

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

Condensed Consolidated Interim
Financial Statements As at and For
The Nine-Month Period
Ended 30 September 2019

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	Not Reviewed	Audited
		30 September 2019	31 December 2018
Non-Current Assets			
Financial Investments	6	88	86
Other Receivables			
-Third Parties	10	1,201	1,004
Investments Accounted by Using Equity Method	3	369	358
Property and Equipment	12	15,451	13,918
Right of Use Assets	12	1,447	-
Intangible Assets			
- Other Intangible Assets	13	80	82
- Goodwill		12	12
Prepaid Expenses		892	767
TOTAL NON-CURRENT ASSETS		19,540	16,227
Current Assets			
Cash and Cash Equivalents	5	1,789	1,636
Financial Investments	6	111	519
Trade Receivables			
-Related Parties	9	4	2
-Third Parties		645	568
Other Receivables			
-Related Parties	9	45	3
-Third Parties	10	1,118	1,178
Derivative Financial Instruments	28	87	57
Inventories		281	190
Prepaid Expenses		165	192
Current Income Tax Assets	26	38	61
Other Current Assets		121	99
TOTAL CURRENT ASSETS		4,404	4,505
TOTAL ASSETS		23,944	20,732

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 September 2019

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

LIABILITIES	Notes	Not Reviewed	Audited
		30 September 2019	31 December 2018
Equity			
Share Capital	19	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	19	(39)	(35)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	(172)	(160)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	19	261	-
-Gains on Remeasuring FVOCI	19	1	(6)
Restricted Profit Reserves	19	36	36
Previous Years Profit	19	4,495	3,760
Net Profit for the Period		452	753
Equity of the Parent		6,631	5,945
Non-Controlling Interests (*)		-	-
TOTAL EQUITY		6,631	5,945
Non- Current Liabilities			
Long-Term Borrowings	7 and 14	8,629	8,239
Long Term Lease Liabilities	7 and 14	1,173	-
Other Payables			
-Third Parties		31	36
Deferred Income	11	123	65
Long-Term Provisions			
-Provisions for Employee Benefits	17	139	130
-Other Provisions		40	-
Deferred Tax Liability	26	1,244	1,138
TOTAL NON-CURRENT LIABILITIES		11,379	9,608
Current Liabilities			
Short Term Borrowings	7	1,157	1,099
Short-Term Portion of Long-Term Borrowings	7 and 14	1,467	1,270
Short Term Portion of Lease Liabilities	7 and 14	249	-
Other Financial Liabilities	8	25	6
Trade Payables			
-Related Parties	9	96	231
-Third Parties		941	791
Payables Related to Employee Benefits		213	199
Other Payables			
-Third Parties		74	78
Derivative Financial Instruments	28	134	196
Deferred Income	11	1,237	1,047
Short-Term Provisions			
-Provisions for Employee Benefits	15	46	39
-Other Provisions	15	14	16
Other Current Liabilities		281	207
TOTAL CURRENT LIABILITIES		5,934	5,179
TOTAL LIABILITIES AND EQUITY		23,944	20,732

(*) The non-controlling share in the assets and results of subsidiaries for the year are separately classified as “non-controlling interest” in the consolidated statements of financial position and consolidated statements of profit or loss.

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss
For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		<u>Not Reviewed</u>	<u>Not Reviewed</u>	<u>Not Reviewed</u>	<u>Not Reviewed</u>
		1 January -	1 July -	1 January -	1 July -
PROFIT OR LOSS	Notes	30 September 2019	30 September 2019	30 September 2018	30 September 2018
Revenue	20	9,948	3,999	9,869	3,929
Cost of Sales (-)	21	(8,174)	(2,917)	(7,501)	(2,648)
GROSS PROFIT		1,774	1,082	2,368	1,281
General Administrative Expenses (-)	22	(222)	(77)	(204)	(64)
Marketing and Sales Expenses (-)	22	(1,104)	(364)	(998)	(321)
Other Operating Income	23	142	46	114	50
Other Operating Expenses (-)	23	(50)	(12)	(131)	(55)
OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES		540	675	1,149	891
Income from Investment Activities	24	116	29	155	115
Expenses from Investment Activities	24	(79)	-	(1)	(1)
Share of Investments' Profit Accounted by Using The Equity Method	3	80	72	128	96
OPERATING PROFIT		657	776	1,431	1,101
Financial Income	25	55	101	55	35
Financial Expenses (-)	25	(230)	(79)	(583)	(273)
PROFIT BEFORE TAX		482	798	903	863
Tax Income Expense		(30)	(143)	(148)	(149)
Current Tax Expense	26	-	4	(54)	(21)
Deferred Tax Expense	26	(30)	(147)	(94)	(128)
NET PROFIT FOR THE PERIOD		452	655	755	714

