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

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pegasus Hava Taşımacılığı Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards ("TFRS").

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). 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 are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Emphasis of Matter

As mentioned in Note 1 to the consolidated financial statements, the COVID-19 pandemic had a major impact on the airline industry and the operations of the Group, affecting the operation of the flights and consequently significantly reduced the amount of revenues. This had significant impacts on operating results and cash generation. Given the unprecedented nature of the pandemic, the impact and duration of this impact on the airline industry is difficult to predict but may include a prolonged global recession and changes to consumer behavior which may impact passenger numbers in both the short term and longer term. Our opinion is not qualified in respect of these matters.

4) 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. These matters were addressed in the context of our 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.

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Key audit matter	How the matter was addressed in the audit
Redelivery maintenance provision	
As explained in Note 15, as of December 31, 2021, the Group has recognized a provision of TL 3.806.040 thousand for the redelivery maintenance provision costs at the delivery date of the aircraft that are subject to operating lease. Regarding the aircraft held under operating lease agreements, during the hand-over of these aircrafts, the Group is contractually committed to either comply with the conditions set forth in the contract or to compensate the lessor for the difference between the contractual hand-over conditions and the actual hand-over conditions of the airframe, engines and life-limited parts. A redelivery maintenance provision is made for this contractual obligation over the lease term, based on the present value of the estimated future cost calculated by reference to the number of hours flown and cycles operated during the year. Redelivery maintenance provision amounts are at significant levels in the consolidated financial statements and they are based on certain assumptions, such as; likely utilization rates of the aircraft, the expected cost and the time of the heavy maintenance, the condition of the aircraft and the lifespan of life-limited parts. The changes in the assumptions may affect the consolidated financial statements significantly, hence, the matter is considered a key audit matter.	The following audit procedures are applied in order to be able to test the reasonable calculation of the redelivery maintenance provision: The design and implementation of controls have been examined to ensure the appropriateness of the calculation designed by the management. The assumptions used in the calculation of the redelivery maintenance provision are evaluated with the technical maintenance supports team performing the calculation, and the data used in these assumptions are compared with the costs used in the maintenance contracts made by the Group. The actual maintenance amounts for the delivered aircraft are compared with the amounts calculated in the previous periods for these aircrafts and an assessment is made to see if there is a significant difference. Furthermore, substantive procedures are applied to the maintenance payments made by the Group for the aircraft held under operating lease. The records of the maintenance costs incurred during the year are compared with the corresponding invoices. In addition, we have evaluated the adequacy of the disclosures in Note 2.5 and Note 15 in accordance with TAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

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Revenue recognition - complete and accurate recording of revenue and determination of passenger flight liability	
The Group generates its revenues from international and domestic flight operations. In order to perform the aforementioned operations, the Group uses information systems in which large volumes of data are processed. Due to the nature of operations, the ticket sales processes take place before the process of revenue recognition. The Group also earns ancillary income apart from the passenger transportation income and monitors this side income separately. Revenue recognition has been identified as key audit matter since the amount of revenue is significant in the accompanying consolidated financial statements, the information systems, through processing large-volume of data, affects the period in which the revenue will be recorded and revenue recognition includes risks specific to the sector. The accounting policy for the recognition of revenue of the Group is given in Note 2.4 and details of the revenue amount is presented in Note 21.	The following procedures have been applied to ensure the accurate and complete recording of the revenue and to determine the passenger flight liability: The Group's revenue recognition process and the design and implementation of controls designed by management in the process have been examined and tested. Audit activities were conducted for the general controls of both operational and financial information system applications. Information Technology ("IT") experts of another entity that is a part of the same audit network have been included in the audit process for the audit of the revenue. The suitability and effectiveness of automated controls and IT systems established to record passenger revenues have been tested through the help of our IT specialists. In addition, the suitability and effectiveness of non-automated key controls have been also tested. Completion and accuracy check of data exchanges between the systems and verification of detection of data errors for ticketing and collection process are within the controls selected for testing. Substantive analytical tests have been applied for revenue. The data obtained from the accounting systems, traffic data and passenger flight reports were compared in order to test the accuracy of the revenue amount and accuracy of the data used in these tests. In addition, the conformity of the disclosures in the consolidated financial statements as to TFRS has been also evaluated.

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5) 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 TFRS, 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 financial reporting process.

6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

In an independent audit, our responsibilities as the auditors are:

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 standards on auditing as issued by the Capital Markets Board of Turkey and InAS 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 standards on auditing as issued by the Capital Markets Board of Turkey and InAS, 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.

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- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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B) Report on Other Legal and Regulatory Requirements

1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 4, 2022.

2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2021 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.

3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Sinem Arı Öz.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Sinem Arı Öz, SMMM
Partner

March 4, 2022
İstanbul, Turkey

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 31 December 2021	Prior period (Audited)(**) 31 December 2020	(*) EUR 31 December 2021	(*) EUR 31 December 2020
ASSETS					
Current assets		**12.687.114.838**	**5.519.472.714**	**864.109.491**	**612.736.899**
Cash and cash equivalents	35	6.976.779.772	3.605.570.830	475.183.028	400.267.635
Financial assets	31	565.472.751	160.917.882	38.513.908	17.864.084
Trade receivables	6	337.172.794	197.485.020	22.964.576	21.923.536
Trade receivables from third parties	6	*337.172.794*	*197.485.020*	*22.964.576*	*21.923.536*
Other receivables	7	127.250.026	91.118.025	8.666.900	10.115.346
Other receivables from related parties	5	-	*227.927*	-	*25.303*
Other receivables from third parties		*127.250.026*	*90.890.098*	*8.666.900*	*10.090.043*
Derivative financial instruments	30	118.364.973	7.599.668	8.061.746	843.667
Inventories	8	141.338.089	91.488.340	9.626.427	10.156.456
Prepaid expenses	9	4.044.857.895	1.269.928.689	275.492.112	140.979.439
Current income tax assets	27	5.030.039	6.629.247	342.592	735.937
Other current assets	19	62.757.524	88.735.013	4.274.366	9.850.799
SUBTOTAL		**12.379.023.863**	**5.519.472.714**	**843.125.655**	**612.736.899**
Non-current assets held for sale	36	308.090.975	-	20.983.836	-
Non-Current assets		**40.209.484.111**	**23.551.200.077**	**2.737.604.239**	**2.613.471.899**
Financial assets	31	2.173.986.740	73.117.656	148.068.541	8.117.059
Other receivables	7	385.733.767	205.188.513	26.272.026	22.778.729
Other receivables from third parties	7	*385.733.767*	*205.188.513*	*26.272.026*	*22.778.729*
Derivative financial instruments	30	45.204.115	-	3.078.817	-
Investments accounted by using the equity method	3	99.461.529	77.210.982	6.774.247	8.571.474
Property and equipment	10	1.854.850.887	1.432.548.082	126.331.736	159.030.906
Intangible assets	11	183.945.727	111.125.949	12.528.400	12.336.499
Right of use assets	12	32.695.303.761	19.788.996.107	2.225.819.988	2.195.817.353
Prepaid expenses	9	2.770.997.585	1.863.012.788	188.730.484	206.819.879
TOTAL ASSETS		**52.896.598.949**	**29.070.672.791**	**3.601.713.730**	**3.226.208.798**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.
(**)In order to comply with the current period consolidated financial statements, the reclassifications made in the previous period financial statements are explained in Note 2.1.

(Convenience Translation of The Report and Financial Statements Originally Issued in Turkish)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 31 December 2021	Prior period (Audited)(**) 31 December 2020	(*) EUR 31 December 2021	(*) EUR 31 December 2020
LIABILITIES					
Current liabilities		**12.679.117.885**	**6.505.674.770**	**863.564.829**	**722.218.769**
Short term borrowings	31	3.413.628.246	1.545.683.713	232.499.557	171.592.015
Short term portion of long term borrowings	31	477.144.842	196.033.144	32.497.963	21.762.358
Short term portion of long term lease liabilities	31	3.876.778.287	2.154.972.636	264.044.345	239.231.412
Trade payables	6	1.890.577.313	910.641.319	128.765.746	101.093.631
Trade payables to related parties	*5*	*8.656.890*	*22.159.362*	*589.614*	*2.459.992*
Trade payables to third parties		*1.881.920.423*	*888.481.957*	*128.176.132*	*98.633.639*
Employee benefit obligations	17	46.371.989	30.178.231	3.158.360	3.350.196
Other payables	7	166.033.142	30.346.928	11.308.388	3.368.888
Other payables to third parties		*166.033.142*	*30.346.928*	*11.308.388*	*3.368.888*
Passenger flight liabilities	9	1.470.909.753	513.935.986	100.182.516	56.989.123
Derivative financial instruments	30	211.337	90.228.333	14.394	10.016.578
Deferred income	9	299.944.356	212.201.390	20.428.976	23.622.049
Short term provisions		1.037.352.947	821.336.124	70.653.300	91.179.534
Short term provisions for employee benefits	*17*	*323.182.559*	*55.106.089*	*22.011.712*	*6.117.529*
Other short term provisions	*15*	*714.170.388*	*766.230.035*	*48.641.588*	*85.062.005*
Other current liabilities	19	165.673	116.966	11.284	12.985
Non-Current liabilities		**33.414.087.401**	**17.178.580.383**	**2.275.807.428**	**1.907.057.181**
Long term borrowings	31	4.859.623.576	805.508.577	330.985.171	89.422.460
Long term lease liabilities	31	24.038.791.581	14.309.895.001	1.637.263.343	1.588.593.901
Derivative financial instruments	30	-	3.838.005	-	426.071
Deferred income	9	412.770.929	316.272.170	28.113.506	35.110.533
Long term provisions		3.171.423.448	1.138.088.518	216.003.177	126.343.378
Long term provisions for employee benefits	*17*	*66.886.363*	*99.124.346*	*4.555.578*	*11.004.157*
Other long term provisions	*15*	*3.104.537.085*	*1.038.964.172*	*211.447.599*	*115.339.221*
Deferred tax liabilities	27	931.477.867	604.978.112	63.442.231	67.160.838
SHAREHOLDERS' EQUITY		**6.803.393.663**	**5.386.417.638**	**462.341.473**	**596.932.848**
Paid-in share capital	20	102.299.707	102.299.707	60.544.134	60.544.134
Share premiums on capital stock		455.687.025	455.687.025	194.089.305	194.089.305
Other comprehensive income/expense not to be reclassified to profit or loss					
Actuarial losses on defined benefit plans	26	(11.780.564)	(2.972.061)	(802.365)	(329.939)
Currency translation differences	26	7.812.992.040	4.609.042.699	-	-
Other comprehensive income/expense to be reclassified to profit or loss					
Hedge fund	26	125.948.205	(68.365.331)	8.578.234	(7.589.486)
Restricted profit reserves		20.459.941	20.459.941	4.047.406	4.047.406
Retained earnings		270.265.658	2.235.362.715	346.171.428	556.776.109
Net loss for the period		(1.972.478.349)	(1.965.097.057)	(150.286.669)	(210.604.681)
TOTAL LIABILITIES AND EQUITY		**52.896.598.949**	**29.070.672.791**	**3.601.713.730**	**3.226.208.798**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.
(**)In order to comply with the current period consolidated financial statements, the reclassifications made in the previous period financial statements are explained in Note 2.1.

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are expressed in TL unless otherwise stated.)

Profit or loss	Notes	Current period (Audited) 1 January- 31 December 2021	Prior period (Audited) (**) 1 January- 31 December 2020	(*) EUR 1 January- 31 December 2021	(*) EUR 1 January- 31 December 2020
Sales	21	10.664.406.707	4.803.559.909	1.024.587.391	629.879.667
Cost of sales (-)	21	(10.546.868.537)	(6.062.262.535)	(976.788.227)	(753.235.104)
Gross profit/(loss)		**117.538.170**	**(1.258.702.626)**	**47.799.164**	**(123.355.437)**
General administrative expenses (-)	22	(378.551.090)	(274.563.009)	(36.776.440)	(34.589.732)
Marketing expenses (-)	22	(284.441.314)	(168.837.261)	(26.177.880)	(21.384.976)
Other operating income	23	19.120.702	354.947.419	2.242.164	44.435.296
Other operating expenses (-)	23	(85.542.187)	(13.768.312)	(8.792.985)	(1.321.110)
Operating loss		**(611.875.719)**	**(1.360.923.789)**	**(21.705.977)**	**(136.215.959)**
Income from investing activities	24	54.238.839	12.867.419	4.114.873	1.480.104
Expenses from investing activities (-)	24	(23.994.475)	(208.950.014)	(2.296.047)	(23.196.307)
Share of investments income accounted for using the equity method	3	10.890.779	15.417.638	1.042.146	1.920.379
Operating loss before financial expense		**(570.740.576)**	**(1.541.588.746)**	**(18.845.005)**	**(156.011.783)**
Financial income	25	146.641.077	388.566.130	13.792.245	48.498.948
Financial expense (-)	25	(1.632.686.297)	(871.821.987)	(153.301.346)	(110.392.920)
Loss before tax		**(2.056.785.796)**	**(2.024.844.603)**	**(158.354.106)**	**(217.905.755)**
Tax expense		**84.307.447**	**59.747.546**	**8.067.437**	**7.301.074**
Deferred tax income / (expense)	27	84.307.447	59.747.546	8.067.437	7.301.074
Loss for the period		**(1.972.478.349)**	**(1.965.097.057)**	**(150.286.669)**	**(210.604.681)**
Loss per share (TL) / (EUR)	28	(19,28)	(19,21)	(1,47)	(2,06)
Other comprehensive income					
Items not to be reclassified to profit or loss					
Actuarial (losses) / gains on defined benefit plans	26	(11.010.629)	1.164.935	(590.533)	321.346
Deferred tax effect	26	2.202.126	(232.987)	118.107	(64.269)
Currency translation differences		3.203.949.341	2.034.615.690	-	-
Items to be reclassified to profit or loss					
Cash flow hedge		249.025.755	(31.401.307)	20.627.421	(4.232.607)
Deferred tax effect		(54.712.219)	5.199.157	(4.459.701)	711.862
Other comprehensive income/(expense)		**3.389.454.374**	**2.009.345.488**	**15.695.294**	**(3.263.668)**
Total comprehensive income/(expense)		**1.416.976.025**	**44.248.431**	**(134.591.375)**	**(213.868.349)**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are expressed in TL unless otherwise stated.)

