share in joint venture's profit for the year	6	13

Financial information for TGS as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Total assets	187	172
Total liabilities	119	93
Shareholders' equity	68	79
Group's share in joint venture's shareholders' equity	34	40
	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Revenue	180	358
Profit for the year	5	45
Group's share in joint venture's profit for the year	3	22

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 THY Opet as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	169	315
Total liabilities	113	248
Shareholders' equity	56	67
Group's share in joint venture's shareholders' equity	28	33
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	286	977
Profit for the year	6	32
Group's share in joint venture's profit for the year	3	16

Financial information for Uçak Koltuk as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	33	29
Total liabilities	21	18
Shareholders' equity	12	11
Group's share in joint venture's shareholders' equity	6	6
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	20	30
Profit for the year	1	3
Group's share in joint venture's profit for the year	-	2

Financial information for TCI as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	15	19
Total liabilities	6	8
Shareholders' equity	9	11
Group's share in joint venture's shareholders' equity	4	6
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	3	13
(Loss) / profit for the year	(3)	1
Group's share in joint venture's (loss) / 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 2020**

(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 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	212	-
Total liabilities	182	-
Shareholders' equity	30	-
Group's share in joint venture's shareholders' equity	8	-
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	524	-
Loss for the year	(1)	-
Group's share in joint venture's (loss) / profit for the year	-	-

Financial information for Goodrich as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	12	12
Total liabilities	3	4
Shareholders' equity	9	8
Group's share in joint venture's shareholders' equity	4	3
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	16	24
Profit for the year	1	3
Group's share in joint venture's profit for the year	-	1

Financial information for We World Express as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total assets	8	4
Total liabilities	5	1
Shareholders' equity	3	3
Group's share in joint venture's shareholders' equity	2	1
	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Revenue	24	3
Profit for the year	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, has not been presented in financial statements. As of 31 December 2020, the amount is USD 5 (31 December 2019 USD 3).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Total Assets</b>		
Aviation	25,425	24,490
Technical	1,547	1,568
Total	26,972	26,058
Less: Eliminations due to consolidation	(1,442)	(1,334)
Total assets in consolidated financial statements	<u>25,530</u>	<u>24,724</u>
<b>Total Liabilities</b>		
Aviation	20,096	17,825
Technical	370	386
Total	20,466	18,211
Less: Eliminations due to consolidation	(319)	(351)
Total liabilities in consolidated financial statements	<u>20,147</u>	<u>17,860</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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:

<b>1 January - 31 December 2020</b>	<b>Inter-segment</b>			<b>Total</b>
	<b>Aviation</b>	<b>Technic</b>	<b>elimination</b>	
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 Profit	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 by 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)

<b>1 January - 31 December 2019</b>	<b>Inter-segment</b>			<b>Total</b>
	<b>Aviation</b>	<b>Technic</b>	<b>elimination</b>	
Sales to External Customers	12,924	305	-	13,229
Inter-Segment Sales	51	1,016	(1,067)	-
Revenue	12,975	1,321	(1,067)	13,229
Cost of Sales (-)	(10,988)	(1,007)	1,067	(10,928)
Gross Profit	1,987	314	-	2,301
Administrative Expenses (-)	(207)	(96)	4	(299)
Selling and Marketing Expenses (-)	(1,411)	(7)	1	(1,417)
Other Operating Income	330	31	(6)	355
Other Operating Expenses (-)	(45)	(20)	1	(64)
Operating Profit Before Investment Activities	654	222	-	876
Income from Investment Activities	168	1	-	169
Expenses from Investment Activities	(79)	(1)	-	(80)
Share of Investments' Profit Accounted by Using The Equity Method	84	(2)	-	82
Operating Profit	827	220	-	1,047
Financial Income	139	2	(2)	139
Financial Expense (-)	(307)	(5)	2	(310)
Profit Before Tax	659	217	-	876

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**4. SEGMENT REPORTING (cont'd)**

**4.3 Investment Operations**

<b>1 January - 31 December 2020</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
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 by using equity method	181	75	-	256
<b>1 January - 31 December 2019</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	3,003	354	-	3,357
Current period depreciation and amortization charge	1,385	136	-	1,521
Investments accounted by using equity method	304	65	-	369

**5. CASH AND CASH EQUIVALENTS**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash	2	1
Banks – Time deposits	1,749	2,000
Banks – Demand deposits	60	74
	<b>1,811</b>	<b>2,075</b>

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

<b>Amount</b>	<b>Currency</b>	<b>Effective Interest Rate</b>	<b>Maturity</b>	<b>31 December 2020</b>
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
				<b>1,749</b>

Details of the time deposits as of 31 December 2019 are as follows:

<b>Amount</b>	<b>Currency</b>	<b>Effective Interest Rate</b>	<b>Maturity</b>	<b>31 December 2019</b>
2,387	TL	9.35% - 11.60%	January 2020	402
223	USD	1.50% - 1.60%	January 2020	223
1,196	EUR	0.36% - 0.80%	March 2020	1,340
4,185	DZD	1.98% - 3.15%	March 2020	35
				<b>2,000</b>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**6. FINANCIAL INVESTMENTS**

Short-term financial investments are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Fair value through profit and loss (FVTPL)		
- Equity securities	18	15
Fair value through other comprehensive income (FVOCI)		
- Corporate debt securities	-	9
Time deposits with maturity more than 3 months	-	376
	<u>18</u>	<u>400</u>

Time deposit with maturity more than 3 months as of 31 December 2019 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
336	EUR	0.24% - 0.40%	April 2020	<u>376</u>

Long-term financial investments are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
FVOCI		
- Government debt securities	42	49
- Corporate debt securities	32	40
Other	1	1
	<u>75</u>	<u>90</u>

Period remaining to contractual maturity dates for FVOCI as of 31 December 2020 and 2019 is as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Less than 1 year	-	9
1 to 5 years	4	3
Over 5 years	70	86
	<u>74</u>	<u>98</u>
	<u>31 December 2020</u>	<u>31 December 2019</u>
FVTPL		
- Equity securities	<u>18</u>	<u>15</u>

**7. BORROWINGS**

Short-term borrowings are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Bank borrowings	<u>1,527</u>	<u>1,241</u>

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
Lease liabilities (Note: 18)	1,728	1,374
Bank borrowings	1,186	491
	<u>2,914</u>	<u>1,865</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**7. BORROWINGS (cont'd)**

Long-term borrowings are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Lease liabilities (Note: 18)	9,579	8,545
Bank borrowings	2,681	1,721
	<u>12,260</u>	<u>10,266</u>