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Other Comprehensive Income
For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		<u>Not Reviewed</u>	<u>Not Reviewed</u>	<u>Not Reviewed</u>	<u>Not Reviewed</u>
		1 January -	1 July -	1 January -	1 July -
OTHER COMPREHENSIVE INCOME	Notes	30 September 2019	30 September 2019	30 September 2018	30 September 2018
Items That May Be Reclassified Subsequently To Profit or Loss		256	193	27	(68)
Currency Translation Adjustment		(12)	(2)	(67)	(31)
Gains / (Losses) on Remeasuring FVOCI		10	8	(22)	(12)
Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges		323	233	125	(38)
Fair Value Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		5	4	13	2
Related Tax of Other Comprehensive Income		(70)	(50)	(22)	11
Items That Will Not Be Reclassified Subsequently To Profit or Loss		(4)	-	-	-
Actuarial Losses on Retirement Pay Obligation		(5)	-	-	-
Related Tax of Other Comprehensive Income		1	-	-	-
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD		252	193	27	(68)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		704	848	782	646
Basic Gain Per Share (Full US Cents)	27	0.33	0.47	0.55	0.52
Diluted Gain Per Share (Full US Cents)	27	0.33	0.47	0.55	0.52

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss				Retained Earnings				Total Equity
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	Equity Holders of the Parent	Non-controlling Interests	
As of 1 January 2019	1,597	(35)	(160)	-	(6)	36	3,760	753	5,945	-	5,945
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	(18)	-	(18)	-	(18)
As of 1 January 2019	1,597	(35)	(160)	-	(6)	36	3,742	753	5,927	-	5,927
Transfers	-	-	-	-	-	-	753	(753)	-	-	-
Total comprehensive income	-	(4)	(12)	261	7	-	-	452	704	-	704
As of 30 September 2019	1,597	(39)	(172)	261	1	36	4,495	452	6,631	-	6,631

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings					
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	Equity Holders of the Parent	Non-controlling Interests	Total Equity
As of 1 January 2018	1,597	(15)	(108)	61	1	36	3,551	223	5,346	-	5,346
Adjustment on initial application of IFRS 15	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Adjustment on initial application of IFRS 9	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Restated As of 1 January 2018	1,597	(15)	(108)	61	1	36	3,537	223	5,332	-	5,332
Transfers	-	-	-	-	-	-	223	(223)	-	-	-
Total comprehensive income	-	-	(67)	111	(17)	-	-	755	782	-	782
As of 30 September 2018	1,597	(15)	(175)	172	(16)	36	3,760	755	6,114	-	6,114