			Other comprehensive income items not to be reclassified to profit or loss		**Other comprehensive income items to be reclassified to profit or loss**		**Retained earnings**		
	Paid in share capital	Share premiums on capital stock	Actuarial gains/(losses) on defined benefit plans	Currency translation differences	Hedge reserve	Restricted profit reserves	Retained earnings	Net profit/(loss) for the year	Shareholders' equity
As at 1 January 2020	**102.299.707**	**455.687.025**	**(3.904.009)**	**2.574.427.009**	**(42.163.181)**	**18.542.287**	**903.911.251**	**1.333.369.118**	**5.342.169.207**
Transfers	-	-	-	-	-	1.917.654	1.331.451.464	(1.333.369.118)	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	(1.965.097.057)	(1.965.097.057)
Other comprehensive income / (expense)	-	-	931.948	2.034.615.690	(26.202.150)	-	-	-	2.009.345.488
As at 31 December 2020	**102.299.707**	**455.687.025**	**(2.972.061)**	**4.609.042.699**	**(68.365.331)**	**20.459.941**	**2.235.362.715**	**(1.965.097.057)**	**5.386.417.638**
As at 1 January 2021	**102.299.707**	**455.687.025**	**(2.972.061)**	**4.609.042.699**	**(68.365.331)**	**20.459.941**	**2.235.362.715**	**(1.965.097.057)**	**5.386.417.638**
Transfers	-	-	-	-	-	-	(1.965.097.057)	1.965.097.057	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	(1.972.478.349)	(1.972.478.349)
Other comprehensive income / (expense)	-	-	(8.808.503)	3.203.949.341	194.313.536	-	-	-	3.389.454.374
As at 31 December 2021	**102.299.707**	**455.687.025**	**(11.780.564)**	**7.812.992.040**	**125.948.205**	**20.459.941**	**270.265.658**	**(1.972.478.349)**	**6.803.393.663**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 1 January- 31 December 2021	Prior period (Audited) (**) 1 January- 31 December 2020	(*) EUR 1 January- 31 December 2021	(*) EUR 1 January- 31 December 2020
A. CASH FLOWS FROM OPERATING ACTIVITIES					
Loss for the period		**(1.972.478.349)**	**(1.965.097.057)**	**(150.286.669)**	**(210.604.681)**
Adjustments to reconcile the loss					
Depreciation and amortization	10-11-12	2.816.301.529	2.183.403.792	269.493.766	271.958.825
Adjustments related with impairments		(14.197.603)	3.617.950	(1.358.578)	450.642
Provision for doubtful receivable	*6-7*	*(14.197.603)*	*3.617.950*	*(1.358.578)*	*450.642*
Adjustments related with financial investment impairments	*24*	*23.994.475*	*(1.036.307)*	*2.296.047*	*(129.054)*
Adjustments related with provisions		700.065.470	(399.271.096)	59.990.256	(50.135.392)
Provision for employee benefits	*17*	*253.766.425*	*29.775.897*	*17.283.833*	*3.305.532*
Legal provison	*15*	*2.924.567*	*1.504.554*	*279.854*	*187.403*
Change in redelivery provision	*15*	*443.374.478*	*(430.551.547)*	*42.426.569*	*(53.628.327)*
Interest and commission income	24-25	1.037.255.743	554.745.306	97.634.938	69.097.563
Gain on equity investments accounted for using the equity method	3	(10.890.779)	(15.417.638)	(1.042.146)	(1.920.379)
Current tax expense	27	(84.307.447)	(59.747.546)	(8.067.437)	(7.301.074)
Other provisions related with investing or financing activities	24-33	396.658.058	(107.739.414)	37.957.585	(16.230.529)
Changes in working capital					
Increase in trade receivables		9.716.305	246.309.338	317.538	29.425.265
Increase in other receivables, prepaid expenses and other assets		(2.124.918)	(332.553.352)	(314.206)	(39.669.425)
Increase in inventories		5.538.983	(16.035.314)	530.029	(1.911.160)
Increase in trade payables		241.182.554	187.852.694	23.078.919	(7.586.582)
Increase in deferred income, other payables and other current liabilities		393.364.719	1.127.796	64.033.122	(11.879.584)
Net cash generated from operating activities		**3.540.078.740**	**280.159.152**	**394.263.164**	**23.564.435**
Payment for the employee benefits provisions	17	(28.938.570)	(127.006.316)	(2.141.143)	(14.141.137)
Payment for other provisions	15	(15.720)	(86.428)	(1.504)	(10.765)
		3.511.124.450	**153.066.408**	**392.120.517**	**9.412.533**
B. CASH FLOWS FROM INVESTING ACTIVITIES					
Cash payments to acquire debt instruments of other entities		(1.801.366.493)	(30.294.616)	(133.719.804)	(4.653.836)
Net cash changes from purchase and sale of property, equipment and intangible assets		35.710.620	163.951.650	4.083.197	12.368.496
Interest received from financial investment		18.015.416	8.399.713	1.675.927	1.136.697
Changes in cash advances and payables		(1.507.623.094)	(469.555.306)	(144.265.457)	(55.197.620)
Other cash changes		(286.304.850)	-	(19.500.000)	-
		(3.541.568.401)	**(327.498.559)**	**(291.726.137)**	**(46.346.263)**
C. CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in borrowings		4.069.928.417	2.342.659.971	415.753.004	260.067.271
Repayment of borrowings		(483.541.400)	(1.241.647.896)	(46.050.645)	(154.656.278)
Repayment of principal in lease liabilities		(2.198.992.296)	(1.758.442.075)	(210.423.035)	(230.192.927)
Interest and commission paid		(982.699.234)	(480.335.386)	(94.816.471)	(55.395.032)
Interest received		196.483.637	73.644.919	18.801.650	9.082.559
		601.179.124	**(1.064.120.467)**	**83.264.503**	**(171.094.407)**
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)		**570.735.173**	**(1.238.552.618)**	**183.658.883**	**(208.028.137)**
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		2.800.473.769	656.806.867	(108.743.490)	(21.319.091)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**3.371.208.942**	**(581.745.751)**	**74.915.393**	**(229.347.228)**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD AT THE BEGINNING OF THE PERIOD	35	3.605.570.830	4.187.316.581	400.267.635	629.614.859
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	**35**	**6.976.779.772**	**3.605.570.830**	**475.183.028**	**400.267.631**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

TL 2.896.937.109 of tangible and intangible assets additions in total of TL 3.276.815.638 was financed through leases for the year ended 31 December 2021 (31 December 2020: TL 5.445.100.035 of tangible and intangible assets additions in total of TL 5.008.958.344 was financed through finance leases).

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Pegasus Hava Taşımacılığı A.Ş. (the "Company" or "Pegasus") and its subsidiaries (together "the Group") is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service. Group management focuses on providing high-frequency services on short- and medium-haul, point-to-point routes on its domestic and international transit network primarily from its main hub, Sabiha Gökçen Airport in İstanbul. The Group also operates scheduled flights from four other domestic hubs in Ankara, Adana, Antalya and İzmir. The Group operates with 90 aircraft (31 December 2020: 93) all of them leased, 62 of which have purchase option, as of 31 December 2021.

The Group offers a number of services ancillary to the core air passenger services and generate revenue through the provision of these services. These ancillary services include, but not limited to, revenue related to in-flight sale of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees.

The Group also provides cargo services and provides various training services. These training services include crew training, type rating training (i.e., training to fly a certain aircraft type), dangerous goods training and crew resource management (CRM) training.

The shareholders and their respective holdings in the Company as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Esas Holding A.Ş. ("Esas Holding")	62,91%	62,91%
Publicly held	34,53%	34,53%
Sabancı Family Members	2,56%	2,56%
Total	**100,00%**	**100,00%**

Shares of the Company has been started to be traded in İstanbul Stock Exchange since 26 April 2013, after the book building between the dates of 18-19 April 2013.

hThe Group's total number of full time employees as of 31 December 2021 is 5.837 (31 December 2020: 6.130). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

Subsidiaries

Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.

The Group, incorporated Pegasus Havacılık Teknolojileri ve Ticaret A.Ş. ("PHT") on 13 May 2016 in İstanbul for the operations of simulator technical support and maintenance. The Group owns 100% of the outstanding shares of PHT and consolidated on a line by line basis as a subsidiary.

Joint Ventures

Pegasus Uçuş Eğitim Merkezi A.Ş.

The Group incorporated Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM") in October 2010 in Turkey, a joint venture flight training company, with SIM Industries B.V., a Dutch simulator manufacturing and marketing company. PUEM has a 737-800 "next generation" flight simulator and commenced its operations in İstanbul in January 2011. The Group owns 49,40% of the outstanding shares of PUEM and disclose as joint venture under investments accounted for using the equity method in the financial statements.

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Joint Ventures

Hitit Bilgisayar Hizmetleri A.Ş.

Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar") was established in 1994, and as of 31 December 2014 it was merged with its related company Hitit Yazılım A.Ş. The scope of operations of the entity is to develop software solutions for airlines and travel agencies as well as airports, and be engaged with the activities concerning service of the foregoing operations, services and sales thereof.

The Group owns 50% of the outstanding shares of Hitit Bilgisayar Hizmetleri A.Ş. and disclose as joint venture under investments accounted for using the equity method in the financial statements as of March 2015.

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 December 2021 and delegated authority for publishing it on 4 March 2022. General shareholders' meeting has the authority to modify the financial statements.

COVID-19 Effects and Impairment Analysis

The COVID-19 pandemic has had a significant impact on Pegasus and the aviation industry generally. As a result of COVID-19, governments have imposed an unprecedented level of travel restrictions across the Company's markets and consumer confidence and willingness to travel have decreased significantly. In March 2020, COVID-19-related restrictions were imposed by several countries, which is followed by cancellation of all international flights on March 27, 2020 and cancellation of all domestic flights on March 28, 2020. Accordingly, the whole Pegasus fleet was grounded, and the Group did not operate any commercial flights in April and May 2020. During June 2020, the Group restarted domestic flights and international flights to allowed countries. However, revenue and profitability of the Group decreased compared to pre-COVID period due to above explained effects.

From March 2020, the Group took measures to decrease fixed costs, to maintain cash position and to stabilize current ratio. With an effort to optimize the payroll costs (which constituted significant part of total cash fixed costs, which are comprised of personnel expenses overhead expenses, training expenses, marketing expenses, insurance expenses and other fixed expenses) through unpaid vacation offered to the employees and participation in the government's furlough scheme (which ended as of 30 June 2021). The Group also negotiates permanent discounts and deferrals in contracts with suppliers, in order to support cash flow management. Savings have been maintained at fixed costs through transition to remote working structure and with this structure, it's expected that these savings can be maintained permanently in the future as well. Maintenance activity has been optimized based on revised flight schedules. With an aim to both control costs and cash flow management, general expenditure budget have been reviewed and as a result non-urgent and non-critical projects have been postponed. During this period, alongside these measures, the Group drew down new borrowings from commercial banks. The Group's average monthly operational cash burn was €8.3 million for the 21 months ending December 31, 2021, that is, the period in 2020 and 2021 affected by the COVID-19 pandemic. The Group calculates monthly operational cash burn by deducting all operating expenses except depreciation and amortization expenses, net interest expenses and lease payments from revenues for the relevant period.

With the restarting of operations in June 2020 and in parallel with the strategy of solely operating flights that generate a positive contribution (i.e., revenues netted off against operational expenses excluding fixed costs), the Group's cash burn decelerated from the third quarter of 2020. The swift pick-up in domestic demand also supported the recovery trend.

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

COVID-19 Effects and Impairment Analysis

However, in the fourth quarter of 2020, the effect of seasonality, the payment of deferred liabilities and the government's decision to re-impose curfews and lockdowns starting from the end of November 2020, weighed negatively on the Group's operations and led to an increase in cash burn. In 2021, with the easing of flight restrictions and the high levels of vaccination in many countries where the Company flies and in Turkey, the monthly cash burn amount decreased significantly (2021 monthly cash burn amount: 1.6 million Euro, April-December 2020 cash burn amount: 17.2 million Euro). The base case scenario, which is the budget of the Company has been approved by the Board of Directors in December 2021. According to the budget, the Company expects production in terms of block hours to reach 2019 levels (pre-Covid period) in 2022, due to the increase in vaccination roll-out in the countries where the Company flies, and the improvement in customer confidence anddemand. Based on these assumptions, management expects generating positive cash flow from operations (after deducting interest and lease payments) in 2022.

Management uses the following main parameters over the course of its planning process: production (in terms of block hours), load factors and yield (revenue per passenger). In the base case scenario, management assumes that the average domestic production capacity and international production capacity reach slightly above the pre-COVID-19 levels in the next 12 months, i.e. until the end of December 31, 2022. In addition to this base case scenario, management has also modelled a more conservative scenario assuming decline relative to the assumptions, to assess the liquidity position over a period of 12 months from December 31, 2021. In this scenario, Management has assumed that, without any recovery, production will be in 2021 levels. Although there was a total lockdown between April 30th and May 17thin 2021 and the vaccination rates in the first six months were very low, management has still decided to use this period's performance as a reference to make a stress test. Consequently, the realized average domestic production capacity of 89% and average international production capacity of 67% of pre-COVID-19 levels have been used for the next 12 months from December 31, 2021 in this conservative scenario. Although the main concern was around decrease in the production due to COVID-19, in order to test vulnerability, management has also slightly decreased expected yields and load factors compared to the budget. Even in this situation, management expects to generate the required cash flow from its operations to continue its activities over this 12-month period between December 31, 2021 and December 31th, 2022. While management believes the foregoing analysis provides a reasonable basis for this expectation, there is a risk that the referenced scenarios will not be achieved due to external factors, including a slower recovery from the COVID-19 pandemic.

The extent to which the Group's results of operations and financial condition will ultimately be impacted by, and any unforeseen costs will result from, the COVID-19 pandemic will depend on the duration of the pandemic and future developments, which are highly uncertain and cannot be accurately predicted. These developments include, among other things, further "waves" of COVID-19 or the spread of new COVID-19 variants, new information that may emerge concerning the severity of the outbreak and health implications, actions by government authorities to contain COVID-19 outbreaks or mitigate its impact and changes in consumer behavior resulting from the outbreak and such government actions.

On the other hand, as of December 31, 2021, the Group evaluated whether there is any risk of impairment on aircraft, tangible fixed assets, and intangible assets due to the effects of the COVID-19 outbreak, and in the light of the analysis made, it is concluded that there is not any impairment risk regarding the determination of the value-in-use of the assets. In the impairment tests, above mentioned worse case scenario is used and the Group used significant assumptions such as number of passengers, passenger load factor, fuel prices and discount rates. Important assumptions are mentioned above by the Management. The Group management will continue to make these analyses regularly. Sensitivity analyses on the main assumptions were also performed as of 31 December 2021, and no impairment was determined as a result of the relevant analyzes.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance with TAS

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation.

The accompanying consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards / Turkish Financial Reporting Standards and interpretations ("TAS/TFRS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with Turkish Accounting Standards.

The consolidated financial statements have been prepared on a going concern basis, with the assumption that the Group will benefit from its assets and fulfill its liabilities in the subsequent year and in the natural process of its business operations.

Functional and Presentation Currency

Although there is no prominent currency affecting revenue and cost of sales, the Group's functional currency is determined as Euro because; significant portion of scheduled flight revenues, which represents the Group's primary operations, is generated from European flights, Euro represents a significant component of the financial liabilities of the Group and management reports and budget enabling the Company's management to make executive decisions are prepared in Euro. The functional currency of the Company and its subsidiaries is Euro.

If the legal records are kept in a currency other than the functional currency, the financial statements are initially translated into the functional currency and then translated to the Group's presentation currency, Turkish Lira ("TL"). For the companies in Turkey that book legal records in TL, currency translation from TL to the functional currency Euro is made under the framework described below:

- Monetary assets and liabilities have been converted to the functional currency with the The Central Bank of Turkish Republic (CBRT) foreign exchange rate.
- Non-monetary items have been converted into the functional currency at the exchange rates prevailing at the transaction date.
- Profit or loss accounts have been converted into the functional currency using the exchange rates at the transaction date, except for depreciation expenses.
- The capital is followed according to historical costs.

The translation differences resulting from the above mentioned conversions are recorded under financial income / expenses in the statement of profit or loss.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Presentation currency of the Group's financial statements is TL. Financial Statements have been translated from Euro to TL in accordance with the relevant provisions of TAS 21 ("The Effects of Changes in Foreign Exchange Rates") as follows:

- Assets and liabilities are translated using the Central Bank of the Republic of Turkey ("TCMB") Euro rate prevailing at the balance sheet date;31 December 2021: 1 Euro (€) = TL 14,6823, (31 December 2020: 1 Euro (€) = TL 9,0079).
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions.

Translation gains or losses arising from the translations stated above are presented as foreign currency translation reserve under equity. Share capital amount, representing the nominal share capital of the Company, all other equity items are presented in historic TL terms where all translation gains or losses in relation to these balances are accounted under foreign currency translation reserve.

Euro Amounts in the Financial Statements

Euro amounts shown in the consolidated balance sheet prepared in accordance with the TFRS have been translated from TL, as a matter of arithmetic computation only, at the official Euro rates announced by the TCMB as at the balance sheet date and Euro amounts shown in the consolidated statements of income, comprehensive income and cash flow have been translated from TL, as a matter of arithmetic computation only, Euro rates calculated from the official daily rates announced by the TCMB.

Adjustment of Financial Statements in High Inflation Periods

In accordance with the statement announced by the Public Oversight Accounting and Auditing Standards Authority on January 20, 2022, the cumulative change in the general purchasing power of the last three years has been 74.41%, according to the Consumer Price Index (CPI). On this basis, it is stated that there is no need to make any adjustments in the financial statements for 2021 within the scope of IAS 29 — Financial Reporting in Hyperinflationary Economies. In this respect, no inflation adjustment was perform in accordance with TAS 29 while preparing the consolidated financial statements as of 31 December 2021.