Details of bank borrowings as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Less than 1 year	2,713	1,732
Between 1 – 5 years	2,615	1,721
Over 5 years	66	-
	<u>5,394</u>	<u>3,453</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
1,549	EUR	Floating	Euribor + 2.45% - Euribor + 5.50%	August 2021 - August 2026	1,901
					<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>2019</u>
2,243	EUR	Fixed	0.30% - 4.93%	February 2020 - December 2024	2,511
841	EUR	Floating	Euribor + 2.03% - Euribor + 3.77%	February 2020 - July 2024	942
					<u>3,453</u>

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

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

	<u>31 December</u>					<u>31 December</u>
	<u>2018</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>2019</u>
Bank Borrowings	2,622	(2,268)	(72)	10	3,161	<u>3,453</u>

	<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>	

	<u>31 December</u>					<u>New</u>	<u>31 December</u>
	<u>2018</u>	<u>Payment</u>	<u>Interest</u>	<u>Non-cash Changes</u>	<u>Leases</u>	<u>2019</u>	
Aircraft	9,520	(1,299)	(175)	167	1,645	9,858	
Property	55	(13)	-	2	14	58	
Other	6	(3)	-	-	-	3	
	<u>9,581</u>	<u>(1,315)</u>	<u>(175)</u>	<u>169</u>	<u>1,659</u>	<u>9,919</u>	

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

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

**8. OTHER FINANCIAL LIABILITIES**

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
Other financial liabilities	17	19

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 2020</u>	<u>31 December 2019</u>
Air Albania	14	-
We World Express Ltd.	4	-
	<u>18</u>	<u>-</u>

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
Air Albania	6	-
TGS	-	28
	<u>6</u>	<u>28</u>

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
TGS	39	37
TFS Akaryakıt Hizmetleri (*)	37	-
Turkish DO&CO	23	21
THY Opet	18	38
TEC	10	55
Sun Express	10	19
Goodrich	4	2
	<u>141</u>	<u>172</u>

(\*) The amount of trade payables from TFS Akaryakıt Hizmetleri A.Ş., which became related party in 2020, was USD 126 in 2019.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**9. RELATED PARTIES (cont'd)**

Transactions with related parties for the year ended 31 December 2020 and 2019 are as follows:

**a) Sales to related parties:**

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
TEC	46	40
Sun Express	24	40
We World Express Ltd.	16	1
PTT	5	6
Air Albania	5	5
TGS	3	5
Goodrich	2	2
TCI	-	1
Uçak Koltuk	-	1
	<u>101</u>	<u>101</u>

**b) Purchases from related parties:**

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
TFS Akaryakıt Hizmetleri (*)	492	-
THY Opet	217	752
TEC	192	275
TGS	174	329
Sun Express	114	170
Turkish DO&CO	111	314
Goodrich	15	20
Uçak Koltuk	8	7
PTT	1	-
TCI	1	1
Türk Telekomünikasyon A.Ş. (Türk Telekom)	1	1
	<u>1,326</u>	<u>1,869</u>

(\*) The amount of purchases from TFS Akaryakıt Hizmetleri A.Ş., which became related party in 2020, was USD 1,206 in 2019.

Details of the financial assets and liabilities for related parties as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Banks - Time deposits	1,524	1,435
Financial assets	71	104
Banks - Demand deposits	12	8
Equity share	2	-
Financial investments	-	275
Bank borrowing (*)	(1,854)	(312)
	<u>(245)</u>	<u>1,510</u>

(\*) The amount of bank borrowings from Türkiye Vakıflar Bankası T.A.O., which became related party in 2020, was USD 278 in 2019.

As of 31 December 2020, the amount of letters of guarantee given to the related parties is USD 1,236. (31 December 2019: USD 886)

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**9. RELATED PARTIES (cont'd)**

Details of the financial investments at related parties as of 31 December 2019 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
246	EUR	0.28% - 0.40%	April 2020	<u>275</u>

Details of the time deposits at related parties as of 31 December 2020 and 2019 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2020</u>
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
				<u>1,524</u>

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
2,381	TL	9.35% - 10.00%	January 2020	401
922	EUR	0.36% - 0.56%	March 2020	1,033
1	USD	1.50%	January 2020	1
				<u>1,435</u>

Details of the financial assets at related parties as of 31 December 2020 and 2019 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2020</u>
71	USD	4.88% - 8.50%	January 2021 - June 2021	<u>71</u>

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
104	USD	3.88% - 8.50%	February 2020 - June 2020	<u>104</u>

Details of the bank borrowings at related parties as of 31 December 2020 and 2019 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2020</u>
1,499	EUR	2.55% - Euribor + 5.50%	December 2025	1,840
101	TRY	9.25%	June 2021	14
				<u>1,854</u>

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
279	EUR	2.94% - 4.00%	December 2024	<u>312</u>

**Interest income from related parties:**

	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Türkiye Halk Bankası A.Ş.	24	54
Türkiye Vakıflar Bankası T.A.O.	13	-
T.C. Ziraat Bankası A.Ş.	5	1
	<u>42</u>	<u>55</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

#### 9. RELATED PARTIES (cont'd)

##### Interest expense to related parties:

	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Türkiye Vakıflar Bankası T.A.O.	17	-
Ziraat Bankası A.Ş.	13	3
	<u>30</u>	<u>3</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 Türk Telekom are related to advertising and telecommunication 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 3 (1 January- 31 December 2019: USD 4).

#### 10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from third parties as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Trade receivables	718	625
Allowance for doubtful receivables (-)	(99)	(85)
	<u>619</u>	<u>540</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 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Trade payables	720	958

The Group currency risk assessment has been explained in Note 35.

#### 11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2020 and 2019 are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Salary accruals	66	124
Social security premiums payable	24	36
	<u>90</u>	<u>160</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**12. OTHER RECEIVABLES AND PAYABLES**

Other short-term receivables from third parties as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Predelivery payments made for aircrafts	731	778
Receivables from technical purchases	223	168
Bank deposits with transfer limitations (*)	39	36
Receivables from pilots for flight training	32	24
Value added tax receivables	30	42
Others	40	5
	<u>1,095</u>	<u>1,053</u>

(\*)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, Republic of Cuba, Republic of Lebanon, Democratic Republic of the Congo and Iran. (As of 31 December 2019, 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, Argentina, Democratic Republic of the Congo, Republic of Cuba, Republic of Lebanon and Iran).