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Cash Flows
For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	Not Reviewed 30 September 2019	Not Reviewed 30 September 2018
Net Profit for the period		452	755
Adjustments to Reconcile Profit / (Loss)			
Adjustments for Depreciation and Amortisation Expense	12 and 13	1,123	807
Adjustments for Provisions Related with Employee Benefits	15 and 17	24	26
Adjustments for Provisions for Payables	15	(1)	-
Adjustments for Reversal of Probable Risks		8	(3)
Adjustments for Interest Income	24 and 25	(75)	(62)
Adjustments for Interest Expense	17 and 25	202	205
Adjustments For Unrealised Foreign Exchange Gains		(183)	(46)
Adjustments for Manufacturers' Credits		-	1
Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments	25	(11)	4
Adjustments for Undistributed Profits of Associates	3	(80)	(128)
Adjustments for Tax Income	26	30	148
Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets	24	75	(4)
Adjustments for Losses Arised from Sale of Other Non-Current Assets	12	29	23
Operating Profit Before Changes in Working Capital		1,593	1,726
Increase in Trade Receivables from Related Parties		(2)	-
Increase in Trade Receivables from Non Related Parties		(85)	(63)
Decrease / (Increase) in Other Non-Related Party Receivables Related with Operations	10	72	(198)
Adjustments for (Increase) / Decrease in Inventories		(91)	27
Adjustments for Increase in Prepaid Expenses		(113)	(267)
(Decrease) / Increase in Trade Payables to Related Parties	9	(135)	31
Increase in Trade Payables to Non-Related Parties		150	101
Adjustments for Increase / (Decrease) in Payables Due to Employee Benefits		14	(82)
Increase / (Decrease) in Other Operating Payables to Non-Related Parties		159	(28)
Increase in Deferred Income	11	331	148
(Increase) / Decrease in Other Assets Related with Operations		(22)	21
Cash Flows From Operations		1,871	1,416
Payments for Provisions Related with Employee Benefits	17	(8)	(9)
Income taxes (paid)	26	(23)	(33)
Net Cash From Operating Activities		1,840	1,374
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		20	15
Cash Payments From Purchasing of Property, Plant and Equipment (*)	12 and 13	(1,202)	(757)
Cash Receipts / (Payments) From Purchasing of Other Long-term Assets	6	406	61
Other Cash Advances and Loans		(242)	(819)
Dividends Received		43	31
Interest Received	24 and 25	66	62
Net Cash Flows Used In Investing Activities		(909)	(1,407)
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds From Loans	7	1,501	1,691
Payments of Loans		(1,168)	-
Payments of Finance Lease Liabilities	7	(711)	(681)
Payments of Lease Liabilities		(255)	-
Interest Paid		(164)	(138)
Other Cash Inflows/ (Outflows)	8	19	(2)
Net Cash Used in Financing Activities		(778)	870
Net Change in Cash and Cash Equivalents		153	837
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD		1,636	1,891
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD	5	1,789	2,728

(*) USD 1,342 portion of property and equipment and intangible assets purchases in total of USD 2,544 for the period ended 30 September 2019 was financed through finance leases. (30 September 2018: USD 302 portion of property and equipment and intangible assets purchases in total of USD 1,059 was financed through finance leases.)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. GROUP ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 30 September 2019 and 31 December 2018, the shareholders and their respective shareholdings in the Company are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Turkey Wealth Fund	49.12 %	49.12 %
Republic of Turkey Treasury and Finance Ministry Privatization Administration	-	-
Other (publicly held)	50.88 %	50.88 %
Total	<u>100.00 %</u>	<u>100.00 %</u>

The number of employees working for the Group as of 30 September 2019 is 38,295 (31 December 2018: 35,205). The average number of employees working for the Group for the periods ended 30 September 2019 and 2018 are 37,343 and 32,453 respectively. The Group is registered in İstanbul, Turkey and its head office address is as follows:

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

The Company’s shares have been traded on Borsa İstanbul (BIST) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 30 September 2019 and 31 December 2018:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>30 September 2019</u>	<u>31 December 2018</u>	
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Training & Airport Operations	100%	100%	Turkey
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş.	Airport Investment	100%	100%	Turkey
THY Uluslararası Yatırım ve Taşımacılık A.Ş. (*)	Cargo and Courier Transportation	100%	100%	Turkey
Cornea Havacılık Sistemleri San. Ve Tic. A.Ş. (**)	Software System Maintenance Services	80%	80%	Turkey

(*) The subsidiary was established in September 2018 to operate in the fields of cargo and courier transportation by the respective resolution of the Board of Directors.

(**)The subsidiary was established in October 2018 to operate in the fields of software system maintenance by the respective resolution of the Board of Directors.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Group as of 30 September 2019 and 31 December 2018:

Company Name	Country of Registration and Operations	Ownership Share and Voting Power		Principal Activity
		30 September 2019	31 December 2018	
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO İkram Hizmetleri A.Ş. (Turkish DO&CO)	Turkey	50%	50%	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)□	Turkey	49%	49%	Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Turkey	50%	50%	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)□	Turkey	50%	50%	Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich)	Turkey	40%	40%	Maintenance Services
Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk)	Turkey	50%	50%	Cabin Interior Products
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI)	Turkey	50%	50%	Cabin Interior Products
Vergi İade Aracılık A.Ş.	Turkey	30%	30%	VAT Return and Consultancy
Air Albania	Albania	49%	49%	Aircraft Transportation
We World Express Ltd.	Hong Kong	45%	-	Cargo and Courier

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

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

The condensed consolidated interim financial statements as at and for the nine-month period ended 30 September 2019 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Nine-Month Period Ended 30 September 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Statement of Compliance (cont'd)

Board of Directors has approved the condensed consolidated interim financial statements as of 30 September 2019 on 6 November 2019. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

Basis of Preparation

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

Adjustment of Financial Statements in Hyperinflationary Periods

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

Functional and Reporting Currency

Functional currency

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

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

Except where otherwise indicated, all values are rounded the nearest million (US Dollar 000,000).