Comparative Information and Reclassification of Prior Period Financial Statements

Consolidated financial statements of Group are prepared in comparison to prior period in order to identify financial position and performance trends. In order to maintain consistency with current period consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current period, the Group has made several reclassifications in the prior period consolidated financial statements in order to maintain consistency with current year consolidated financial statements. There is no effect of these reclassifications in the prior period equity and statement of profit or loss. The nature, amount and reasons for each of the reclassifications are described below:

- In the statement profit or loss for the year ended of December 31 2020, TL 10.312.042 of interest income from financial assets that was previously presented in financial income has been reclassified and reported in income from investing activities.
- In the statement of financial position as of 31 December 2020, TL 20.470.400 that was previously presented in passenger flight liabilities has been reclassified and reported in deferred income.
- Debt instruments amounting to TL 160.917.882 that was by mistake presented within non current financial investments as of 31 December 2020. At these financial statements, such financial instruments are reclassified to current assets.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Consolidation

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

		Participation rate		Country of registration and
Name of the company	Principal activity	31 December 2021	31 December 2020	operation
PHT	Simulator technical support and maintenance	100%	100%	Turkey

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Consolidation

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under *TFRS 9 Financial Instruments*, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Joint Ventures

The table below sets out affiliates and joint ventures then indicates the proportion of ownership interest of the Company in these joint ventures as of 31 December 2021 and 31 December 2020:

		Participation rate			
Name of the company	Principal activity	31 December 2021	31 December 2020	Ownership type	Country of registration and operation
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Simulator training	49%	49%	Joint venture	Turkey
Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar")	Information system solutions	50%	50%	Joint venture	Turkey

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Joint Ventures

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

2.2 Changes in Accounting Estimates

Changes in accounting estimates are applied prospectively. If it is related to a given period in which the change is effective, it only impacts the current period. If it relates to future periods, they are recognized prospectively both in the current period and in the future period. Significant errors identified by the Group in the accounting estimates are applied retrospectively and prior period financial statements are restated. The Group has not made any changes in accounting estimates in the current year.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.3 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2021 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRS interpretations effective as of January 1, 2021 and thereafter. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2021 are as follows:

Interest Rate Benchmark Reform – Phase 2 – Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16

In December 2020, the POA issued Interest Rate Benchmark Reform – Phase 2, Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR, amending the followings. The amendments are effective for periods beginning on or after 1 January 2021. Earlier application is permitted and must be disclosed.

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.3 The new standards, amendments and interpretations

i) The new standards, amendments and interpretations which are effective as at January 1, 2021 are as follows:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The practical expedient is required for entities applying TFRS 4 Insurance Contracts that are using the exemption from TFRS 9 Financial Instruments (and, therefore, apply TAS 39 Financial Instruments: Classification and Measurement) and for TFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.

- For the TAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.

- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.

- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional TFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and If IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In June 2020, the POA issued amendments to TFRS 16 Leases to provide relief to lessees from applying TFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic. In April 7, 2021, POA extended the exemption to include concessions that cause a decrease in lease payments whose maturity expired on or before June 30, 2022. The amendments did not have a significant impact on the financial position and performance of the Group.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.3 The new standards, amendments and interpretations

i) The new standards, amendments and interpretations which are effective as at January 1, 2021 are as follows:

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to "the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

Amendments to TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

Amendments to TFRS 3 – Reference to the Conceptual Framework

In July 2020, the POA issued amendments to TFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of TFRS 3. At the same time, the amendments add a new paragraph to TFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to TFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in TFRS standards (2018 Version).

The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

Amendments to TAS 16 – Proceeds before intended use

In July 2020, the POA issued amendments to TAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to TAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied retrospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment. There is no transition relief for the first time adopters. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.3 The new standards, amendments and interpretations

Amendments to TAS 37 – Onerous contracts – Costs of Fulfilling a Contract

In July 2020, the POA issued amendments to TAS 37 Provisions, Contingent Liabilities and Contingent assets. The amendments issued to TAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a "directly related cost approach". Amendments must be applied prospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

TFRS 17 - The new Standard for insurance contracts

The POA issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted.

The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to TAS 1- Classification of Liabilities as Current and Non-Current Liabilities

On January 15, 2021, the POA issued amendments to TAS 1 Presentation of Financial Statements. The amendments issued to TAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to TAS 8 - Definition of Accounting Estimates

In August 2021, the POA issued amendments to TAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments issued to TAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the POA.

The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.3 The new standards, amendments and interpretations

Amendments to TAS 1 - Disclosure of Accounting Policies

In August 2021, the POA issued amendments to TAS 1, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to TAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term ‘significant’ in TFRS, the POA decided to replace it with ‘material’ in the context of disclosing accounting policy information. ‘Material’ is a defined term in TFRS and is widely understood by the users of financial statements, according to the POA. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In August 2021, the POA issued amendments to TAS 12, which narrow the scope of the initial recognition exception under TAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to TAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations should be recognized. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Annual Improvements – 2018–2020 Cycle

In July 2020, the POA issued Annual Improvements to TFRS Standards 2018–2020 Cycle, amending the followings:

- TFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.

- TFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other’s behalf.

- TAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of TAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of TAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all. The Group is in the process of assessing the impact of the improvements on financial position or performance of the Group.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Related Parties

Related parties comprise of any person or entity related to the entity preparing the financial statements (reporting entity).

a) Any individual or any one of the close family members of such individual are considered as being related with the reporting entity: In the event the subject matter individual,

(i) is in possession of control or joint control over the reporting entity,
(ii) is entitled to a crucial influence on the reporting entity,
(iii) is a member of the key management staff of the reporting entity or one of the major shareholders of the reporting entity.

(b) In the event any of the following circumstances is present in existence, the entity is considered to be in relation with the reporting entity:

(i) If the entity and the reporting entity are members of the same group (in other words, each major partnership, associated partnership and other associated partnership is related to the others).
(ii) If the entity is an affiliate or business partnership of the other entity (or a member of the group that such other entity is also a member of).
(iii) If both entities are business partnerships of the same third party.
(iv) If one of the entities is a business partnership of any third entity and the other entity is an affiliate of the subject matter third entity.
(v) If there are benefit plans for the post-retirement stage with respect to the employees of the entity, reporting entity or any other entity related to the reporting entity. In the event the reporting entity is itself in possession of such a plan, the sponsoring employers are likewise related to the reporting entity.
(vi) If the entity is controlled by any individual identified under article (a) or under joint control.
(vii) If any individual identified under item (i) of article (a) is in possession of a substantial influence on the entity or is a member of the key management personnel of the subject matter entity (or of the major shareholder of any such entity).

Consists of the transfer of sources, services or obligations between the related party and any party related to the reporting entity of the transaction performed, regardless of whether the same is in consideration for a charge or otherwise.

Revenue from Contracts with Customers

The Group generates its revenues from international and domestic flight operations. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. These revenues are recognized as follows:

- Scheduled and charter flight revenues are recorded as revenue when the transportation service is provided. Tickets sold but not yet used are recorded as passenger flight liabilities. Passenger flight liability is followed in the balance sheet under the liabilities arising from customer contracts until the flight occurs.
- Ancillary revenues, cargo services and training services are recognized when services are provided.
- Ancillary revenue is recognized as revenue when the service is provided.
- The passenger service fee is a non-refundable fee added to the ticket price in order to perform the sales service. Since the passenger service fee is not considered as a performance obligation different from the transportation service, it is recorded as income when the transportation service is performed.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Revenue from Contracts with Customers

The Group has evaluated itself as a surrogate in terms of the airport tax paid to the relevant state institutions and collected from the passengers at the ticket price and has not included the taxes in the revenue amount. The most important factor in this evaluation is the fact that the addressee of the tax is not the Company but the passenger.

If the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

The Group also receives interest income, which is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Group recognises revenue based on the following five principles in accordance with the TFRS 15, "Revenue from Contracts with Customers Standard"; effective from 1 January 2019:

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time.

Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation. When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

Pegasus Card and Pegasus Plus Loyalty Program

Pegasus Bolbol is the loyalty program of Pegasus. The members of Pegasus Bolbol program earn and accumulate flight points for both ticket and non-ticket purchases each time they use their Pegasus Bolbol membership. If the points are earned by ticket purchases, the flight points are provided by Pegasus and recognized as a separately identifiable component of the sales transaction and measured at fair value. They are recorded as "flight liability from flight points" initially and recognized as revenue when the flight points are used. The TL value of flight points changes according to the ticket price during use and their fair value is adjusted according to the statistic during the current year.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Pegasus Card and Pegasus Plus Loyalty Program

If the points are earned through non-ticket purchases, the program partner funds the cost of the points through a payment to the Group. The Group defers this revenue, which it records as "flight liability from flight points" and recognizes the revenue when the points are used by the customer. Award points are valid for at least two years and expire at the last day of the second calendar year. Unused points are recognized as income based on historic usage.

Inventories

Inventories are composed of consumables, spare parts, catering stocks and other stocks and they are valued at the lower of cost or net realizable value. Spare parts are composed of large number of minor items of property, plant and equipment. For practical reasons, those smaller items that are not significant are not recorded on an asset-by-asset basis in property, plant and equipment register, but instead carried within inventories.

Tangible Assets

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

Depreciation is recognised over their estimated useful lives, less their residual values using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Group allocates the cost of an acquired aircraft to its service potential reflecting the maintenance condition of its engines and airframe. This cost, which can equate to a substantial element of the total aircraft cost, is depreciated over the shorter of the period to the next maintenance check or the remaining life of the aircraft. The costs of subsequent major airframe and engine maintenance checks are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

All significant components and repairable spare parts are accounted separately and depreciated over their estimated useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Acquired trademark, brands and licenses are shown at historical cost. Trademarks, brands and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives. The acquired software has a 5 year useful life.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Impairment of Non-financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its aircraft to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At the end of each reporting period, non-financial assets are reviewed for possible reversal of the impairment.

The fleet has been determined as the lowest level cash generating unit and analysed for impairment accordingly. The aircraft fleet includes both right-of-use assets under lease agreements and aircraft, components, spare engines and other parts within the tangible asset account group. For determination of recoverable amounts the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used. Net selling price for the aircraft is determined according to second hand prices in international price guides.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There are no qualifying assets during the years ended 31 December 2021 and 31 December 2020. Therefore, no borrowing costs were capitalized during the years ended 31 December 2021 and 31 December 2020. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Maintenance and Repair Costs and Maintenance Reserve Contribution Receivables

Although, finance lease and operating lease definitions are removed with TFRS 16 for the lessees, the Group continues to use these definitions because they represent different risk categories. In line with the definitions introduced by TFRS 16 for the lessors; a lease agreement is defined as a financial lease, if the lease significantly transfers all risks and returns arising from the ownership of the underlying asset; otherwise, it is defined as an operating lease. However, this distinction does not affect the accounting for the relevant lease agreements. All lease agreements are accounted for in accordance with TFRS 16.

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned and financial leased aircraft is described in the accounting policy for tangible assets.

For aircraft held under operating lease agreements, the Group pays monthly supplemental amount called "Maintenance Reserve Contribution" to operating lease companies with respect to heavy maintenance expenditures. This reserve contribution is calculated based on the actual flight hours or the actual number of landings of the aircraft. These maintenance reserve payments are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term. However, when the Group incurs such heavy maintenance expenditures on behalf of the operating lease company, it claims these costs back and recognise an agreed maintenance reserve contribution receivable until it is collected. All other maintenance and repair costs are expensed as incurred.

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asssets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. As of the leasing start date, redelivery maintenance provisions of the aircraft are considered as an indispensable obligation within the scope of the contract, and the estimated provisions are included in the discounted cost and the right of use assets.

Right-of-use assets are subject to impairment.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Taxation and Deferred Income Taxes

Turkish Tax Legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Taxation and Deferred Income Taxes

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the be nefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Taxes are recognised as an expense or income in profit or loss, except when they related to transactions that are recognised in equity. Otherwise, taxes are also recognized in equity with other related transactions.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. As a financing instrument, governmet grants, rather than to be recognized in profit or loss to offset the expenses they are financing, are to be recognized in the balance sheet as deferred income and be recognized in profit or loss on a systematic basis over the economical life of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Investment Incentives

The Turkish Government has an Investment Incentive Program which became effective upon the issuance of the Council of Ministers‟ resolution “Government Assistance for Investments” No:2009/15199 (“Incentive Program”) on 14 July 2009.

The Incentive Program aims to provide support to companies which make investments by providing a credit against taxable income related to those investments. The amount of credit is determined based on a “contribution rate” in the Incentive Program. An entity must obtain an investment certificate related to the associated incentives.

The Group obtained incentive certificates from the Undersecretariat of Treasury for 62 aircraft. According to the incentive certificate of 26 aircraft, the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 10% instead of 20%) taxable income attributable to the operation of these aircraft. According to the incentive certificate of 36 aircraft, the Company will use 50% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2% instead of 20%) taxable income attributable to the operation of these aircraft. As the Group does not have taxable profits during the year ended 31 December 2021, it has not recognized the benefit in the financial statements associated with the Incentive Program (Note 13).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Employee Benefits

Defined Benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) “Employee Benefits” (“TAS 19”).

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation. The calculated actuarial gains and losses are accounted under the other comprehensive income when material.

Employee Bonus Plan

The Group recognizes a liability and an expense for employee bonus, based on current year performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Foreign Currency Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Based on the nature of the Group’s business, there are various transactions entered into that are in currencies other than the functional currency. In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognized either as finance income or finance costs in the period in which they arise.

Financial Assets

Recognition and Measurement

Group classifies its financial assets in three categories of financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase. The Group classifies its financial assets at the date of the purchase. TFRS 9 eliminates the categories of available-for-sale financial assets, loans and receivables and available-for-sale financial assets included in the existing TAS 39 standard.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Financial Assets

Recognition and Measurement

"Financial assets measured at amortized cost", are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortized cost comprise "cash and cash equivalents", "trade receivables" and "financial investments". Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the consolidated statement of income.

"Financial assets measured at fair value through other comprehensive income", are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified.

In derecognition of financial assets, the valuation differences which is classified under the other comprehensive income are recognized in retained earnings.

Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under consolidated statement of income.

"Financial assets measured at fair value through profit or loss", are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

Derecognition

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognized as a separate asset or liability.

Impairment

Impairment of the financial and contractual assets measured by using "Expected credit loss model" (ECL). The impairment model applies for amortized financial and contractual assets.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Financial Assets

Impairment

Provision for loss measured as below ;

12- Month ECL: results from default events that are possible within 12 months after reporting date. Lifetime ECL: results from all possible default events over the expected life of financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since 12 month ECL measurement if it has not.

The group may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement (simplified approach) always apply for trade receivables and contract assets without a significant financing.

Trade receivables

Trade receivables that are created by way of providing services directly to a debtor are measured at amortized cost, using the effective interest rate method, Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

Group has preferred to apply “simplified approach” defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to “lifetime expected credit losses” except incurred credit losses in which trade receivables are already impaired for a specific reason.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other operating income.

Unearned finance income/expense due to commercial transactions are accounted for under “Other Operating Income/Expenses” in the consolidated statement of income or loss.

Cash and Cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank deposits with original maturities of more than three months and shorter than 1 year are classified under short-term financial investments.

Financial Liabilities

The Group's financial liabilities and equity instruments are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The contract representing the right in the assets of the Group after deducting all debts of the Group which is an equity-based financial instrument. The accounting policies applied for certain financial liabilities and equity instruments are as follows.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Financial Liabilities

Other financial liabilities

Other financial liabilities are initially recognized at fair value as a net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

The effective interest method calculates the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

In case of fulfilling the contractual obligations of other financial liabilities, canceling the contract or expiring, the Group offsets this liability. The carrying amount of the off-balance sheet and the difference between the book value of the financial liability and the new financial liability arising are recognized in the statement of profit or loss.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the statement of profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group is exposed to foreign exchange risk through the impact of currency rate changes on translation into the Euro of its foreign currency denominated assets and liabilities and non-Euro denominated currency transactions. To monitor the risk, the Group enters into forward transactions where the Group is liable to pay a certain amount of Euro and receive a certain amount of foreign currency (mainly US Dollars) at a specified date. The change in the fair value of the derivative financial assets that qualify for hedge accounting according to TAS 39 (Financial Instruments) are recognized in other comprehensive income and the change in the fair value of the derivative financial assets that do not qualify for hedge accounting according to TAS 39 are recognized in statement of profit or loss. The Group started applying TFRS 9 for derivative financial instruments starting from 1 October 2019.

Inherently, the Group is exposed to financial risks related to interest rate fluctuations. The most significant source of the interest rate risk is the financial lease liabilities. The policy of the Group is to transform a part of its floating rate financial liabilities into fixed rate financial liabilities by using derivative financial instruments. Derivative financial instruments procured for this purpose do not qualify for hedge accounting and the change in the fair value of these derivative financial assets are recognized immediately in profit or loss.