Other long-term receivables from third parties as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Predelivery payments made for aircrafts	515	761
Receivables related to investment certificates (***)	409	313
Receivables from pilots for flight training	199	154
Deposits and guarentees given	42	42
Interest and commodity swap agreement deposits	31	-
Bank deposits with transfer limitations (**)	4	6
	<u>1,200</u>	<u>1,276</u>

(\*\*) As of 31 December 2020, the balance of this account includes bank deposits in Syria.

(\*\*\*) This represents the accrued amount as of 31 December 2020. Total contribution of government incentives related to fleet investments amounts to USD 3,469. See note 2.3.15 for accounting policy.

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
Taxes and funds payable	39	62
Payables to lessors	9	11
Payables to insurance companies	-	7
Deposits and guarantees received	5	10
Other liabilities	35	8
	<u>88</u>	<u>98</u>

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
Deposits and guarantees received	22	19
Payables to lessors	-	9
Interest and commodity swap agreement deposits	-	9
	<u>22</u>	<u>37</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**13. INVENTORIES**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Spare parts	231	221
Other inventories	83	81
	<u>314</u>	<u>302</u>
Provision for impairment (-)	(9)	(12)
	<u>305</u>	<u>290</u>

The change in the value of provision for impairment for the years ended 31 December 2020 and 2019 is as follows:

	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Provision at the beginning of the year	12	22
Release during the year	(3)	(10)
Provision at the end of the year	<u>9</u>	<u>12</u>

**14. PREPAID EXPENSES AND DEFERRED INCOME**

**Short-term prepaid expenses are as follows:**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Advances given for purchases	77	76
Prepaid advertising expenses	12	9
Prepaid sales commissions	10	14
Prepaid operating lease expenses	10	10
Other prepaid expenses	32	40
	<u>141</u>	<u>149</u>

**Long-term prepaid expenses are as follows:**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Prepaid engine maintenance expenses	627	659
Advances given for property and equipment purchases	107	138
Prepaid aircraft financing expenses	60	55
Other prepaid expenses	4	12
	<u>798</u>	<u>864</u>

**Deferred income is as follows:**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Passenger flight liabilities	580	1,032
Other short-term deferred income	34	39
	<u>614</u>	<u>1,071</u>

**Passenger flight liability is as follows:**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Flight liability generating from ticket sales	381	797
Flight liability generating from frequent flyer program	199	235
	<u>580</u>	<u>1,032</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

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

**Other short-term deferred income is as follows:**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Advances received	21	18
Deferred finance income	11	11
Unearned bank protocol revenue accruals	2	10
	<u>34</u>	<u>39</u>

**Long-term deferred income is as follows:**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Deferred finance income	109	118
Unearned bank protocol revenue accruals	-	2
	<u>109</u>	<u>120</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**15. PROPERTY AND EQUIPMENT**

	Land, 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
<b><u>Cost</u></b>									
Opening balance at 1 January 2020	874	585	239	3,167	661	660	183	692	7,061
Additions	92	22	12	75	39	103	4	202	549
Transfer (*)	210	31	2	4	19	-	1	(307)	(40)
Transfers between the account	-	-	-	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	4,115	705	688	179	587	8,335
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2020	232	268	173	2,095	240	315	95	-	3,418
Depreciation charge	44	41	22	190	57	74	15	-	443
Transfers between the account	-	-	-	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	2,678	283	353	101	-	4,190
Net book value at 31 December 2020	900	329	57	1,437	422	335	78	587	4,145
Net book value at 31 December 2019	642	317	66	1,072	421	345	88	692	3,643

(\*)From construction in progress amounting to USD 40 has been transferred to intangible fixed assets amounting to USD 14 and right-of-use assets amounting to USD 26.

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 1,591 (31 December 2019: USD 1,462), general administrative expenses is amounting to USD 60 (31 December 2019: USD 52) and marketing and sales expenses is amounting to USD 8 (31 December 2019: USD 7) in total of USD 1,659 as of 31 December 2020 (31 December 2019: USD 1,521).

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

Capitalization rates and amounts other than borrowings made specifically for the purpose of acquiring a qualifying asset are 34% and 97% and USD 33 and USD 50 for the years ended 31 December 2020 and 2019 respectively.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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
<b><u>Cost</u></b>									
Opening balance at 1 January 2019	303	429	214	3,318	590	583	531	718	6,686
Additions	76	112	28	155	88	183	42	480	1,164
Transfer	111	49	2	134	28	-	14	(506)	(168)
Transfers between the accounts	384	-	-	271	-	-	(384)	-	271
Disposals	-	(5)	(5)	(711)	(45)	(106)	(20)	-	(892)
Closing balance at 31 December 2019	874	585	239	3,167	661	660	183	692	7,061
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2019	89	235	151	2,441	231	310	202	-	3,659
Depreciation charge	38	37	26	141	51	72	17	-	382
Transfers between the accounts	105	-	-	138	-	-	(105)	-	138
Disposals	-	(4)	(4)	(625)	(42)	(67)	(19)	-	(761)
Closing balance at 31 December 2019	232	268	173	2,095	240	315	95	-	3,418
Net book value at 31 December 2019	642	317	66	1,072	421	345	88	692	3,643

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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:

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

	<b>Aircraft</b>	<b>Spare engines</b>	<b>Real Estate</b>	<b>Vehicles</b>	<b>Total</b>
<b><u>Accumulated Depreciation</u></b>					
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)
<b>Closing balance at 31 December 2020</b>	<b>4,813</b>	<b>48</b>	<b>21</b>	<b>5</b>	<b>4,887</b>
<b>Net book value at 31 December 2020</b>	<b>14,568</b>	<b>154</b>	<b>54</b>	<b>1</b>	<b>14,777</b>

	<b>Aircraft</b>	<b>Spare engines</b>	<b>Real Estate</b>	<b>Vehicles</b>	<b>Total</b>
<b><u>Cost</u></b>					
Opening balance at 1 January 2019	15,749	148	56	6	15,959
Additions	2,134	25	18	-	2,177
Transfers	166	-	-	-	166
Disposals	(131)	(8)	-	-	(139)
Transfers between the accounts (*)	(271)	-	-	-	(271)
<b>Closing balance at 31 December 2019</b>	<b>17,647</b>	<b>165</b>	<b>74</b>	<b>6</b>	<b>17,892</b>

	<b>Aircraft</b>	<b>Spare engines</b>	<b>Real Estate</b>	<b>Vehicles</b>	<b>Total</b>
<b><u>Accumulated Depreciation</u></b>					
Opening balance at 1 January 2019	3,394	36	-	-	3,430
Depreciation charge	1,097	11	10	3	1,121
Disposals	(131)	(8)	-	-	(139)
Transfers between the account (*)	(138)	-	-	-	(138)
<b>Closing balance at 31 December 2019</b>	<b>4,222</b>	<b>39</b>	<b>10</b>	<b>3</b>	<b>4,274</b>
<b>Net book value at 31 December 2019</b>	<b>13,425</b>	<b>126</b>	<b>64</b>	<b>3</b>	<b>13,618</b>

(\*) 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. Yet, 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 2020 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 expense accounts for the period.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**16. INTANGIBLE ASSETS**

	<b>Slot rights and acquired technical licenses (*)</b>	<b>Rights</b>	<b>Other intangible assets</b>	<b>Total</b>
<b><u>Cost</u></b>				
Opening balance at 1 January 2020	44	193	5	242
Additions	-	14	-	14
Transfers	-	14	-	14
Closing balance at 31 December 2020	<u>44</u>	<u>221</u>	<u>5</u>	<u>270</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2020	-	157	3	160
Amortization charge	-	21	-	21
Closing balance at 31 December 2020	<u>-</u>	<u>178</u>	<u>3</u>	<u>181</u>
Net book value at 31 December 2020	<u>44</u>	<u>43</u>	<u>2</u>	<u>89</u>
Net book value at 31 December 2019	<u>44</u>	<u>36</u>	<u>2</u>	<u>82</u>
	<b>Slot rights and acquired technical licenses (*)</b>	<b>Rights</b>	<b>Other intangible assets</b>	<b>Total</b>
<b><u>Cost</u></b>				
Opening balance at 1 January 2019	44	175	5	224
Additions	-	16	-	16
Transfers	-	2	-	2
Closing balance at 31 December 2019	<u>44</u>	<u>193</u>	<u>5</u>	<u>242</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2019	-	141	1	142
Amortization charge	-	16	2	18
Closing balance at 31 December 2019	<u>-</u>	<u>157</u>	<u>3</u>	<u>160</u>
Net book value at 31 December 2019	<u>44</u>	<u>36</u>	<u>2</u>	<u>82</u>
Net book value at 31 December 2018	<u>44</u>	<u>34</u>	<u>4</u>	<u>82</u>

(\*) The Group considers slot rights and licenses received through the acquisition of MNG Teknik and accounted such assets as intangible assets at an amount of USD 10 with indefinite useful lives as these assets do not have any expiry date and are usable in the foreseeable future.

**17. GOODWILL**

The goodwill amounting to USD 12 has been recognized due to acquisition of MNG Teknik.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**18. LEASING TRANSACTIONS**

Maturities of lease obligations are as follows:

	<b>Future Minimum</b>		<b>Interest</b>		<b>Present Values of</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>	<b>31 December 2020</b>	<b>31 December 2019</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Less than 1 year	1,934	1,565	(206)	(191)	1,728	1,374
Between 1 – 5 years	6,275	5,613	(455)	(483)	5,820	5,130
Over 5 years	3,931	3,588	(172)	(173)	3,759	3,415
	<u>12,140</u>	<u>10,766</u>	<u>(833)</u>	<u>(847)</u>	<u>11,307</u>	<u>9,919</u>

	<b>31 December 2020</b>	<b>31 December 2019</b>
Interest Range:		
Floating rate obligations	5,788	5,394
Fixed rate obligations	5,519	4,525
	<u>11,307</u>	<u>9,919</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 2020, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 3.74% ( 31 December 2019: 3.89%) for the fixed rate obligations and 1.42% (31 December 2019: 1.29% ) 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, 09 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: 2.3.15 for the accounting of corporate tax effect of these investment certificates.

There is not any time limit for the use of incentives received in this scope. As of 31 December 2020, the Group has a discount and exemption amounting to USD 3,469, which can be used in the future within the scope of these incentives 31 December 2019: USD 2,347).

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

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

**20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

Short-term provisions as of 31 December 2020 and 2019 are as follows:

Short-term provision for employee benefits is as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Provisions for unused vacation	<u>16</u>	<u>39</u>

Changes in the provisions for the period ended 31 December 2020 and 2019 are set out below:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Provisions at the beginning of the year	39	39
Provisions for the current year	293	320
Provisions released	(305)	(315)
Foreign currency translation differences	(11)	(5)
Provisions at the end of the year	<u>16</u>	<u>39</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:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Provisions for legal claims	<u>10</u>	<u>13</u>

Changes in the provisions for legal claims for the period ended 31 December 2020 and 2019 are set out below:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Provisions at the beginning of the year	13	16
Provisions for the current year	1	4
Provisions released	(1)	(6)
Foreign currency translation differences	(3)	(1)
Provisions at the end of the year	<u>10</u>	<u>13</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 2020**

(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 2020 is USD 1,956 (31 December 2019: USD 1,334).

As of 31 December 2020, the letters of guarantee are given to various authorities (i.e. various banks and vendors.)

	31 December 2020		31 December 2019	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,956	-	1,334
-Collaterals				
TL	52	7	52	9
EUR	1,511	1,854	1,131	1,266
USD	59	59	49	49
Other	-	36	-	10
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>1,956</u>		<u>1,334</u>

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 31 December 2020 (31 December 2019: 0%)

b) Aircraft purchase commitments:

To be delivered between the years 2021-2028, the Group signed an agreement for 167 aircrafts, (157 of aircrafts are contractual and 10 of them are optional) with a list price value of 22,338 US Dollars. The Group has made a predelivery payment of 1,253 US Dollars relevant to these purchases as of 31 December 2020 (31 December 2019: 1,562 US Dollars).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

## 22. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 December 2020 and 2019 is comprised of the following:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Provision for retirement pay liability	<u>134</u>	<u>135</u>

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 US Dollar 970 (full) (equivalent of TL 7,117 (full)) as of 31 December 2020. (31 December 2019: US Dollar 1,074 (full) equivalent of TL 6,380 (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 2020 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 9.00% annual inflation rate (31 December 2019: 7.65%) and 13.20% interest rate (31 December 2019: 12.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.53% (31 December 2019: 2.62%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,041 (full) which is in effect since 1 January 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:

	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Provision at the beginning of the year	135	130
Service charge for the year	17	13
Interest charges	13	16
Actuarial loss	13	4
Payments	(14)	(10)
Foreign currency translation difference	(30)	(18)
Provision at the end of the year	<u>134</u>	<u>135</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2020 and 2019 are as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Depreciation and amortisation charges	1,659	1,521
Fuel expenses	1,638	3,873
Personnel expenses	1,097	2,067
Aircraft maintenance expenses	546	791
Ground services expenses	485	815
Airport expenses	315	623
Air traffic control expenses	296	553
Wet lease expenses	224	284
Passenger services and catering expenses	217	622
Commissions and incentives	176	504
Reservation systems expenses	84	267
Advertisement and promotion expenses	82	175
Rents	68	85
Service expenses	67	83
Insurance expenses	48	54
Taxes and duties	41	52
IT and communication expenses	41	44
Transportation expenses	37	44
Aircraft rent expenses	20	27
Consultancy expenses	18	21
Systems use and associateship expenses	13	15
Other expenses	92	124
	<u>7,264</u>	<u>12,644</u>

**24. OTHER ASSETS AND LIABILITIES**

Other current assets as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Deffered VAT	121	131
Personnel and business advances	3	9
Assets held-for-sale	1	-
	<u>125</u>	<u>140</u>

Other current liabilities as of 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Accruals for maintenance expenses of aircraft under operating lease	229	234
Accruals for other expenses	20	19
Other liabilities	4	5
	<u>253</u>	<u>258</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

(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	
			2020	2019
Turkey Wealth Fund (*)	A	49.12	678	678
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	C	-	-	-
Other (publicly held)	A	50.88	702	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)			<u>2,504</u>	<u>2,504</u>
Share capital (USD Equivalent)			<u>1,597</u>	<u>1,597</u>

(\*) 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 2020, 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 2020

(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 2020, 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 %47, Euro revenue covered %26, Swiss Frank covered %21 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 2020**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

**26. REVENUE**

Breakdown of gross profit is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Passenger revenue		
Scheduled	3,755	11,100
Unscheduled	37	67
Total passenger revenue	<u>3,792</u>	<u>11,167</u>
Cargo revenue		
Carried by passenger aircraft	448	760
Carried by cargo aircraft	2,274	928
Total cargo revenue	<u>2,722</u>	<u>1,688</u>
Total passenger and cargo revenue	<u>6,514</u>	<u>12,855</u>
Technical revenue	175	305
Other revenue	45	69
Net sales	<u>6,734</u>	<u>13,229</u>
Cost of sales (-)	<u>(6,378)</u>	<u>(10,928)</u>
Gross profit	<u><u>356</u></u>	<u><u>2,301</u></u>

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

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
International flights		
- Far East	1,970	3,191
- Europe	1,638	3,711
- America	1,191	1,946
- Africa	664	1,276
- Middle East	497	1,467
Total	<u>5,960</u>	<u>11,591</u>
Domestic flights	<u>554</u>	<u>1,264</u>
Total passenger and cargo revenue	<u><u>6,514</u></u>	<u><u>12,855</u></u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

(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:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Fuel expenses	1,638	3,873
Depreciation and amortisation charges	1,591	1,462
Personnel expenses	833	1,624
Aircraft maintenance expenses	546	791
Ground services expenses	485	815
Airport expenses	315	623
Air traffic control expenses	296	553
Wet lease expenses	224	284
Passenger services and catering expenses	217	622
Rents	49	66
Insurance expenses	44	52
Transportation expenses	37	44
Service expenses	31	33
Aircraft rent expenses	20	27
Taxes and duties	20	18
IT and communication expenses	4	3
Other expenses	28	38
	<b>6,378</b>	<b>10,928</b>

**28. GENERAL ADMINISTRATIVE EXPENSES AND SELLING AND MARKETING EXPENSES**

Breakdown of general administrative expenses is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Personnel expenses	64	134
Depreciation and amortisation charges	60	52
IT and communication expenses	29	32
Service expenses	27	35
Consultancy expenses	11	13
Systems use and associateship expenses	8	9
Insurance expenses	4	2
Taxes and duties	2	2
Rents	2	1
Other general administrative expenses	12	19
	<b>219</b>	<b>299</b>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Personnel expenses	200	309
Commissions and incentives	176	504
Reservation systems expenses	84	267
Advertisement and promotion expenses	82	175
Taxes and duties	19	32
Rents	17	18
Service expenses	9	15
IT and communication expenses	8	9
Depreciation and amortisation charges	8	7
Consultancy expenses	7	8
Systems use and associateship expenses	5	6
Other marketing and sales expenses	52	67
	<u>667</u>	<u>1,417</u>

**29. OTHER OPERATING INCOME / EXPENSES**

Breakdown of other operating income is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Manufacturers' credits	145	86
Insurance, indemnities, penalties income	62	184
Foreign exchange gains from operational activities, net	52	14
Rent income	17	10
Provisions released	12	13
Non- interest income from banks	10	11
Turnover premium from suppliers	4	5
Rediscount interest income	4	2
Delay interest income	-	2
Other operating income	24	28
	<u>330</u>	<u>355</u>

Breakdown of other operating expenses is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Provisions	27	27
IFRS 9 Adjustment	7	5
Indemnity and penalty expenses	4	8
Other operating expenses	17	24
	<u>55</u>	<u>64</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2020**  
(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:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Income from investment incentives	164	110
Gain on sale of financial investments	12	14
Interest income from financial investment	9	39
Gain on sale of fixed assets	5	6
	<u>190</u>	<u>169</u>

Breakdown of expense from investment activities is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Loss on valuation of assets held-for-sale	9	-
Loss on sale of financial investments	1	-
Loss on sale of fixed assets	1	80
	<u>11</u>	<u>80</u>

**31. FINANCIAL INCOME/ EXPENSES**

Breakdown of financial income is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Interest income	53	45
Rediscount interest income from repayments of aircrafts	15	13
Foreign exchange gains from financial activities, net	-	79
Other financial incomes	4	2
	<u>72</u>	<u>139</u>

Breakdown of financial expenses is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Foreign exchange losses on financial activities, net	498	-
Interest expense from leasing liabilities	209	184
Interest expense from financial activities	63	57
Aircraft financing expenses	22	23
Fair value losses on derivative financial instruments, net	21	23
Interest expenses on employee benefits	13	16
Other financial expenses	9	7
	<u>835</u>	<u>310</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2020**  
(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:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Prepaid taxes	<u>38</u>	<u>43</u>

Tax income is as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Current year tax expense	-	-
Deferred tax (income) / expense	<u>(90)</u>	<u>88</u>
Tax (income) / expense	<u>(90)</u>	<u>88</u>