Fuel costs which are predominantly determined in US Dollars constitute a substantial portion of the Group’s cost base. The Group enters into forward and option forward transactions with financial institutions based on acquisition of jet fuel or Brent oil on specified prices. These commodity forward transactions qualify for hedge accounting and they are accounted as cash flow hedges under equity as at 31 December 2021 and 31 December 2020.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Derivative Financial Instruments and Hedge Accounting

Brent within framework of hedge transactions against cash flow risk is a substitute product of Jet Fuel, whereas the correlation between the two commodities is set forth in terms of past statistics. The correlation rate between Brent and Jet Fuel between years 2010-2021 is between the effectiveness ranges. The excessive amount over the effective rate is accounted in profit or loss in the related period when the amount has material effect in the financial statements.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as using the basis of recent market transactions on arm’s length terms, using the fair value of similar financial instruments and using discounted cash flow analysis (Note 33).

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Business Combinations

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Business Combinations

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Amounts included in the item “Effect of Business Acqusition” if the business acquired as a result of business combination subject to joint control is terminated and the subsidiary becomes later acquired. Starting from the fiscal period, it is closed by transferring to the “Previous Years Profits / Loss” item in equal installments within a maximum of 5 fiscal periods.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Events After Reporting Period

Events after reporting period comprise any events between the reporting period and the date of authorization of the financial statements, even if the event after balance sheet date occurred subsequent to an announcement on the Group’s profit or following any financial information that are released.

In the case of events requiring adjustments, the Group adjusts the amounts recognized in its financial statements to reflect the events. For non-adjusting events, disclosure is made in the notes to the financial statements.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Contingent Liabilities and Contingent Assets

Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group’s contingent liabilities are probable but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes to the financial statements.

Earnings per Share

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to shareholders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

Cash Flow Statement

Cash flows for the period are classified and presented as operating, investing and financing activities in the cash flow statement.

Cash flows from operating activities present cash generated from the Group’s airline operations.

Cash flows from investing activities present cash used in, generated from investing activities (capital investments and financial investments) of the Group.

Cash flows from financing activities present the funds used in financing operations and repayment regarding these operations.

Cash and cash equivalents are short term investments that are cash on hand, demand deposits, time deposits of with maturities not exceeding three months from purchase date and free of detoration of value with high liquidity.

Capital and Dividends

Common shares are classified as equity. Dividends distributed over common shares are accounted by deduction from retained earnings in the period decision for dividend payment is undertaken.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.5 Critical Accounting Estimates and Assumptions

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. The Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations. Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are given below:

Useful Lives and Residual Values of Tangible Assets and Aircraft

The Group has allocated depreciation over tangible assets by taking into consideration the useful lives and residual values which were explained in Note 10. While determining estimated useful lives and residual values, the Group makes estimations and assumptions by taking past experience and business plans into consideration.

Income Taxes

The Group recognizes deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. Main factor is this assessment is the expactation that there will be taxable temporary differences that will reverse during the period in which unused tax losses can be carried and the projections of the foreseeable future profits with reasonable assurance are taken into account. Based on the available evidence, the Group management has recognized the deferred tax assets as at 31 December 2021.

The Group estimates to utilize reduce corporate tax advantages arising from acquisition of aircrafts. With this respect, the Group recognized deferred tax assets for only foreseeable future due to uncertainty of the timing on realization of total tax advantages earned.

Redelivery Maintenance Provision

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year. The provision also incorporates management expectation on the cost of the maintenance and component compensation at the time of the redelivery. The group considers the estimated maintenance costs and estimated flight times and number of flights as significant assumptions.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.5 Critical Accounting Estimates and Assumptions

Fair Value of Derivatives and Other Financial Instruments

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date.

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The details of investments accounted for using the equity method are as follows:

	31 December 2021	31 December 2020
Joint ventures		
Hitit Bilgisayar	70.271.462	58.812.540
PUEM	29.190.067	18.398.442
	99.461.529	**77.210.982**

Total profit from investments accounted for using the equity method is as follows:

	1 January- 31 December 2021	1 January- 31 December 2020
Hitit Bilgisayar	11.458.917	14.394.626
PUEM	(568.138)	1.023.012
Net profit	**10.890.779**	**15.417.638**

The summarized financial information of the investment accounted by using the equity method is as follows:

PUEM

	31 December 2021	31 December 2020
Current assets	16.030.965	10.538.605
Non-current assets	55.382.386	29.586.485
Current liabilities	(4.090.101)	(2.681.177)
Non-current liabilities	(8.234.045)	(200.104)
Net assets of joint venture	**59.089.205**	**37.243.809**
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	**29.190.067**	**18.398.442**

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

PUEM	1 January-31 December 2021	1 January-31 December 2020
Revenue	10.838.532	12.905.653
Depreciation&amortisation expense	(4.607.996)	(3.451.411)
Interest income/(expense), net	620.635	(409.124)
Profit for the year	(1.150.076)	2.070.874
Group's ownership interest	49,40%	49,40%
Group's share in the net profit of the joint venture	**-568.138**	**1.023.012**

Hitit Bilgisayar

	31 December 2021	31 December 2020
Current assets	120.814.344	78.284.911
Non-current assets	120.237.662	86.917.669
Current liabilities	(74.616.018)	(41.905.233)
Non-current liabilities	(27.678.088)	(7.457.291)
Net assets of joint venture	**138.757.900**	**115.840.056**
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
Group's share in the net assets of the joint venture	**70.271.462**	**58.812.540**

	1 January-31 December 2021	1 January-31 December 2020
Revenue	127.595.934	88.108.305
Depreciation&amortisation expense	(20.390.518)	(9.865.973)
Interest income/(expense), net	352.992	578.781
Profit for the year	23.192.170	28.789.252
Group's weighted average ownership interest	50%	50%
Group's share in the net profit of the joint venture	**11.458.917**	**14.394.626**

NOTE 4 - SEGMENT REPORTING

The Group is managed as a single business unit that provides low fares airline-related services, including scheduled services, charter services, ancillary services and other services. The Group’s Chief Operating Decision Maker is the Board of Directors. The resource allocation decisions are based on the entire network and the deployment of the entire aircraft fleet. The objective in making resource allocation decisions is to maximise consolidated financial results, rather than results on individual routes within the network. All other assets and liabilities have been allocated to the Group’s single reportable segment.

NOTE 5 - RELATED PARTY TRANSACTIONS

The immediate parent and controlling party of the Group is Esas Holding. The Group has a number of operating and financial relationships with its shareholders and other entities owned by its shareholders (which will be referred to as " other related parties" below). There are no set payment terms for any of the related party transactions. The related party receivables and payables resulting from operating activities are generally not secured and interest free.

(i) Balances with Related Parties:

a) Other receivables from related parties

	31 December 2021	31 December 2020
Balances with joint ventures:		
PUEM	-	227.595
Balances with other related parties:		
Doğan Burda Dergi Yayıncılık ve Pazarlama A.Ş.	-	332
	-	**227.927**

b) Trade payables to related parties

	31 December 2021	31 December 2020
Balances with parent company:		
Esas Holding	1.624.341	8.498.505
Balances with joint ventures:		
Hitit Bilgisayar	2.090.952	4.517.471
PUEM	4.685.846	7.800.677
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş. (Esasburda)	218.403	1.300.124
Alarm Sağlık Hizmetleri San. ve Tic. A.Ş.(Alarm Sağlık)	37.348	42.585
	8.656.890	**22.159.362**

Significant Transactions with Related Parties:

Various transactions with Esas Holding consist of commissions paid. The Group records these commissions within finance expense.

The Group leases their head office building from Esasburda , another Esas Holding subsidiary, and records the expenses as depreciation and interest under leases standard. Also, the Group records the dues, electricity, water and heating expenses for the head office building.

The Group receives simulator training services from PUEM for their pilots and generates revenue from labor hire and common area use.

The Group receives software and software support services from Hitit Bilgisayar that provides informations system solutions for transportation industry.

The Group receives health services from Alarm Sağlık.

NOTE 5 - RELATED PARTY TRANSACTIONS

Significant Transactions with Related Parties:

a) Other Income from Related Parties

	1 January- 31 December 2021	1 January- 31 December 2020
Transactions with joint ventures:		
PUEM	1.599.798	1.830.231
	1.599.798	**1.830.231**

b) Purchases of goods or services

	1 January- 31 December 2021	1 January- 31 December 2020
Transactions with joint ventures:		
Hitit Bilgisayar	29.789.941	23.252.160
PUEM	10.838.532	12.905.653
Transactions with other related parties:		
Alarm Sağlık	465.884	900.742
Esasburda	3.222.954	3.179.959
	44.317.311	**40.238.514**

c) Rent expenses

	1 January- 31 December 2021	1 January- 31 December 2020
Esasburda(*)	11.746.849	12.299.573
	11.746.849	**12.299.573**

(*)Rent expenses are recorded as depreciation and interest under TFRS 16 leases standard. Amounts presented above represent issued invoices.

d) Commission expenses

	1 January- 31 December 2021	1 January- 31 December 2020
Esas Holding	9.580.535	12.206.159
	9.580.535	**12.206.159**

NOTE 5 - RELATED PARTY TRANSACTIONS

(iii) Compensation of Key Management Personnel:

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the period ended 31 December 2021 and 31 December 2020 are as follows:

	1 January- 31 December 2021	**1 January- 31 December 2020**
Salaries and other short term benefits	14.951.032	23.354.950
Other long term benefits	4.716.201	16.098.187
	19.667.233	**39.453.137**

NOTE 6 – TRADE RECEIVABLES AND PAYABLES AND OTHER RECEIVABLES

Short term trade receivables

The details of short term trade receivables as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	**31 December 2020**
Trade receivables	289.850.432	202.685.663
Credit card receivables	65.814.557	24.900.433
Income accruals	6.416.992	1.208.598
	362.081.981	**228.794.694**
Less: Allowance for impairment	(24.909.187)	(31.309.674)
	337.172.794	**197.485.020**

The average collection period of trade receivables is approximately 23 days (31 December 2020: 39 days).

The movement of provision for doubtful receivables for the years ended 31 December 2021 and 31 December 2020 are as follows:

	1 January- 31 December 2021	**1 January- 31 December 2020**
1 January	31.309.674	22.205.026
Charge for the year	2.295.949	8.101.323
Collections and written off allowances	(16.493.552)	(2.716.533)
Currency translation differences	7.797.116	3.719.858
31 December	**24.909.187**	**31.309.674**

The nature and level of risks related to trade receivables is disclosed in Note 32.

NOTE 6 – TRADE RECEIVABLES AND PAYABLES

Short term trade payables

The details of short term trade payables as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Trade payables	1.181.647.524	606.442.333
Accrued direct operational costs	700.272.899	282.039.624
Other accrued expenses	8.656.890	22.159.362
	1.890.577.313	**910.641.319**

The average credit period of trade payables is approximately 49 days (31 December 2020: 47 days).

NOTE 7 - OTHER RECEIVABLES AND PAYABLES

Short term other receivables

The details of short term other receivables as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Deposits and guarantees given	17.229.058	31.762.390
Receivables from pilots for flight training	53.476.379	54.457.337
Receivables from pilots tax office	51.746.298	-
Due from related parties (Note 5)	-	227.927
Other receivables	4.798.291	4.670.371
	127.250.026	**91.118.025**

Long term other receivables

The details of long term other receivables as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Receivables from pilot trainings	149.069.151	117.180.175
Deposits given	236.664.616	88.008.338
	385.733.767	**205.188.513**

NOTE 7 – OTHER RECEIVABLES AND PAYABLES

Short term other payables

	31 December 2021	31 December 2020
Taxes payables	67.818.781	26.485.120
Deposits received(*)	98.214.361	3.861.808
	166.033.142	**30.346.928**

(*) The amount of TL 85.545.929 in deposits and gurantees received, consists of guarantee deposits received to banks related to valuation of derivative contracts.

NOTE 8 - INVENTORIES

The details of inventories as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Consumables and spare parts	121.686.791	80.298.886
Operational and other inventories	19.581.183	11.119.339
Catering inventories	70.115	70.115
	141.338.089	**91.488.340**

NOTE 9 - PREPAID EXPENSES, DEFERRED INCOME AND CONTRACT LIABILITIES

The details of prepaid expenses as of 31 December 2021 and 31 December 2020 are as follows:

Short term prepaid expenses

	31 December 2021	31 December 2020
Advances on aircraft purchases	3.586.371.450	841.904.079
Advances to suppliers	222.716.713	271.147.552
Prepaid insurance expenses	189.354.290	130.892.966
Prepaid advertising expenses	-	61.461
Other prepaid expenses	46.415.442	25.922.631
	4.044.857.895	**1.269.928.689**

Long term prepaid expenses

	31 December 2021	31 December 2020
Advances on aircraft purchases	749.257.695	1.033.436.154
Prepaid maintenance expenses	2.000.317.720	811.729.181
Other prepaid expenses	21.422.170	17.847.453
	2.770.997.585	**1.863.012.788**

NOTE 9 - PREPAID EXPENSES, DEFERRED INCOME AND CONTRACT LIABILITIES

Deferred Revenue

Contract Liabilities

The details of passenger flight liabilities as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Flight liability from ticket sales	1.043.452.046	323.546.489
Passenger airport fees received from customers	337.439.091	105.883.089
Flight liability from flight points	90.018.616	84.506.408
	1.470.909.753	**513.935.986**

Ticket sales, flight and service obligations are usually realized within the following year. The movement of flight liability from flight points for the years ended 31 December 2021 and 31 December 2020 are as follows:

	2021	2020
1 January	84.506.408	62.821.312
Earned points	63.005.880	40.539.594
Used / expired points	(57.493.672)	(18.854.498)
31 December	**90.018.616**	**84.506.408**

Deferred Revenue (Excluding Passenger Flight Liabilities)

Short term deferred income

	31 December 2021	31 December 2020
Advances received from customers	185.274.130	122.080.709
Other deferred income	114.670.226	90.120.681
	299.944.356	**212.201.390**

Long term deferred income

	31 December 2021	31 December 2020
Income relating to deferred periods	412.770.929	316.272.170
	412.770.929	**316.272.170**

NOTE 10 - PROPERTY AND EQUIPMENT

31 December 2021	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned Aircraft	Construction in progress	Total
Cost:								
Opening	**199.371.895**	**147.738.586**	**253.951.573**	**123.508.047**	**1.389.163.637**	**314.514.689**	**59.664.324**	**2.487.912.751**
Additions	2.197.969	383.124	5.033.898	-	123.720.987	-	5.959.804	137.295.782
Disposals	-	(700.320)	(161.498)	-	-	(364.878.106)	-	(365.739.924)
Transfers	-	-	-	-	(97.918.703)	-	(30.879.594)	(128.798.297)
Currency translation differences	126.481.610	92.937.394	161.946.347	77.802.158	885.312.305	50.363.417	27.493.209	1.422.336.440
Closing	**328.051.474**	**240.358.784**	**420.770.320**	**201.310.205**	**2.300.278.226**	**-**	**62.237.743**	**3.553.006.752**
Accumulated depreciation:								
Opening	**(64.009.454)**	**(55.084.453)**	**(187.652.689)**	**(117.796.753)**	**(430.897.989)**	**(199.923.331)**	**-**	**(1.055.364.669)**
Depreciation for the year	(21.150.807)	(13.550.146)	(22.331.493)	(3.079.196)	(156.880.284)	(11.172.825)	-	(228.164.751)
Disposals	-	659.848	68.638	-	-	243.109.992	-	243.838.478
Currency translation differences	(48.887.068)	(39.919.720)	(127.224.719)	(75.451.357)	(334.968.223)	(32.013.836)	-	(658.464.923)
Closing	**(134.047.329)**	**(107.894.471)**	**(337.140.263)**	**(196.327.306)**	**(922.746.496)**	**-**	**-**	**(1.698.155.865)**
Net book value	**194.004.145**	**132.464.313**	**83.630.057**	**4.982.899**	**1.377.531.730**	**-**	**62.237.743**	**1.854.850.887**

NOTE 10 - PROPERTY AND EQUIPMENT

31 December 2020	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned Aircraft	Construction in progress	Total
Cost:								
Opening	**146.516.118**	**109.456.942**	**179.887.996**	**91.186.916**	**1.307.799.047**	**706.740.318**	**59.903.487**	**2.601.490.824**
Additions	822.863	10.077	9.474.846	-	202.548.829	-	41.251.397	254.108.012
Disposals	-	(469.332)	(292.653)	-	(158.071.075)	(477.371.071)	-	(636.204.131)
Transfers	-	-	-	-	(385.227.066)	39.577.793	(60.388.579)	(406.037.852)
Currency translation differences	52.032.914	38.740.899	64.881.384	32.321.131	422.113.902	45.567.649	18.898.019	674.555.898
Closing	**199.371.895**	**147.738.586**	**253.951.573**	**123.508.047**	**1.389.163.637**	**314.514.689**	**59.664.324**	**2.487.912.751**
Accumulated depreciation:								
Opening	**(33.888.233)**	**(32.235.123)**	**(123.135.870)**	**(80.374.835)**	**(263.103.059)**	**(392.852.037)**	**-**	**(925.589.157)**
Depreciation for the year	(16.140.439)	(10.564.377)	(18.792.346)	(7.961.787)	(94.177.487)	(51.082.410)	-	(198.718.846)
Disposals	-	382.896	190.370	-	27.744.072	240.687.304	-	269.004.642
Currency translation differences	(13.980.782)	(12.667.849)	(45.914.843)	(29.460.131)	(101.361.515)	3.323.812	-	(200.061.308)
Closing	**(64.009.454)**	**(55.084.453)**	**(187.652.689)**	**(117.796.753)**	**(430.897.989)**	**(199.923.331)**	**-**	**(1.055.364.669)**
Net book value	**135.362.441**	**92.654.133**	**66.298.884**	**5.711.294**	**958.265.648**	**114.591.358**	**59.664.324**	**1.432.548.082**

NOTE 10 - PROPERTY AND EQUIPMENT

The useful lives of the depreciable assets are as follows:

	Useful life	
Aircraft	23 years	
Engine and Engine LLP's	16 years	
Airframe and maintenance	7-8 years	
Repairables and components	3-7 years	
Machinery and equipment	7 years	
Furniture and fixtures	7 years	
Motor vehicles	5 years	
Simulator	7 years	
Leasehold improvements	5 years	or lease term

The Group has determined the residual value of the aircraft as 15% of market value of a new aircraft in the same model.