Tax effect related to other comprehensive income is as follows:

	<b>1 January - 31 December 2020</b>			<b>1 January - 31 December 2019</b>		
	Amount before tax	Tax income	Amount after tax	Amount before tax	Tax expense	Amount after tax
Change in cash flow hedge reserve	( 777)	156	( 621)	218	( 47)	171
Losses on Remeasuring FVOCI	4	( 1)	3	7	( 2)	5
Change in actuarial losses from retirement pay obligation	( 13)	3	( 10)	( 4)	1	( 3)
Changes in foreign currency translation difference	( 17)	-	( 17)	( 24)	-	( 24)
Other comprehensive income	<u>( 803)</u>	<u>158</u>	<u>( 645)</u>	<u>197</u>	<u>( 48)</u>	<u>149</u>

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 22%. In accordance with the Article 91 of regulation numbered 7061, published in Official Gazette on 5 December 2017, "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 30 September 2020 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The tax legislation provides for a temporary tax of 22% (2019: 22%) to be calculated and paid based on earnings generated for each quarter for the period ended 30 September 2020. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, tax rate for temporary tax is set to 22% for the years 2018, 2019 and 2020.

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 2020

(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 immoveable 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.

#### 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. For calculation of deferred tax asset and liabilities, the corporate tax rate of 20% is used.

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.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Fixed assets	(1,972)	(1,910)
Right of use asset	(312)	(310)
Adjustments for passenger flight liabilities	(133)	(171)
Tax loss carried forward	764	528
Lease obligations	311	311
Income and expense for future years	88	104
Accruals for expenses	65	69
Provisions for employee benefits	27	28
Miles accruals	16	30
Incentives	13	17
Change in fair value of derivative instruments	12	4
Provisions for unused vacation	3	9
Other	(1)	(2)
Deferred tax liabilities	<u>(1,119)</u>	<u>(1,293)</u>

The changes of deferred tax liability for the period ended 1 January – 31 December 2020 and 2019 are as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Opening balance at 1 January	1,293	1,133
Foreign currency translation difference	72	25
Tax expense from FVOCI	1	2
Tax income of actuarial losses on retirement pay obligation	(3)	-
Deferred tax (income) / expense	(90)	88
Tax (income) / expense from hedging reserves	(154)	45
Deferred tax liability at the end of the year	<u>1,119</u>	<u>1,293</u>

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
Expired as of 2021	127	881
Expired as of 2022	415	513
Expired as of 2023	930	1,247
Expired as of 2025	2,348	-
	<u>3,820</u>	<u>2,641</u>

As of 31 December 2020, tax losses amount is USD 4,477. The Group has accounted for deferred income tax assets on carry forward tax losses amounting to USD 3,820, 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 2020**

(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 2020 and 2019 are as follows:

<u>Reconciliation of effective tax charge</u>	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
Loss from operations before tax	(926)	876
Domestic expense tax rate of 20%	185	(193)
Taxation effects on:		
- investment incentive	33	29
- foreign currency translation difference	36	59
- deduction	1	-
- expense from investment certificates	-	22
- non deductible expenses	(5)	(7)
- effect of the change in the deferred tax rate	(10)	-
- investments accounted by using the equity method	(17)	16
- adjustment for prior year loss (*)	(133)	(14)
Tax charge in statement of loss	<u>90</u>	<u>(88)</u>

(\*) 131 USD of adjustment for prior years loss, which is the subject of tax reconciliation, has been reversed based on the estimation made for the upcoming years.

**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.

Number of total shares and calculation of losses per share at 1 January – 31 December 2020 and 2019:

	<u>1 January - 31 December 2020</u>	<u>1 January - 31 December 2019</u>
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 (loss) / profit for the year	(836)	788
Basic (loss) / profit per share (Full US Cents) (*)	(0.61)	0.57
(*)	(0.61)	0.57

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

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

**34. DERIVATIVE FINANCIAL INSTRUMENTS**

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2020 and 2019 are as follows:

<u>Derivative financial assets</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
Derivative instruments not subject to hedge accounting	2	17
Derivative instruments for fuel prices cash flow hedge	-	31
Derivative instruments for cross currency rate cash flow hedge	-	4
	<u>2</u>	<u>52</u>
<u>Derivative financial liabilities</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
Derivative instruments for interest rate cash flow hedge	32	35
Derivative instruments for fuel prices cash flow hedge	18	14
Derivative instruments not subject to hedge accounting	13	18
Derivative instruments for cross currency rate cash flow hedge	1	3
	<u>64</u>	<u>70</u>

**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 2019.

	<u>31 December 2020</u>	<u>31 December 2019</u>
Total debts (*)	5,521	3,607
Lease liabilities	11,307	9,919
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(1,904)	(2,565)
Net debt (A)	14,924	10,961
Total shareholders' equity (B)	5,383	6,864
Total capital stock (A+B)	20,307	17,825
Net debt/total capital stock ratio	0.73	0.61

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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

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 2020**

(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 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	-	230	-	-	-	-	-	-	-
-Past due (gross carrying amount)	-	(97)	-	-	-	-	-	-	-
-Impairment(-)	-	-	-	-	-	-	-	-	-
-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.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2019	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 (*)	-	423	28	2,329	2,450	52	49	49	15
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	(117)	-	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	-	28	-	74	52	49	49	15
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)	-	108	-	-	-	-	-	-	-
-Impairment(-)	-	(84)	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	517	-	2,332	2,377	-	-	-	-
-Impairment (-)	-	(1)	-	(3)	(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.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

(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 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 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 2020**  
(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 2019 are as follows:

31 December 2019	<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	74	-	-	-	-	74
Past due 1-3 months	12	-	-	-	-	12
Past due 3-12 months	18	-	-	-	-	18
Past due 1-5 years	88	-	-	-	-	88
Total past due receivables	192	-	-	-	-	192
The part under guarantee with collateral etc.	117	-	-	-	-	117

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

(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 2020 are as follows:

<u>Equivalent to External Credit Rating</u>	<u>Weighted Average Lost Rate</u>	<u>Gross Carrying Amount</u>	<u>Impairment Loss 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 As of 31.12.2020</u>	<u>Weighted Average Lost Rate</u>	<u>Gross Carrying Amount</u>	<u>Impairment Loss 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>

The aging of financial assets as of 31 December 2019 are as follows:

<u>Equivalent to External Credit Rating</u>	<u>Weighted Average Lost Rate</u>	<u>Gross Carrying Amount</u>	<u>Impairment Loss Allowance</u>
AA2	0.02%	1,827	-
BA3	0.05%	2,085	1
B2	1.5%	178	3
		<u>4,090</u>	<u>4</u>

  

<u>Maturity Ranges As of 31.12.2019</u>	<u>Weighted Average Lost Rate</u>	<u>Gross Carrying Amount</u>	<u>Impairment Loss Allowance</u>
Current	0.15%	517	1
1-30 days past due	1.24%	88	1
30-90 days past due	3.42%	34	1
90-360 days past due	5.73%	25	1
More than 1 year past due	40.77%	4	2
		<u>668</u>	<u>6</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 186 (31 December 2019: USD 117).

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 2020**

(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 2020 and 2019 are as follows:

	<b>1 January - 31 December 2020</b>	<b>1 January - 31 December 2019</b>
Opening Balance	85	70
Charge for the year	26	23
Collections during the year	(11)	(7)
Ifrs 9 adjustment	6	4
Currency translation adjustment	(7)	(5)
Closing Balance	<u>99</u>	<u>85</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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

(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)*

**Liquidity risk table:**

**31 December 2020**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(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>
<b>Non-derivative financial liabilities</b>						
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)	-	-	-
<b>Total</b>	<b>17,588</b>	<b>(18,597)</b>	<b>(2,183)</b>	<b>(3,336)</b>	<b>(9,078)</b>	<b>(4,000)</b>

**31 December 2019**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(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>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	3,453	(3,675)	(399)	(1,408)	(1,868)	-
Lease liabilities	9,919	(10,782)	(420)	(1,142)	(5,631)	(3,589)
Trade payables	1,130	(1,130)	(1,130)	-	-	-
Other payables	20	(20)	(3)	(7)	(10)	-
Other financial liabilities	19	(19)	(19)	-	-	-
<b>Total</b>	<b>14,541</b>	<b>(15,626)</b>	<b>(1,971)</b>	<b>(2,557)</b>	<b>(7,509)</b>	<b>(3,589)</b>

**31 December 2020**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(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>
<b>Derivative financial (liabilities) / assets, net</b>						
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)

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2019**

<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>
<b>Derivative financial (liabilities) / assets, net</b>						
Derivative cash inflows	52	53	14	36	3	-
Derivative cash outflows	(70)	(70)	(18)	(17)	(13)	(22)
Derivative cash inflows/outflows,net	(18)	(17)	(4)	19	(10)	(22)

*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 2020**

(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 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
<b>4.Current Assets (1+2+3)</b>	<b>2,568</b>	<b>1,048</b>	<b>957</b>	<b>5</b>	<b>17</b>	<b>541</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	743	743	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	652	409	236	-	-	7
<b>8.Non Current Assets (5+6+7)</b>	<b>1,395</b>	<b>1,152</b>	<b>236</b>	<b>-</b>	<b>-</b>	<b>7</b>
<b>9.Total Assets (4+8)</b>	<b>3,963</b>	<b>2,200</b>	<b>1,193</b>	<b>5</b>	<b>17</b>	<b>548</b>
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	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>4,619</b>	<b>510</b>	<b>3,784</b>	<b>242</b>	<b>27</b>	<b>56</b>
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	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>10,262</b>	<b>158</b>	<b>8,373</b>	<b>1,598</b>	<b>130</b>	<b>3</b>
<b>18.Total Liabilities (13+17)</b>	<b>14,881</b>	<b>668</b>	<b>12,157</b>	<b>1,840</b>	<b>157</b>	<b>59</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(10,918)</b>	<b>1,532</b>	<b>(10,964)</b>	<b>(1,835)</b>	<b>(140)</b>	<b>489</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(11,827)</b>	<b>1,122</b>	<b>(11,337)</b>	<b>(1,835)</b>	<b>(145)</b>	<b>368</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>506</b>	<b>-</b>	<b>506</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) 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 7,798 as of 31 December 2020 (31 December 2019: USD 7,385).

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2019					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	459	33	108	4	7	307
2a.Monetary Financial Assets	2,239	419	1,724	2	3	91
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	407	178	101	-	5	123
<b>4.Current Assets (1+2+3)</b>	<b>3,105</b>	<b>630</b>	<b>1,933</b>	<b>6</b>	<b>15</b>	<b>521</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	272	272	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	505	313	181	-	-	11
<b>8.Non Current Assets (5+6+7)</b>	<b>777</b>	<b>585</b>	<b>181</b>	<b>-</b>	<b>-</b>	<b>11</b>
<b>9.Total Assets (4+8)</b>	<b>3,882</b>	<b>1,215</b>	<b>2,114</b>	<b>6</b>	<b>15</b>	<b>532</b>
10.Trade Payables	799	474	245	-	4	76
11.Financial Liabilities	2,590	14	2,323	232	21	-
12a.Other Liabilities, Monetary	186	139	43	1	-	3
12b.Other Liabilities, Non Monetary	52	52	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>3,627</b>	<b>679</b>	<b>2,611</b>	<b>233</b>	<b>25</b>	<b>79</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	7,767	-	5,901	1,727	139	-
16a.Other Liabilities, Monetary	31	23	6	-	-	2
16b.Other Liabilities, Non Monetary	135	135	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>7,933</b>	<b>158</b>	<b>5,907</b>	<b>1,727</b>	<b>139</b>	<b>2</b>
<b>18.Total Liabilities (13+17)</b>	<b>11,560</b>	<b>837</b>	<b>8,518</b>	<b>1,960</b>	<b>164</b>	<b>81</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(7,678)</b>	<b>378</b>	<b>(6,404)</b>	<b>(1,954)</b>	<b>(149)</b>	<b>451</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(8,403)</b>	<b>74</b>	<b>(6,686)</b>	<b>(1,954)</b>	<b>(154)</b>	<b>317</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>924</b>	<b>-</b>	<b>924</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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. 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.