Depreciation and amortisation expense charged to cost of sales, general administrative expenses, and marketing expenses is summarized below:

	1 January- 31 December 2021	**1 January- 31 December 2020**
Current year depreciation (Note 10,11)	2.771.697.972	2.152.174.693
Current year amortization (Note 12)	44.603.557	31.229.099
	2.816.301.529	**2.183.403.792**

	31 December 2021	**31 December 2020**
Cost of sales (Note 21)	2.711.586.326	2.098.677.917
General administrative expenses (Note 22)	83.772.162	67.780.700
Marketing expenses (Note 22)	20.943.041	16.945.175
	2.816.301.529	**2.183.403.792**

NOTE 11 - INTANGIBLE ASSETS

Software	31 December 2021	31 December 2020
Cost:		
Opening	**278.616.682**	**177.603.372**
Additions	46.608.998	34.116.747
Currency translation differences	193.498.172	66.896.563
Closing	**518.723.852**	**278.616.682**
Accumulated amortization:		
Opening	**(167.490.733)**	**(97.812.366)**
Amortization for the year	(44.603.557)	(31.229.099)
Currency translation differences	(122.683.835)	(38.449.268)
Closing	**(334.778.125)**	**(167.490.733)**
Net book value	**183.945.727**	**111.125.949**

31 December 2020	Software	Total
Cost:		
Opening	**177.603.372**	**177.603.372**
Additions	34.116.747	34.116.747
Currency translation differences	66.896.563	66.896.563
Closing	**278.616.682**	**278.616.682**
Accumulated amortization:		
Opening	**(97.812.366)**	**(97.812.366)**
Amortization for the year	(31.229.099)	(31.229.099)
Currency translation differences	(38.449.268)	(38.449.268)
Closing	**(167.490.733)**	**(167.490.733)**
Net book value	**111.125.949**	**111.125.949**

Remaining average useful life of intangible assets as of 31 December 2021 is 1,81 years (31 December 2020: 2,04 years).

NOTE 12 – RIGHT OF USE ASSETS

31 December 2021	Field Rental	Building	Aircraft	Other	Total
Cost:					
Opening	41.931.946	33.382.305	29.611.398.064	2.804.728	29.689.517.043
Additions	50.124.835	27.784.707	3.027.493.567	-	3.105.403.109
Disposals	-	-	(1.547.057.131)	-	(1.547.057.131)
Transfers(*)	-	-	(568.617.501)	-	(568.617.501)
Currency translation differences	46.712.946	32.280.381	19.252.952.380	1.766.799	19.333.712.506
Closing	**138.769.727**	**93.447.393**	**49.776.169.379**	**4.571.527**	**50.012.958.026**
Accumulated depreciation:					
Opening	(41.417.507)	(15.924.537)	(9.840.374.164)	(2.804.728)	(9.900.520.936)
Depreciation for the period	(15.440.151)	(9.584.318)	(2.518.508.752)	-	(2.543.533.221)
Disposals	-	-	1.457.730.699	-	1.457.730.699
Transfers(*)	-	-	260.526.526	-	260.526.526
Currency translation differences	(32.343.005)	(13.912.695)	(6.543.834.834)	(1.766.799)	(6.591.857.333)
Closing	**(89.200.663)**	**(39.421.550)**	**(17.184.460.525)**	**(4.571.527)**	**(17.317.654.265)**
Net book value	**49.569.064**	**54.025.843**	**32.591.708.854**	**-**	**32.695.303.761**

31 December 2020	Field Rental	Building	Aircraft	Other	Total
Cost:					
Opening	30.958.669	24.646.405	18.000.762.823	2.070.755	18.058.438.652
Additions	-	-	5.156.875.276	-	5.156.875.276
Disposals	-	-	(216.042.711)	-	(216.042.711)
Transfers	-	-	406.037.852	-	406.037.852
Currency translation differences	10.973.277	8.735.900	6.263.764.824	733.973	6.284.207.974
Closing	**41.931.946**	**33.382.305**	**29.611.398.064**	**2.804.728**	**29.689.517.043**
Accumulated depreciation:					
Opening	(11.686.083)	(6.718.403)	(6.131.858.564)	(1.420.637)	(6.151.683.687)
Depreciation for the period	(22.806.874)	(6.082.714)	(1.923.779.003)	(787.256)	(1.953.455.847)
Disposals	-	-	216.042.711	-	216.042.711
Currency translation differences	(6.924.550)	(3.123.420)	(2.000.779.308)	(596.835)	(2.011.424.113)
Closing	**(41.417.507)**	**(15.924.537)**	**(9.840.374.164)**	**(2.804.728)**	**(9.900.520.936)**
Net book value	**514.439**	**17.457.768**	**19.771.023.900**	**-**	**19.788.996.107**

(*) Transfers represent transfers to non-current assets held for sale.

NOTE 13 - GOVERNMENT GRANTS AND INCENTIVES

The Group obtained incentive certificates from the Undersecretariat of Treasury for 62 aircraft. According to the incentive certificate of 26 aircraft, the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 10% instead of 20%) taxable income attributable to the operation of these aircraft. According to the new incentive certificate of 36 aircraft bought in 2018 the Company will use 50% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2% instead of 20%) taxable income attributable to the operation of these aircraft.

NOTE 14 - BORROWING COSTS

For the years ended 31 December 2021 and 31 December 2020, as there are no qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs for the respective periods are not capitalized. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short term provisions

	31 December 2021	31 December 2020
Provision for litigation claims	12.667.596	9.758.749
Redelivery provision	701.502.792	756.471.286
	714.170.388	**766.230.035**

Long term provisions

	31 December 2021	31 December 2020
Redelivery provision	3.104.537.085	1.038.964.172
	3.104.537.085	**1.038.964.172**

Redelivery Maintenance Provision

The detail of redelivery maintenance provision is as follows:

	31 December 2021	31 December 2020
Short term	701.502.792	756.471.286
Long term	3.104.537.085	1.038.964.172
	3.806.039.877	**1.795.435.458**

The movement of redelivery maintenance provision as of the years ended 31 December 2021 and 31 December 2020 are as follows:

	2021	2020
1 January	1.795.435.458	1.874.357.008
Charge for the year	822.326.322	174.859.947
Disposals	(433.577.338)	(605.411.494)
Currency translation differences	1.621.855.435	351.629.997
31 December	**3.806.039.877**	**1.795.435.458**

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigation

The movement of litigation provision is as follows:

	2021	2020
1 January	9.758.749	8.340.623
Charge for the year	3.886.343	2.704.083
Payments	(15.720)	(86.428)
Reversal of provision	(961.776)	(1.199.529)
31 December	**12.667.596**	**9.758.749**

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 57.218.382 as of 31 December 2021 (31 December 2020: TL 38.124.393). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 12.667.596 (31 December 2020: TL 9.758.749) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

Tax Inspection

The Group's VAT transactions regarding loyalty card practices in year 2018 have been examined in 2020. The Company have been notified with a report stating "no subject to be examined have been found" in May 2021. However the judgement commision has objected this verdict and TL 1.780.660,72 million tax assesment has been declared to the Company. Against this tax assesment the Group has filed a tax suit on September 6, 2021 and a final decision on the subject has not been given yet. The defense petition of the other party regarding the subject was served on October 25,2021 and the petition was answered on November 23, 2021. However, there is no decision yet notified to the Company regarding the outcome of the case. The Company has not recorded any provision in the financial statements in line with the opinions received from its lawyers regarding the aforementioned case.

NOTE 16 - COMMITMENTS

Purchase Commitments

	31 December 2021	31 December 2020
Commitments to purchase aircraft	108.963.183.467	59.718.587.974
	108.963.183.467	**59.718.587.974**

As of 31 December 2021, the Group holds firm orders for 56 aircraft. In accordance to with agreement the expected deliveries are 20 aircraft in 2022, 17 aircraft in 2023, 16 aircraft in 2024, 3 aircraft in 2025. The purchase commitments for these aircraft were calculated based on their list prices and actual buying prices would be typically lower than the list prices.

The Group has provided advances on aircraft purchases amounting TL 4.335.629.145 (31 December 2020: TL 1.875.340.233) and TL 3.586.371.450 TL of this amount is reclassified under short term, TL 749.257.695 of this amount is reclassified under long term prepaid expenses (31 December 2020: TL 841.904.079 of this amount is reclassified under short term, TL 1.033.436.154 of this amount is reclassified under long term prepaid expenses).

NOTE 16 - COMMITMENTS

Collaterals-Pledges-Mortgages("CPM")

The details of the CPMs given by the Group as of 31 December 2021 is as follows:

31 December 2021	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.810.636.579	98.827.560	22.126.993	187.865.048	15.361.722
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	1.810.636.579	**98.827.560**	**22.126.993**	**187.865.048**	**15.361.722**

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

The other CPMs (in the scope of item D) given by the Company constitute 0% of the Company's equity as of 31 December 2021.

NOTE 16 - COMMITMENTS

Collaterals-Pledges-Mortgages("CPM")

The details of the CPMs given by the Group as of 31 December 2020 is as follows:

31 December 2020	**TL TOTAL**	**USD**	**EUR**	**TL**	**Other**
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.308.894.933	141.376.684	27.464.393	13.452.807	10.270.071
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	1.308.894.933	**141.376.684**	**27.464.393**	**13.452.807**	**10.270.071**

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

The other CPMs (in the scope of item D) given by the Company constitute 0% of the Company's equity as of 31 December 2020.

NOTE 17 - EMPLOYEE BENEFITS

Employee benefit obligations

The details of employee benefit obligations as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Social security premiums payable	23.022.753	11.989.308
Accrual of employee wages	23.349.236	18.188.923
	46.371.989	**30.178.231**

Short term provisions for employee benefits

The details of short term provisions for employee benefits as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Unused vacation accrual	74.384.034	34.887.651
Employee bonus plan	248.798.525	20.218.438
	323.182.559	**55.106.089**

Long term provisions for employee benefits

The details of long term provisions for employee benefits as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Employment termination benefits	30.648.219	19.764.016
Employee bonus plan	36.238.144	79.360.330
	66.886.363	**99.124.346**

Unused Vacation Accrual

The movement of unused vacation accrual as of the years ended 31 December 2021 and 31 December 2020 are as follows:

	2021	2020
1 January	34.887.651	21.330.785
Charge for the year	43.835.813	14.999.039
Payment during the year	(4.339.430)	(1.442.173)
31 December	**74.384.034**	**34.887.651**

NOTE 17 - EMPLOYEE BENEFITS

Employee Bonus Plan

The movement of employee bonus plan as of the years ended 31 December 2021 and 31 December 2020 are as follows:

	2021	**2020**
1 January	99.578.768	216.498.504
Charge for the year	211.554.497	23.944.317
Payment during the year	(18.429.789)	(122.485.218)
Reversal of provision	(7.666.807)	(18.378.835)
31 December	**285.036.669**	**99.578.768**

Employee Defined Benefits

The Group, according to Turkish Labor Law, has an obligation to pay legal defined benefits for every employee who has completed at least one year service and retired after completion of 25 years working life (for females 58 years, for males 60 years), fired from job, called up to military service or died.

The amount payable consists of one month's salary limited to a maximum of TL 10.848,59 sfor each period of service at 31 December 2021 (31 December 2020: TL 7.638,96).

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2021, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 16,40% (2020: 8,50%) and a discount rate of 21,00% (2020: 13,00%), resulting in a real discount rate of approximately 3,95% (2020: 4,15%). Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 9,13% (2020: 10,72%) for employees with 0-15 years of service, and 0% for those with 16 or more years of service. As the maximum liability is revised annually, the maximum amount of TL 10.848,59 effective from 1 January 2022 has been taken into consideration in calculation of provision from employee defined benefits.

NOTE 17 - EMPLOYEE BENEFITS

Employee Defined Benefits

The movement of employee defined benefits as of the years ended 31 December 2021 and 31 December 2020 are as follows:

	2021	**2020**
1 January	19.764.016	14.796.499
Actuarial gain	11.010.629	(1.164.935)
Service cost	3.355.008	8.275.256
Interest cost	2.687.917	936.121
Retirement benefits paid	(6.169.351)	(3.078.925)
31 December	**30.648.219**	**19.764.016**

Service cost and interest expenses are recognized in payroll expenses. Calculated actuarial gains and losses are accounted under other comprehensive income as of 31 December 2021 and 31 December 2020.

Significant assumptions used in the calculation of employee defined benefits are the discount rate and anticipated turnover rate.

- If the discount rate had been 1% lower, provision for employee defined benefits would increase by TL 4.703.987 (2020: TL 2.978.447); if the rate had been 1% higher, it would decrease by TL 3.760.146 (2020: TL 2.453.660).
- If the anticipated turnover rate had been 1% higher while all other variables were held constant, provision for employee defined benefits would decrease by TL 1.179.232 (2020: TL 773.648); if the rate had been 1% lower, it would increase by TL 1.446.412 (2020: TL 864.864).

NOTE 18 - EXPENSES BY NATURE

The details of expenses by nature for the years periods 31 December 2021 and 31 December 2020 are as follows:

	1 January- 31 December 2021	**1 January- 31 December 2020**
Depreciation and amortisation expenses	2.816.301.529	2.183.403.792
Jet fuel expenses	3.246.386.020	1.564.651.895
Personnel expenses	1.444.452.778	975.059.003
Handling and station fees	899.268.131	431.751.085
Navigation expenses	784.572.488	364.046.314
Maintenance expenses	655.956.576	243.150.366
Landing expenses	364.706.052	157.333.849
Passenger service and catering expenses	80.320.341	42.085.949
Advertising expenses	47.400.862	38.391.377
Commission expenses	145.760.893	66.043.281
Other expenses	724.735.271	439.745.894
	11.209.860.941	**6.505.662.805**

NOTE 19 - OTHER ASSETS AND LIABILITIES

Other current assets

The details of other current assets as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
VAT receivables	62.584.401	88.515.402
Other	173.123	219.611
	62.757.524	**88.735.013**

Other short term liabilities

The details of other short term liabilities as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Other short term liabilities	165.673	116.966
	165.673	**116.966**

NOTE 20 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS

The Company's shareholding structure as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021		31 December 2020	
Shareholders:	**(%)**	**TL**	**(%)**	**TL**
Esas Holding	62,91	64.353.570	62,91	64.353.570
Publicly held	34,53	35.321.707	34,53	35.321.707
Emine Kamışlı	0,85	874.810	0,85	874.810
Ali İsmail Sabancı	0,85	874.810	0,85	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
TL historic capital	**100,00**	**102.299.707**	**100,00**	**102.299.707**

The Company's share capital consists of 102.299.707 shares of par value TL 1 each (31 December 2020: 102.299.707 shares). All issued shares are fully paid in cash.