	<b>31 December 2020</b>			
	<b>Profit / (Loss)</b>		<b>Equity</b>	
	<b>Before Tax</b>		If foreign	If foreign
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	currency appreciated 10 %	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)	-	-
<b>TOTAL (3 + 6 + 9 + 12 + 15)</b>	<b>(235)</b>	<b>235</b>	<b>(806)</b>	<b>806</b>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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)*

	<b>31 December 2019</b>			
	<b>Profit / (Loss)</b>		<b>Equity</b>	
	<b>Before Tax</b>		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	38	(38)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	<u>38</u>	<u>(38)</u>	<u>-</u>	<u>-</u>
4- Euro net asset / liability	59	(59)	(699)	699
5- Part hedged from Euro risk (-)	(92)	92	-	-
6- Euro net effect (4+5)	<u>(33)</u>	<u>33</u>	<u>(699)</u>	<u>699</u>
7- JPY net asset / liability	(101)	101	(94)	94
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	<u>(101)</u>	<u>101</u>	<u>(94)</u>	<u>94</u>
10- CHF net asset / liability	1	(1)	(16)	16
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	<u>1</u>	<u>(1)</u>	<u>(16)</u>	<u>16</u>
13- Other foreign currency net asset / liability	45	(45)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	<u>45</u>	<u>(45)</u>	<u>-</u>	<u>-</u>
<b>TOTAL (3 + 6 + 9 + 12 + 15)</b>	<u><u>(50)</u></u>	<u><u>50</u></u>	<u><u>(809)</u></u>	<u><u>809</u></u>

*b.4.2) Interest rate risk management*

The Group has been borrowing at both fixed and variable interest rates. Considering the interest conditions of the current borrowings, the majority of the borrowings are at variable 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 variable interest rate borrowings. Due to the fact that the variable 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 2020

(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 2020</u>	<u>31 December 2019</u>
<u>Instruments with fixed interest rate</u>		
Financial Liabilities	5,519	2,998
<u>Financial Instruments with Variable Interest Rate</u>		
Financial Liabilities	5,788	5,394
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	-	(2)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(32)	(35)

As indicated in Note 36, the Group fixed the interest rate for 2,383 USD of floating–interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2020.

#### 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 variable 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 variables are kept constant:

Current profit before tax of the Group for the year will decrease by USD 38 (For the year ended 31 December 2019 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 18, excluding the deferred tax effect. (For the year ended 31 December 2019 the shareholders' equity of the Group will increase by USD 25, 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 21, excluding the deferred tax effect. (For the year ended 31 December 2019, the shareholders' equity of the Group will increase by USD 76 excluding deferred tax effect.)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by USD 22, excluding the deferred tax effect. (For the year ended 31 December 2019, the shareholders' equity of the Group will decrease by USD 72, excluding deferred tax effect.)

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2020

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

## 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 2020**

(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 2020**

(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 2019 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	2,075	-	-	-	-	2,075	5
Financial investments and derivative financial instruments	376	133	32	1	-	542	6 and 34
Trade receivables	540	-	-	-	-	540	9 and 10
Other receivables	2,357	-	-	-	-	2,357	9 and 12
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	3,453	3,453	7 and 18
Lease liabilities	-	-	-	-	9,919	9,919	7 and 18
Other financial liabilities and derivative financial instruments	-	52	18	-	19	89	8 and 34
Trade payables	-	-	-	-	1,130	1,130	9 and 10

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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.
- 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 2020	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
<b>Financial assets</b>				
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	-
<b>Total</b>	<b>94</b>	<b>92</b>	<b>2</b>	<b>-</b>
<b>Financial liabilities</b>				
Derivative instruments at fair value through profit or loss	13	-	13	-
Derivative instruments accounted for hedge accounting	51	-	51	-
<b>Total</b>	<b>64</b>	<b>-</b>	<b>64</b>	<b>-</b>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2019	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
<u>Financial assets</u>				
Financial assets on remeasuring FVOCI	98	98	-	-
Financial assets on remeasuring FVTPL	15	15	-	-
Derivative instruments at fair value through profit or loss	17	-	17	-
Derivative instruments accounted for hedge accounting	35	-	35	-
<b>Total</b>	<b>165</b>	<b>113</b>	<b>52</b>	<b>-</b>
<u>Financial liabilities</u>				
Derivative instruments at fair value through profit or loss	18	-	18	-
Derivative instruments accounted for hedge accounting	52	-	52	-
<b>Total</b>	<b>70</b>	<b>-</b>	<b>70</b>	<b>-</b>

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 48% 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 2020**

(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 2020, 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 %47, Euro revenue covered %26, Swiss Frank revenue %21 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 2020 and 2019 are as follows:

Derivative Instruments Stated in Assets and Liabilities

	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
<b>31 December 2020</b>			
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	<u>-</u>	<u>(51)</u>	<u>(51)</u>
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	<u>2</u>	<u>(13)</u>	<u>(11)</u>
Fair values of derivative instruments not for hedging purposes	<u>2</u>	<u>(13)</u>	<u>(11)</u>
<b>Total</b>	<u><u>2</u></u>	<u><u>(64)</u></u>	<u><u>(62)</u></u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2020 and 2019 are as follows (cont'd):

Derivative Instruments Stated in Assets and Liabilities

<b>31 December 2019</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(35)	(35)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	-	-
Collar contracts for hedging against cash flow risk of fuel prices	31	(14)	17
Forward currency contracts for hedging purposes	4	(3)	1
Fair values of derivative instruments for hedging purposes	<u>35</u>	<u>(52)</u>	<u>(17)</u>
Cross-currency swap contracts not subject to hedge accounting	16	-	16
Interest rate swap contracts not subject to hedge accounting	1	(3)	(2)
Forward currency contracts not for hedging purposes	-	(15)	(15)
Fair values of derivative instruments not for hedging purposes	<u>17</u>	<u>(18)</u>	<u>(1)</u>
Total	<u><u>52</u></u>	<u><u>(70)</u></u>	<u><u>(18)</u></u>

Derivative Instruments Stated in the Equity

<b>31 December 2020</b>	<b>Hedging against fuel risk</b>	<b>Hedging against interest risk</b>	<b>Hedging against currency risk</b>	<b>Total</b>
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	<u>(13)</u>	<u>(32)</u>	<u>(520)</u>	<u>(565)</u>
Deferred tax	3	6	106	115
Hedge reserve as of 31 December 2020	<u><u>(10)</u></u>	<u><u>(26)</u></u>	<u><u>(414)</u></u>	<u><u>(450)</u></u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2020**

(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 2020 and 2019 are as follows (cont'd):

Derivative Instruments Stated in the Equity

31 December 2019	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	17	(35)	4	(14)
The amount of financial expenses inside hedge funds	-	1	-	1
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(7)	-	-	(7)
Ineffecient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	234	234
Total	10	(34)	238	214
Deferred tax	(2)	7	(48)	(43)
Hedge reserve as of 31 December 2019	8	(27)	190	171

**37. EVENTS AFTER THE BALANCE SHEET DATE**

None.