Dividend distribution

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

NOTE 20 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS

Dividend distribution

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of associations.

Resources Available for Profit Distribution:

The Company does not have any distributable equity in statutory accounts as of balance sheet date.

Currency translation differences

For the purpose of preparation of the consolidated financial statements and disclosures, according to TAS 21, balance sheet items except shareholders' equity in financial statements are translated to TL using balance sheet date EUR exchange rates; equity items, income/expenses and cash flow are translated to TL by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under shareholders' equity.

Gain/losses from cash flow hedges

Hedge gain/losses against cash flow risk arise from the accounting of the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows under equity. Total of deferred gain/loss arising from hedging against financial risk are accounted in profit or loss when the effect of the hedged item has effect on profit or loss.

Share premiums on capital stock

The surplus of sales price over nominal value amounted to TL 455.687.025 during the inital public offering on 18-19 April 2013 was accounted as share premium.

Non-controlling interests

Non-controlling shareholders' shares on subsidiaries' net assets and operational outcomes are disclosed as non-controlling interests in the consolidated balance sheet and in the consolidated statement of profit or loss and other comprehensive income.

Actuarial gain/losses on defined benefit plans

The effects of the change in actuarial valuations that is calculated with respect to TAS 19 "Employee Benefits" is presented in actuarial gains/losses on defined benefit plans.

Restricted profit reserves

In the statutory accounts, profit restricted from retained earnings and not subject to distribution is presented in the restricted profit reserves.

NOTE 21 - SALES AND COST OF SALES

The details of sales and cost of sales for the periods ended 31 December 2021 and 31 December 2020 are as follows:

Sales:

	1 January-31 December 2021	**1 January-31 December 2020**
Scheduled flight and service revenue	10.479.760.955	4.677.094.623
International flight revenue	*4.830.406.693*	*1.819.961.325*
Domestic flight revenue	*2.322.517.740*	*1.213.709.222*
Service revenue	*3.326.836.522*	*1.643.424.076*
Charter flight and service revenue	107.867.472	54.437.594
Charter flight revenue	*107.867.472*	*54.116.734*
Service revenue	-	*320.860*
Other revenue	76.778.280	72.027.692
	10.664.406.707	**4.803.559.909**

The Group disagregates revenues in to revenues from scheduled flights, revenues from chartered flights and other revenues, in accordance with TFRS 15 "Revenue from contracts with customers". Besides, the Group presents service revenue within the flight revenues separately as additional information, although service revenue is not a distinct component, because such information is frequently disclosed in sector and Chief Operating Decision Maker is monitoring such information.

Geographical details of revenue from the scheduled flights are as follows:

	1 January-31 December 2021	**1 January-31 December 2020**
Europe	3.536.396.934	1.325.108.751
Domestic	2.322.517.740	1.213.709.222
Other	1.294.009.759	494.852.574
	7.152.924.433	**3.033.670.547**

Geographical details of revenue from the charter flights are as follows:

	1 January-31 December 2021	**1 January-31 December 2020**
Europe	61.005.143	14.932.702
Middle East	41.733.824	20.704.862
Domestic	5.128.505	18.479.170
	107.867.472	**54.116.734**

NOTE 21 - SALES AND COST OF SALES

Cost of sales:

	1 January- 31 December 2021	1 January- 31 December 2020
Depreciation and amortisation expenses	2.711.586.326	2.098.677.917
Jet fuel expenses	3.246.386.020	1.564.651.895
Personnel expenses	1.295.056.241	881.686.290
Handling and station fees	899.268.131	431.751.085
Navigation expenses	784.572.488	364.046.314
Maintenance expenses	655.956.576	243.150.366
Landing expenses	364.706.052	157.333.849
Insurance expenses	186.544.370	77.846.836
Passenger service and catering expenses	80.320.341	42.085.949
Other expenses	322.471.992	201.032.034
	10.546.868.537	**6.062.262.535**

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 31 December 2021	1 January- 31 December 2020
Marketing expenses	284.441.314	168.837.261
General administrative expenses	378.551.090	274.563.009
	662.992.404	**443.400.270**

The details of general administrative expenses and marketing expenses for the periods ended 31 December 2021 and 31 December 2020 are as follows (there are no research & development expenses in the periods ended in respective dates):

General administrative expenses:

	1 January- 31 December 2021	1 January- 31 December 2020
Depreciation and amortisation expenses	83.772.162	67.780.700
Personnel expenses	115.568.841	71.498.634
IT expenses	92.522.216	70.228.796
Consultancy expenses	22.768.994	9.772.367
Communication expenses	5.054.356	4.993.678
Legal and notary expenses	12.721.425	8.118.625
Office utility expenses	5.304.718	4.744.680
Travel expenses	2.665.223	867.146
Training expenses	1.004.121	1.160.323
Other expenses	37.169.034	35.398.060
	378.551.090	**274.563.009**

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

Marketing expenses:

	1 January- 31 December 2021	1 January- 31 December 2020
Commission expenses	145.760.893	66.043.281
Advertising expenses	47.400.862	38.391.377
Call center expenses	25.763.459	21.194.058
Personnel expenses	33.827.696	21.874.079
Depreciation and amortisation expenses	20.943.041	16.945.175
Other expenses	10.745.363	4.389.291
	284.441.314	**168.837.261**

NOTE 23 - OTHER OPERATING INCOME AND EXPENSES

The details of other operating income and expenses for the periods ended 31 December 2021 and 31 December 2020 are as follows:

Other operating income:

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign exchange gain from operating activities	-	276.273.622
Indemnity income	-	74.657.919
Reversal of doubtful cash and cash equivalents	318.076	3.955.232
Reversal of trade receivable impairment	14.197.603	-
Other	4.605.023	60.646
	19.120.702	**354.947.419**

Other operating expenses:

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign exchange loss from operating activities	68.875.809	-
Penalty expense	3.846.037	1.737.234
Doubtful receivable allowance expense	-	3.617.950
Other	12.820.341	8.413.128
	85.542.187	**13.768.312**

NOTE 24 - INCOME / EXPENSE FROM INVESTING ACTIVITIES

The details of income from investing activities for the periods ended 31 December 2021 and 31 December 2020 are as follows:

Income from investing activities:

	1 January- 31 December 2021	1 January- 31 December 2020
Eurobond Interest Income	53.300.569	10.312.042
Income from sale of aircraft	233.374	-
Income from sale of fixed assets	-	1.036.307
Other income	704.896	1.519.070
	54.238.839	**12.867.419**

Expense from investing activities:

	1 January- 31 December 2021	1 January- 31 December 2020
Loss from aircraft sale	-	208.950.014
Financial investments allowance expense	23.994.475	-
	23.994.475	**208.950.014**

NOTE 25 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses for the periods ended 31 December 2021 and 31 December 2020 are as follows:

Financial income:

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign exchange gain	-	315.499.407
Interest income	144.439.887	70.158.844
Gain on derivative contracts	2.201.190	2.907.879
	146.641.077	**388.566.130**

Financial expenses:

	1 January- 31 December 2021	1 January- 31 December 2020
Interest expense on leases	549.821.718	455.472.214
Interest expense on bank loans	209.936.567	94.227.317
Other commission expenses	174.771.610	85.516.661
Interest expense on issued debt instruments	300.466.304	-
Expenses from fair value differences of derivative instruments(*)	-	236.605.795
Foreign exchange loss	397.690.098	-
	1.632.686.297	**871.821.987**

(*) Represents the cost reclassified to profit or loss statement, as a result of rebalancing within the scope of hedge accounting.

NOTE 26 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

Currency Translation Differences

	2021	2020
1 January	4.609.042.699	2.574.427.009
Exchange differences arising on translating the non-monetary items	3.203.949.341	2.034.615.690
31 December	**7.812.992.040**	**4.609.042.699**

Hedge Fund

	2021	2020
1 January	(68.365.331)	(42.163.181)
Gain/(loss) from the accounting of cash flow hedges against financial risk	249.025.755	(31.401.307)
Deferred tax related with the accounting of cash flow hedges against financial risk	(54.712.219)	5.199.157
31 December	**125.948.205**	**(68.365.331)**

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Actuarial gains/(losses) on defined benefit plans

	2021	2020
1 January	(2.972.061)	(3.904.009)
Actuarial gains / (losses) on defined benefit plans	(11.010.629)	1.164.935
Deferred tax effect of actuarial gains / (losses) on defined benefit plans	2.202.126	(232.987)
31 December	**(11.780.564)**	**(2.972.061)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES

The Group is subject to corporate tax applicable in Turkey. The corporate tax rate in Turkey will be applied as 25% for corporate earnings for the 2021 taxation period and 23% for corporate earnings for the 2022 taxation period with the regulation dated April 22, 2021. The corporate tax rate, which was applied as 22% in 2020, will be applied again as 20% after the taxation period in 2022. When calculating deferred tax on temporary differences, the Company takes into account tax rates as applicable on the date the temporary differences utilized. Tax expense components as of December 31, 2021 and December 31,2020 are presented below:

	31 December 2021	**31 December 2020**
Less: Prepaid taxes and funds	(5.030.039)	(6.629.247)
Current tax assets (*)	**(5.030.039)**	**(6.629.247)**

(*) The exceeding portion of the prepaid taxes over current corporate tax provision is reported in current tax assets.

	1 January- 31 December 2021	**1 January- 31 December 2020**
Income tax expense		
- Deferred tax expense	84.307.447	59.747.546
Total tax income / (expense)	**84.307.447**	**59.747.546**

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate in Turkey is 25% (2020: 20%).

Deferred Tax

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

In the calculation of deferred tax assets and liabilities, the tax rates that will be valid on the date of closing the temporary differences are taken into account.

In Turkey, companies cannot declare a consolidated tax return, therefore their deferred tax balances are not netted off and are disclosed separately.

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES

Deferred Tax

The consolidated deferred tax liability position as of 31 December 2021 is as follows:

	1 January - 31 December 2021				
	1 January 2021	Currency translation effect	Other comprehensive income tax effect	Deferred tax charge for the year	31 December 2021
Difference between tax base and carrying value of tangible assets and intangible assets	(1.734.278.777)	(1.376.764.664)	-	(701.997.204)	(3.813.040.645)
Carry forward tax losses	652.188.515	694.953.247	-	701.592.560	2.048.734.322
Government grants and incentives	139.679.048	22.366.885	-	(162.045.933)	-
Provision for employee termination benefits	3.952.803	1.431.872	2.202.128	(1.457.159)	6.129.644
Provision for litigation claims	1.951.750	1.152.322	-	(190.525)	2.913.547
Unused vacation and bonus plans provision	29.242.284	21.779.113	-	8.293.052	59.314.449
Deferred revenue from flight points	16.901.282	8.674.120	-	(4.871.120)	20.704.282
Relivery provisions for the leased aircraft	364.005.345	281.618.295	-	129.193.914	774.817.554
Change in fair value of derivative contracts	17.293.334	46.352	(54.712.221)	(199.749)	(37.572.284)
Other	(95.913.696)	(13.554.651)	-	115.989.611	6.521.264
Deferred tax liability	**(604.978.112)**	**(358.297.109)**	**(52.510.093)**	**84.307.447**	**(931.477.867)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES

Deferred Tax

The consolidated deferred tax liability position as of 31 December 2020 is as follows:

	1 January - 31 December 2020				
	1 January 2020	Currency translation effect	Other comprehensive income tax effect	Deferred tax charge for the year	31 December 2020
Difference between tax base and carrying value of tangible assets and intangible assets	(1.046.279.375)	(405.337.512)	-	(282.661.890)	(1.734.278.777)
Carry forward tax losses	-	70.915.055	-	581.273.460	652.188.515
Government grants and incentives	239.053.862	64.713.740	-	(164.088.554)	139.679.048
Provision for employee termination benefits	2.959.300	759.901	(232.987)	466.589	3.952.803
Provision for litigation claims	1.834.937	592.374	-	(475.561)	1.951.750
Unused vacation and bonus plans provision	9.531.183	5.154.249	-	14.556.852	29.242.284
Deferred revenue from flight points	13.820.689	4.701.039	-	(1.620.446)	16.901.282
Relivery provisions for the leased aircraft	258.804.669	93.197.495	-	12.003.181	364.005.345
Change in fair value of derivative contracts	12.007.264	45.804	5.199.157	41.109	17.293.334
Other	12.752.022	(8.918.524)	-	(99.747.194)	(95.913.696)
Deferred tax liability	**(495.515.449)**	**(174.176.379)**	**4.966.170**	**59.747.546**	**(604.978.112)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES

Deferred Tax

Tax effects related to other comprehensive income as of 31 December 2021 and 31 December 2020 are as follows:

	1 January - 31 December 2021		
	Amount before tax	Tax expense	Amount after tax
Change in foreign currency translation	3.203.949.341	-	3.203.949.341
Actuarial gains/(losses) on defined benefit plans	(11.010.629)	2.202.126	(8.808.503)
Change in cash flow hedge reserve	249.025.755	(54.712.219)	194.313.536
Other comprehensive income	**3.441.964.467**	**(52.510.093)**	**3.389.454.374**
	1 January - 31 December 2020		
	Amount before tax	Tax income	Amount after tax
Change in foreign currency translation	2.034.615.690	-	2.034.615.690
Actuarial gains/(losses) on defined benefit plans	1.164.935	(232.987)	931.948
Change in cash flow hedge reserve	(31.401.307)	5.199.157	(26.202.150)
Other comprehensive income	**2.004.379.318**	**4.966.170**	**2.009.345.488**

Reconciliation of tax expense in consolidated statement of profit or loss for the years 31 December 2021 and 31 December 2020 is as follows:

	1 January- 31 December 2021	**1 January- 31 December 2020**
(Loss) / Profit before tax	**(2.056.785.796)**	**(2.024.844.603)**
Enacted local tax rate	25%	22%
Tax calculated at the enacted tax rate	514.196.449	445.465.813
Tax effect of disallowable expenses	(327.647.998)	(4.758.092)
Income from investment incentives	(162.045.933)	(164.088.554)
Tax-exempt revenue	13.791.629	7.739.431
Effect of different tax rates applied	3.922.957	(40.460.739)
Translation effect and other	42.090.343	(184.150.313)
Taxation expense	**84.307.447**	**59.747.546**

As of December 31, 2021 and December 31, 2020, the Group does not have any carry forward tax losses that it did not recognize deferred tax assests.

NOTE 28 - EARNINGS / LOSS PER SHARE

Earnings/(loss) per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 31 December 2021 and 31 December 2020 are as follows:

	1 January- 31 December 2021	1 January- 31 December 2020
Net Loss	(1.972.478.349)	(1.965.097.057)
Weighted average number of shares issued in the year	102.299.707	102.299.707
Loss per share	**(19,28)**	**(19,21)**

NOTE 29- EFFECTS OF EXCHANGE RATE CHANGES

Details related to effects of exchange rate changes are disclosed at foreign currency risk management in Note 32.

NOTE 30 - DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments

	31 December 2021		31 December 2020	
	Asset	**Liability**	**Asset**	**Liability**
Short term	118.364.973	211.337	7.599.668	90.228.333
Long term	45.204.115	-	-	3.838.005
	163.569.088	**211.337**	**7.599.668**	**94.066.338**

Explanations related to derivative instruments are disclosed in Note 33.

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Assets

Financial investments measured at amortized cost

Short term

	31 December 2021	31 December 2020
Financial investments measured at amortized cost	279.362.583	161.762.085
Time Deposit (*)	286.304.850	-
Less: Allowance for impairment under TFRS 9	(194.682)	(844.203)
	565.472.751	**160.917.882**

(*) This amount represents time deposits with maturities between three months and one year.

Long term

	31 December 2021	31 December 2020
Financial investments measured at amortized cost	2.199.397.758	73.884.679
Less: Allowance for impairment under TFRS 9	(25.411.018)	(767.023)
	2.173.986.740	**73.117.656**

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Assets

Company issuing security	31 December 2021	31 December 2020
T.C Hazine Müsteşarlığı	1.198.582.434	43.697.761
Vakıfbank	348.610.689	81.079.624
Türkiye İhracat Kredi Bankası	631.267.713	-
Türkiye İş Bankası	134.446.904	-
Yapı ve Kredi Bankası	140.246.901	73.117.656
Garanti Bankası	-	36.140.497
Eurobond (*)	**2.453.154.641**	**234.035.538**

(*)The Group's fixed income securities are accounted over their amortized costs using the effective interest rate. The securities in question are denominated in Euros and US Dollars and must pay fixed interest every year and every six months, respectively.

Financial investments measured at amortized cost have has an active market and market prices (according to dirty prices) are as follows:

Company issuing security	31 December 2021	31 December 2020
T.C Hazine Müsteşarlığı	1.213.815.405	44.935.824
Vakıfbank	354.037.447	81.630.645
Türkiye İhracat Kredi Bankası	648.211.245	-
Türkiye İş Bankası	135.186.572	-
Yapı ve Kredi Bankası	140.613.106	73.324.791
Garanti Bankası	-	36.647.909
	2.491.863.775	**236.539.169**

The coupon interest rates and call dates of the financial investments in Euro and US Dollars that are measured by their amortized costs and continues as of the reporting date are as follows.

Company issuing security	ISIN Code	Coupon Interest Rate (%)	FX Type	Asset Value	Call Date
T.C Hazine Müsteşarlığı	US900123CF53	5,75%	USD	1.198.582.434	22.03.2024
Vakıfbank	XS1970705528	8,13%	USD	348.610.689	27.03.2024
Türkiye İhracat Kredi Bankası	XS1917720911	8,25%	USD	481.361.426	24.01.2024
Türkiye İş Bankası	XS1578203462	6,13%	USD	134.446.904	25.04.2024
Yapı ve Kredi Bankası	XS1571399754	5,75%	USD	140.246.901	24.02.2022
Türkiye İhracat Kredi Bankası	XS1057340009	4,13%	EUR	149.906.287	11.04.2023
				2.453.154.641	

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Liabilities

The details of financial liabilities as of 31 December 2021 and 31 December 2020 are as follows:

Short term financial liabilities	31 December 2021	31 December 2020
Short term bank borrowings	3.147.206.682	1.545.683.713
Issued debt instruments (*)	266.421.564	-
	3.413.628.246	**1.545.683.713**

Although, finance lease and operating lease definitions are removed with TFRS 16 for the lessees, the Group continues to use these definitions because they represent different risk categories. In line with the definitions introduced by TFRS 16 for the lessors; a lease agreement is defined as a financial lease, if the lease significantly transfers all risks and returns arising from the ownership of the underlying asset; otherwise, it is defined as an operating lease. However, this distinction does not affect the accounting for the relevant lease agreements. All lease agreements are accounted for in accordance with TFRS 16.

(*) The Group has domestic bonds issued to the qualified investors without public offering amounting to TL 260.000.000 with 365-day maturity, 3-month coupon payments with floating interest of 300 bps over the benchmark (TLREF Index, BIST overnight interest rate) and principal payment at maturity date of 11 February 2021.

Short term portion of long term financial liabilities	31 December 2021	31 December 2020
Short term portion of long term bank borrowings	66.013.613	196.033.144
Principal and interest of bonds issued	426.482.555	-
Discount and commissions of bonds issued	(15.351.326)	-
Lease liabilities	3.876.778.287	2.154.972.636
Short term portion of long term operating lease obligations	*723.958.894*	*679.665.846*
Short term portion of long term financial lease obligations	*3.152.819.393*	*1.475.306.790*
	4.353.923.129	**2.351.005.780**

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Liabilities

Long term financial liabilities	31 December 2021	31 December 2020
Long term bank borrowings	383.672.738	805.508.577
Issued debt instruments (**)	4.866.562.513	-
Discount and commissions of bonds issued	(390.611.675)	-
Lease liabilities	24.038.791.581	14.309.895.001
Long term operating lease obligations	*2.908.737.579*	*1.667.930.667*
Long term financial lease obligations	*21.130.054.002*	*12.641.964.334*
	28.898.415.157	**15.115.403.578**

(**) The Group issued bonds to qualified investors abroad on 29 April 2021, which are issued under the "Rule 144A" and/or "Regulation S" format, have a nominal value of US$ 375,000,000, at % 9,25 interest rate and the maturity is 5 years with an early payment option as of the third and fourth years. The bonds are traded on the Irish Stock Exchange (Euronext Dublin). There are some financial covenants in the Terms and Conditions of the notes. The covenants of the notes are; negative pledge, limitation in indebtedness, publication of financial information, limitations on transactions with affiliates, minimum liquidity, merger, consolidation and sale of substantially all assets, limitation on asset sales, limitation on restricted payments. As of 31 December 2021, the Group complied with such covenants and restrictions

Bank Borrowings

The effective interest rates, original currency and TL equivalents of the short and long term bank borrowings as of 31 December 2021 and 31 December 2020 are as follows :

31 December 2021	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	4,31%	Euro	193.777.101	2.845.093.526
Short term bank borrowings	19,09%	TL	172.338.156	172.338.156
Short term bank borrowings	-	US Dollar	10.000.000	129.775.000
				3.147.206.682

31 December 2020	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	4,62%	Euro	127.902.161	1.152.131.874
Short term bank borrowings	15,54%	TL	371.530.339	371.530.339
Short term bank borrowings	6,50%	US Dollar	3.000.000	22.021.500
				1.545.683.713

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Liabilities

31 December 2021	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term portion of long term bank borrowings	2,68%	Euro	400.000	5.872.920
Short term portion of long term bank borrowings	19,56%	TL	60.140.693	60.140.693
				66.013.613

31 December 2020	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term portion of long term bank borrowings	3,50%	Euro	10.497.839	94.563.484
Short term portion of long term bank borrowings	19,56%	TL	101.469.660	101.469.660
				196.033.144

31 December 2021	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Long term bank borrowings	4,31%	Euro	23.000.000	337.692.909
Long term bank borrowings	19,09%	TL	45.979.829	45.979.829
				383.672.738

31 December 2020	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Long term bank borrowings	4,62%	Euro	69.440.000	625.508.577
Long term bank borrowings	15,54%	TL	180.000.000	180.000.000
				805.508.577

Lease Liabilities

The details of financial and operating lease liabilities as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Less than 1 year	4.871.677.830	2.682.166.703
Between 1 - 5 years	16.911.453.184	9.002.019.440
Over 5 years	12.768.471.319	7.848.676.463
	34.551.602.333	19.532.862.606
Less: Future interest expenses	(6.636.032.465)	(3.067.994.969)
	27.915.569.868	**16.464.867.637**

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Liabilities

Lease Liabilities

Present value of minimum lease payments of financial lease liabilities are as follows;

	31 December 2021	31 December 2020
Less than 1 year	3.876.778.287	2.154.972.636
Between 1 - 5 years	12.819.737.024	7.185.705.564
Over 5 years	11.219.054.557	7.124.189.437
	27.915.569.868	**16.464.867.637**

The Group purchases certain of its handling equipment and aircraft through lease arrangements. The average lease term is 5,85 years. For the period ended 31 December 2021, the floating interest rate applicable to Euro-denominated lease obligations, amounting to TL 16.605.067.744 TL, is 1,11% (31 December 2020: 1,17%) and the floating rate applicable to US Dollar-denominated lease obligations, amounting to TL 4.245.374.626, is 3,80 % (31 December 2020: 2,97%).

Reconciliation of obligations arising from financing activities

The changes in the Group's liabilities arising from financing activities are given in the following table:

	1 January 2021	Utilized bank loans and repayments, (net)	Finance lease obtained and repayment of principals	Non-cash changes	31 December 2021
Bank loans and Issued debt instruments	2.547.225.434	2.993.965.585	-	3.209.205.645	8.750.396.664
Lease payables	16.464.867.637	-	(2.589.270.098)	14.039.972.329	27.915.569.868
	19.012.093.071	**2.993.965.585**	**(2.589.270.098)**	**17.249.177.974**	**36.665.966.532**

	1 January 2020	Utilized bank loans and repayments, (net)	Finance lease obtained and repayment of principals	Non-cash changes	31 December 2020
Bank loans	758.293.604	921.268.097	-	867.663.733	2.547.225.434
Lease payables	9.997.381.744	-	(2.059.033.483)	8.526.519.376	16.464.867.637
	10.755.675.348	**921.268.097**	**(2.059.033.483)**	**9.394.183.109**	**19.012.093.071**

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

Capital Risk Management

The Group manages its capital with the goal of ensuring that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the financial liabilities and obligations under finance leases disclosed in Note 31, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings, respectively. The Group meets working capital requirement with the cash generated from its operations and through credit lines from Turkish and foreign banks, if needed.

The Group's management reviews the cost of capital together with the risk associated with each class in the capital structure. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital and obtains approval from Board of Directors in the form of a resolution.

Based on evaluations of management and Board of Directors, the Group balances its overall capital structure from time to time through capital increases as well as the issue of new debt or the redemption of existing debt. The Group's overall capital risk management strategy remains unchanged from prior periods.

The debt-capital ratio that is calculated as net debt (total borrowings less cash and cash equivalents and financial investments) divided by total capital as of 31 December 2021 and 31 December 2020 are as follows.

	31 December 2021	**31 December 2020**
Financial Liabilities	36.188.821.690	18.816.059.927
Less: Cash and Cash Equivalents & Financial Investments	(9.716.239.263)	(3.839.606.368)
Net Debt	26.472.582.427	14.976.453.559
Total Equity	6.803.393.663	5.386.417.638
Total Capital	33.275.976.090	20.362.871.197
Net Debt/Total Capital Ratio	**0,8**	**0,7**

Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management plan focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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

Credit Risk Management

The Group applied the simplified approach in TFRS 9 to calculate the expected credit loss provision for trade receivables. This approach allows for the expected credit loss provision for all trade receivables. In order to measure expected credit losses, the Group grouped its trade receivables considering the maturity and credit risk characteristics. The expected credit loss ratio for each class of trade receivables, which is grouped using past loan loss experiences and prospective macroeconomic indicators, is calculated and the expected credit loss provision has been calculated by multiplying the determined rate and trade receivable sums.

	Not Overdue	0-1 Months Overdue	1-3 Months Overdue	More than 3 Months Overdue	Total
Period end balance	335.284.962	2.180.817	983.866	23.632.336	362.081.981
Loan loss rate (%)	0,7%	0,7%	1,7%	96%	
Expected credit losses	2.202.822	14.328	16.603	22.675.434	24.909.187

	Not Overdue	0-1 Months Overdue	1-3 Months Overdue	More than 3 Months Overdue	Total
Period end balance	192.624.818	17.751.449	1.397.184	17.021.243	228.794.694
Loan loss rate (%)	0,7%	0,7%	1,7%	55%	
Expected credit losses	1.265.545	116.627	23.577	9.361.683	10.767.432

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

Financial Risk Factors

Credit risk management:

	Receivables						
	Trade Receivables		**Other Receivables**				
31 December 2021	**Related Party**	**Other**	**Related Party**	**Other**	**Bank Deposits**	**Financial Investments**	**Derivative Instruments**
Maximum exposed credit risk as of reporting date (A+B+C+D) (*)	**-**	**337.172.794**	**-**	**512.983.793**	**6.977.215.889**	**2.739.459.491**	**163.569.088**
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	18.141.608	-	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	335.284.962	-	512.983.793	6.977.215.889	2.739.459.491	163.569.088
B. Net book value of financial assets that are past due but not impaired	-	1.887.832	-	-	-	-	-
-The part under guarantee with collateral etc.	-	1.887.832	-	-	-	-	-
C. Net book value of impaired assets							
- Past due (gross carrying amount)	-	21.739.809	-	-	-	-	-
- Impairment(-)	-	(21.739.809)	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	3.169.378	-	-	1.488.470	-	-
- Impairment(-)	-	(3.169.378)	-	-	(1.488.470)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-	-

(*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**) Guarantees consist of the letters of guarantee obtained from the customers.

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

Financial Risk Factors

Credit risk management:

	Receivables						
	Trade Receivables		Other Receivables				
31 December 2020	**Related Party**	**Other**	**Related Party**	**Other**	**Bank Deposits**	**Financial Investments**	**Derivative Instruments**
Maximum exposed credit risk as of reporting date (A+B+C+D) (*)	**-**	**197.485.020**	**227.927**	**296.078.611**	**3.606.732.620**	**234.035.538**	**7.599.668**
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	33.942.776	-	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	192.624.818	227.927	296.078.611	3.606.732.620	234.035.538	7.599.668
B. Net book value of financial assets that are past due but not impaired	-	4.860.202	-	-	-	-	-
-The part under guarantee with collateral etc.	-	4.860.202	-	-	-	-	-
C. Net book value of impaired assets							
- Past due (gross carrying amount)	-	20.542.242	-	-	-	-	-
- Impairment(-)	-	(20.542.242)	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	10.767.432	-	-	1.806.546	-	-
- Impairment(-)	-	(10.767.432)	-	-	(1.806.546)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-	-

(*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**) Guarantees consist of the letters of guarantee obtained from the customers.

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

Financial Risk Factors

Credit risk management

Aging of the past due receivables is as follows:

31 December 2021	Trade receivables	Other receivables	Bank deposits	Total
1-30 days past due	73.821	-	-	73.821
1-3 months past due	553.128	-	-	553.128
3-12 months past due	333.508	-	-	333.508
1-5 years past due	22.667.184	-	-	22.667.184
Receivables secured by guarantees	(1.887.832)	-	-	(1.887.832)
	21.739.809	**-**	**-**	**21.739.809**

31 December 2020	Trade receivables	Other receivables	Bank deposits	Total
1-30 days past due	778.119	-	-	778.119
1-3 months past due	798.993	-	-	798.993
3-12 months past due	1.841.696	-	-	1.841.696
1-5 years past due	21.983.636	-	-	21.983.636
Receivables secured by guarantees	(4.860.202)	-	-	(4.860.202)
	20.542.242	**-**	**-**	**20.542.242**

Liquidity risk management

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables show the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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

Financial Risk Factors

Liquidity risk management

31 December 2021 Due date on the contract	Carrying value	Contractual cash-flows (I+II+III+IV)	Up to 3 months (I)	3 months- 12 months (II)	1 year- 5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Short term bank borrowings	3.596.893.033	3.596.893.033	972.009.045	2.241.211.245	383.672.743	-
Obligations under leases	27.915.569.868	34.551.602.333	1.037.783.199	3.833.894.631	16.911.453.184	12.768.471.319
Trade payables	1.890.577.313	1.890.577.313	1.890.577.313	-	-	-
Issued debt instruments	5.153.503.631	5.153.503.631	270.294.446	426.482.555	4.456.726.630	-
	38.556.543.845	**45.192.576.310**	**4.170.664.003**	**6.501.588.431**	**21.751.852.557**	**12.768.471.319**

Due date on the contract	Carrying value	Contractual cash-flows (I+II+III+IV)	Up to 3 months (I)	3 months- 12 months (II)	1 year- 5 years (III)	More than 5 years (IV)
Derivative financial liabilities						
Derivative cash inflows outflows, net	163.357.751	167.148.859	50.625.888	69.334.389	47.188.582	-

31 December 2020 Due date on the contract	Carrying value	Contractual cash-flows (I+II+III+IV)	Up to 3 months (I)	3 months- 12 months (II)	1 year- 5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Short term bank borrowings	2.547.225.434	2.547.225.434	327.887.560	1.413.829.298	805.508.576	-
Obligations under leases	16.464.867.637	19.532.862.606	676.966.996	2.005.199.707	9.002.019.440	7.848.676.463
Trade payables	910.641.319	910.641.319	910.641.319	-	-	-
	19.922.734.390	**22.990.729.359**	**1.915.495.875**	**3.419.029.005**	**9.807.528.016**	**7.848.676.463**

Due date on the contract	Carrying value	Contractual cash-flows (I+II+III+IV)	Up to 3 months (I)	3 months- 12 months (II)	1 year- 5 years (III)	More than 5 years (IV)
Derivative financial liabilities						
Derivative cash inflows outflows, net	(86.466.670)	(84.409.963)	(30.298.901)	(49.811.047)	(4.300.015)	-

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, fuel price and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency, fuel price and interest rate risk.

Foreign currency risk management

The Group has significant transactions in non-Euro currencies including, but not limited to, Turkish Lira revenues, non-Euro borrowings and US Dollar fuel purchases. These non-Euro denominated transactions expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group's foreign currency position of monetary and non-monetary assets/liabilities for the years ended 31 December 2021 and 31 December 2020 are as follows:

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

Financial Risk Factors

Foreign currency risk management

31 December 2021	TL Total	USD	TL	GBP	Other
1. Trade receivables	292.663.386	7.687.220	122.353.628	509.199	61.661.810
2a. Monetary financial assets	3.521.733.470	178.611.695	436.449.104	21.366.747	394.437.259
2b. Non monetary financial assets	-	-	-	-	-
3. Other	135.230.733	(516.490)	139.171.648	89.563	1.198.691
4. CURRENT ASSETS	3.949.627.589	185.782.425	697.974.380	21.965.509	457.297.760
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	1.887.681.883	145.458.053	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	226.305.007	16.671.473	368.184	1.000	9.565.329
8. NON CURRENT ASSETS	2.113.986.890	162.129.526	368.184	1.000	9.565.329
9. TOTAL ASSETS	6.063.614.479	347.911.951	698.342.564	21.966.509	466.863.089
10. Trade payables	1.215.466.119	68.081.621	264.274.418	565.921	57.785.445
11. Financial liabilities	2.720.180.221	175.798.151	438.759.720	-	-
12a. Other liabilitites, monetary	956.265.071	56.124.453	224.292.553	88.407	2.074.462
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	4.891.911.411	300.004.225	927.326.691	654.328	59.859.907
14. Trade payables	-	-	-	-	-
15. Financial liabilities	12.602.526.105	967.562.803	45.979.829	-	-
16a. Other lliabilities, monetary	3.104.537.091	239.224.588	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	15.707.063.196	1.206.787.391	45.979.829	-	-
18. TOTAL LIABILITIES	20.598.974.607	1.506.791.616	973.306.520	654.328	59.859.907
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	(14.535.360.128)	(1.158.879.665)	(274.963.956)	21.312.181	407.003.182
21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a)	(14.535.360.128)	(1.158.879.665)	(274.963.956)	21.312.181	407.003.182

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

Financial Risk Factors

Foreign currency risk management

31 December 2020	TL Total	USD	TL	GBP	Other
1. Trade receivables	212.376.311	12.065.543	101.470.363	334.373	19.013.891
2a. Monetary financial assets	2.054.167.015	246.117.870	149.798.906	5.888.115	39.189.646
2b. Non monetary financial assets	-	-	-	-	-
3. Other	188.137.472	13.107	185.943.989	89.563	1.206.676
4. CURRENT ASSETS	2.454.680.798	258.196.520	437.213.258	6.312.051	59.410.213
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	144.331.708	19.662.381	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	149.009.259	19.500.573	341.073	1.000	5.514.286
8. NON CURRENT ASSETS	293.340.967	39.162.954	341.073	1.000	5.514.286
9. TOTAL ASSETS	2.748.021.765	297.359.474	437.554.331	6.313.051	64.924.499
10. Trade payables	563.378.666	7.151.551	497.346.897	186.316	11.683.120
11. Financial liabilities	1.416.899.835	128.587.948	473.000.000	-	-
12a. Other liabilitites, monetary	917.402.135	106.365.614	127.431.455	85.662	8.342.085
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	2.897.680.636	242.105.113	1.097.778.352	271.978	20.025.205
14. Trade payables	-	-	-	-	-
15. Financial liabilities	4.461.206.972	583.230.975	180.000.000	-	-
16a. Other lliabilities, monetary	1.038.964.136	141.538.606	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	5.500.171.108	724.769.581	180.000.000	-	-
18. TOTAL LIABILITIES	8.397.851.744	966.874.694	1.277.778.352	271.978	20.025.205
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	(5.649.829.980)	(669.515.221)	(840.224.021)	6.041.073	44.899.294
21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a)	(5.649.829.980)	(669.515.221)	(840.224.021)	6.041.073	44.899.294

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

Financial Risk Factors

Foreign currency risk management

Foreign currency sensitivity

The Group is exposed to foreign exchange risk arising primarily with respect to the US Dollar and Turkish Lira.

The following table details the Group's sensitivity to a 10% increase and decrease in US Dollar, and TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Foreign currency sensitivity tables as of 31 December 2021 and 31 December 2020 are as follows:

31 December 2021	Profit/(Loss)		Shareholders' equity	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / (liability)	(1.503.936.085)	1.503.936.085	-	-
Part of hedged from USD risk	-	-	-	-
USD net effect	**(1.503.936.085)**	**1.503.936.085**	**-**	**-**
Effect of 10% change in TL rate				
TL net asset / (liability)	(27.496.396)	27.496.396	667.744.546	(667.744.546)
Part of hedged from TL risk	-	-	-	-
TL net effect	**(27.496.396)**	**27.496.396**	**667.744.546**	**(667.744.546)**
Effect of 10% change in GBP rate				
GBP net asset / liability	37.196.149	(37.196.149)	-	-
Part of hedged from GBP risk	-	-	-	-
GBP net effect	**37.196.149**	**(37.196.149)**	**-**	**-**

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

Financial Risk Factors

Foreign currency risk management

Foreign currency sensitivity

31 December 2020	Profit/(Loss)		Shareholders' equity	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%	If foreign currency appreciated 10%	If foreign currency depreciated 10%
Effect of 10% change in USD rate				
USD net asset / (liability)	(491.457.648)	491.457.648	-	-
Part of hedged from USD risk	-	-	-	-
USD net effect	**(491.457.648)**	**491.457.648**	**-**	**-**
Effect of 10% change in TL rate				
TL net asset / (liability)	(84.022.402)	84.022.402	538.433.239	(538.433.239)
Part of hedged from TL risk	-	-	-	-
TL net effect	**(84.022.402)**	**84.022.402**	**538.433.239**	**(538.433.239)**
Effect of 10% change in GBP rate				
GBP net asset / liability	4.868.624	(4.868.624)	-	-
Part of hedged from GBP risk	(8.505.547)	8.505.547	-	-
GBP net effect	**(3.636.923)**	**3.636.923**	**-**	**-**

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate borrowings, by the use of interest rate swap contracts based on the approved policies.

Foreign currency sensitivity

The Group's distribution of interest rate-sensitive financial instruments is as follows:

	31 December 2021		31 December 2020	
	Floating rate	Fixed rate	Floating rate	Fixed rate
Bank loans and Issued debt instruments	-	8.750.396.664	-	2.547.225.434
Finance leases	24.146.552.138	3.769.017.730	14.018.203.436	2.446.664.201
Interest swap agreements not subject to hedge accounting (net)	(211.337)	-	(1.010.003)	-

For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

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

Financial Risk Factors

Interest rate risk management

Foreign currency sensitivity

If interest rates had been 0,5% lower/higher during the reporting period keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 81.972.831 (2020: TL 46.741.135). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases.

Price risk management

Fuel price risk management

The Group is exposed to commodity risk due to the significant of fuel purchases to its business. Fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on the cost of sales, and results of operations of the Group.

The Group manages its risk to fuel prices through the use of derivative financial instruments. The Group's policy since 2011 includes a primary non-discretionary program for the first 50% of anticipated fuel consumption and a supplemental discretionary program for an additional 20% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Fuel price sensitivity

The Group entered into fuel purchase and option forward contracts in order to manage the cash flow risks arising from fuel purchases. Due to forward fuel purchase and option forward contracts subject to hedge accounting, as a result of a 1% increase in sfuel prices, the shareholders' equity of the Group will increase by TL 40.689.531 (2020: TL 12.034.910) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 40.689.531 (2020: TL 12.034.910) excluding deferred tax effect.

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

Group Management believes that the carrying values of financial instruments approximates their fair values, except for financial investments, lease liabilities and issued debt instruments. The fair value of financial investments and issued bonds is determined by considering the market value (level 1).

Fair Value of Financial Instruments

31 December 2021	Financial assets and liabilities at amortized cost	Derivative instruments which are recognized at fair value in shareholders' equity	Derivative instruments which are recognized at fair value in profit/loss	Carrying amount (*)	Note
Financial assets					
Cash and cash equivalents	6.976.779.772	-	-	6.976.779.772	35
Trade receivables	337.172.794	-	-	337.172.794	6
- Other	*337.172.794*	-	-	*337.172.794*	*6*
Other receivables	512.983.793	-	-	512.983.793	
- Other	*512.983.793*	-	-	*512.983.793*	
Financial investments	2.778.168.625	-	-	2.739.459.491	31
Derivative financial assets	-	163.569.088	-	163.569.088	30
Financial liabilities					
Bank borrowings	3.596.893.033	-	-	3.596.893.033	31
Issued debt instruments	5.125.102.531	-	-	5.153.503.631	0
Trade payables	1.890.577.313	-	-	1.890.577.313	6
- Related party	*8.656.890*	-	-	*8.656.890*	*5*
- Other	*1.881.920.423*	-	-	*1.881.920.423*	
Derivative financial liabilities	-	-	211.337	211.337	30

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

Fair Value of Financial Instruments

31 December 2020	Financial assets and liabilities at amortized cost	Derivative instruments which are recognized at fair value in shareholders' equity	Derivative instruments which are recognized at fair value in profit/loss	Carrying amount (*)	Note
Financial assets					
Cash and cash equivalents	3.605.570.830	-	-	3.605.570.830	35
Trade receivables	197.485.020	-	-	197.485.020	6
Other receivables	296.306.538	-	-	296.306.538	
- Related party	*227.927*	-	-	*227.927*	*5*
- Other	*296.078.611*	-	-	*296.078.611*	
Financial investments	236.539.169	-	-	234.035.538	31
Derivative financial assets	-	7.599.668	-	7.599.668	30
Financial liabilities					
Bank borrowings	2.547.225.434	-	-	2.547.225.434	31
Trade payables	910.641.319	-	-	910.641.319	6
- Related party	*22.159.362*	-	-	*22.159.362*	*5*
- Other	*888.481.957*	-	-	*888.481.957*	
Derivative financial liabilities	-	93.056.335	1.010.003	94.066.338	30

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

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices:

- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- Level 3: the fair value of financial assets and liabilities are determined by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets / (Financial liabilities)	**Fair value as at**		**Fair value hierarchy**	**Valuation technique**
	31 December 2021	**31 December 2020**		
Fuel purchase option contracts	163.569.088	(93.056.335)	Level 2	Discounted cash flow method
Fuel purchase forward contracts	-	7.599.668	Level 2	Discounted cash flow method
Interest rate swap contracts	(211.337)	(1.010.003)	Level 2	Discounted cash flow method

31 December 2021	**Fuel purchase forward contracts**	**Fuel purchase option contracts**	**Interest rate swap contracts**	**Total**
Fair value:				
Opening	7.599.668	(93.056.335)	(1.010.003)	(86.466.670)
Fair value increase				
Recognized in equity	(7.599.668)	256.625.423	-	249.025.755
Recognized in profit or loss	-	-	798.666	798.666
Closing	**-**	**163.569.088**	**(211.337)**	**163.357.751**
Assets	-	163.569.088	-	163.569.088
Liabilities	-	-	(211.337)	(211.337)
Total net assets and liabilities	**-**	**163.569.088**	**(211.337)**	**163.357.751**

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

Fair Value of Financial Instruments

31 December 2020	Fuel purchase forward contracts	Fuel purchase option contracts	Currency forward contracts	Interest rate swap contracts	Total
Fair value:					
Opening	(11.321.989)	(42.733.371)	(584.353)	61.239	(54.578.474)
Fair value increase / (decrease)					
Recognized in equity	18.921.657	(50.322.964)	-	-	(31.401.307)
Recognized in profit or loss	-	-	584.353	(1.071.242)	(486.889)
Closing	**7.599.668**	**(93.056.335)**	**-**	**(1.010.003)**	**(86.466.670)**
Assets	7.599.668	-	-	-	7.599.668
Liabilities	-	(93.056.335)	-	(1.010.003)	(94.066.338)
Total net assets and liabilities	**7.599.668**	**(93.056.335)**	**-**	**(1.010.003)**	**(86.466.670)**

The Group has fuel purchase forward contracts that it applies hedge accounting.Approximately 41.9% and 25.6% of total fueal consumption that is expecteed to occur in 2022 and 2023, respectively has been hedged. In line with its hedging policy, the Group can conclude contracts with maturities up to 24 months. As of the balance sheet period, the contracts last until December 2023. The total nominal value of these contracts is USD 320.8 million, and the weighted average price is in the range of USD 59-79. The ineffective portion of the hedge is not material as of 31 December 2021. In the current period, the income that is reclassified from hedging gain/(losses) fund under shareholders' equity to fuel expenses in the profit and loss statement is TL 262,675.853 (31 December 2020: TL 281.894.199 derivative expenses are reclassified to fuel expenses, TL 236.605.795 derivative expenses are charged to finance expenses).

NOTE 34 - EVENTS AFTER BALANCE SHEET DATE

- The initial public offering (IPO) of TL 35.192.308 nominal valued shares of Hitit Bilgisayar has been completed. Listed shares will start trading in Borsa Istanbul on March 3, 2022. The Group's ownership at Hitit Bilgisayar decreases to 36.2% after the offering.
- Because of the tension between Ukraine and Russia that have started at the end of February 2022, some of the flights to these countries have been suspended temporarily. Although, the Group is expected to be affected negatively from the tension both in terms of revenue loss and rising jet fuel prices, the impact is expected to be limited.

NOTE 35 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Cash on hand	1.052.353	644.756
Cash at banks	6.977.215.889	3.606.732.620
- Demand deposits	2.750.408.971	55.355.224
- Time deposits	4.226.806.918	3.551.377.396
Less: Allowance for impairment under TFRS 9	(1.488.470)	(1.806.546)
	6.976.779.772	**3.605.570.830**

The weighted average interest rates of time deposits are as presented below:

31 December 2021	Weighted average interest rates	Total
USD deposits	0,61 %	1.896.385.109
EUR deposits	0,47 %	1.525.329.038
TL deposits	30,88 %	434.134.710
GBP deposits	0,01 %	370.958.061
		4.226.806.918

31 December 2020	Weighted average interest rates	Total
USD deposits	1,55 %	1.795.008.276
EUR deposits	1,2 %	1.541.353.532
TL deposits	18,76 %	147.679.943
GBP deposits	0,14 %	57.804.150
CHF deposits	0,02 %	9.531.495
		3.551.377.396

All of the time deposits as of 31 December 2021 and 31 December 2020 have maturities less than 90 days.

NOTE 36 – NON-CURRENT ASSETS HELD FOR SALE AND DİSCONTİNUED

Cost:	**31 December 2021**	**31 December 2020**
Aircraft	568.617.501	-
Closing	568.617.501	-
Accumulated depreciation:		
Aircraft	(260.526.526)	-
Closing	**(260.526.526)**	-
Net book value	**308.090.975**	-

Boeing 737-800 type aircraft was reclassified to assets held for sale in accordance with TFRS-5 "Assets Held for Sale and Discontinued Operations".

NOTE 37 – INDEPENTED AUDITOR'S FEE

Fees related to the services received from the independent auditor/independent audit firm have been prepared in accordance with the Board Decision of the Group, Public Oversight Accounting and Auditing Standards Authority ("POA") published in the Official Gazette on 30 March 2021.The explanation of the fees for the services provided by the independent audit firms, the preparation principles of which are based on the POA letter dated 19 August 2021, is as follows:

	31 December 2021	**31 December 2020**
Independent auditor's fee	2.419.000	561.000
Tax services's fee	250.808	192.682
Other services's fee	80.000	22.500
	2.749.808	**776.182**

Revenue

	Euro 1 January- 31 December 2021	**Euro 1 January- 31 December 2020**
Scheduled flight and service revenue	1.007.915.682	611.519.422
International flight revenue	*466.319.637*	*242.252.445*
Domestic flight revenue	*226.220.839*	*156.266.871*
Service revenue	*315.375.206*	*213.000.106*
Charter flight and service revenue	10.178.493	6.435.523
Charter flight revenue	*10.178.478*	*6.387.082*
Service revenue	*15*	*48.441*
Other revenue	6.493.216	11.924.722
	1.024.587.391	**629.879.667**

Expenses by Nature

	Euro 1 January- 31 December 2021	**Euro 1 January- 31 December 2020**
Jet fuel expenses	301.121.406	199.877.812
Depreciation and amortisation expenses	269.493.766	271.958.825
Personnel expenses	128.531.141	121.136.259
Handling and station fees	83.010.301	53.956.427
Navigation expenses	71.401.613	44.741.312
Maintenance expenses	57.951.447	22.857.210
Landing expenses	33.504.475	19.873.988
Commission expenses	13.158.687	8.350.887
Advertising expenses	4.518.758	5.034.306
Passenger service and catering expenses	7.435.179	5.438.284
Other expenses	69.615.774	55.984.502
	1.039.742.547	**809.209.812**