Basis of Consolidation

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

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

- c. The non-controlling share in the assets and results of subsidiaries for the year are separately classified as “non-controlling interest” in the consolidated statements of financial position and consolidated statements of profit or loss.

Business Combinations

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

The Group measures goodwill at the acquisition date as:

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.2 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these condensed consolidated interim financial statements as at and for the period ended 30 September 2019 except for described 2.3 *summary of significant accounting policies* are same with those used in the preparation of the Group’s consolidated financial statements as at and for the year ended 31 December 2018.

The financial statements of the Group are prepared comparatively with the prior period in order to enable the determination of the financial situation and performance trends. In order to comply with the presentation of the current period financial statements, comparative information is reclassified when necessary and significant differences are disclosed. The Group has made the following reclassifications in the prior period financial statements in order to comply with the presentation of the current period financial statements.

-Short term deferred income amounting to USD 5 included for the year 1 January- 31 December 2018 is classified to long term deferred income.

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

2.3 Summary of Significant Accounting Policies

The accounting policies adopted in preparation of the interim consolidated financial statements as at 30 September 2019 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Company / the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows:

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16:

The Group adopted IFRS 16 using the modified retrospective approach. The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 16 Leases (cont'd)

Transition to IFRS 16 (cont'd):

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2019:

Assets	
Property, plant and equipment (Right-of-use assets)	1,638
Prepaid expenses	(13)
Total assets	<u>1,625</u>
Liabilities	
Lease liabilities	1,595
Redelivery maintenance liabilities	30
Deferred tax liabilities	8
Total liabilities	<u>1,633</u>
Net impact on equity	<u>(8)</u>

The standard is applied for annual periods beginning on or after 1 January 2019.

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the nine months ended 30 September 2019, the Group recognized USD 235 depreciation charges and USD 42 interest costs from these leases.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognizes 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 assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Group applies the depreciation policy mentioned in IAS 16 for the depreciation of the right of use assets. If the lessor transfers the ownership of the leased asset to the Group at the end of the lease term or the right of use asset cost indicates that the Group will use a purchase option, the recognized right-of-use assets are depreciated from the commencement of the lease until the end of underlying asset's useful life. In other cases, the right-of-use asset is depreciated on a straight-line basis beginning from the commencement date over the shorter of its estimated useful life or the lease term.

Right-of-use assets are subject to impairment.

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 16 Leases (cont'd)

Transition to IFRS 16 (cont'd):

Aircraft;

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

Real estate and other leases;

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

Lease liabilities

At the commencement date of the lease, the Group recognizes 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 recognized 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.

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 16 Leases (cont'd)

Transition to IFRS 16 (cont'd):

Short-term leases and leases of low-value assets

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

The following table summarizes the impact, deferred tax, of transition to IFRS 16 on retained earnings at 1 January 2019:

Redelivery maintenance prior year affect

Redelivery maintenance liabilities	23
Deferred tax liabilities	(5)
Retained earnings	<u><u>18</u></u>

2.4 New and Revised Standards and Interpretations

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:

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

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

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before January 1, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 4.

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended “definition of material” was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

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

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

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With this amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

2.5 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

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

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3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Sun Express	177	136
Turkish DO&CO	54	53
TEC	50	62
TGS	37	39
THY Opet	35	58
Uçak Koltuk	6	5
TCI	6	3
Goodrich	3	2
Air Albania	1	-
	<u>369</u>	<u>358</u>

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

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Sun Express	44	58	50	63
TGS	19	11	18	10
THY Opet	17	6	41	16
Turkish DO&CO	10	4	9	3
Uçak Koltuk	2	-	-	1
Goodrich	1	-	-	-
Air Albania	(1)	(1)	-	-
TEC	(12)	(6)	10	3
	<u>80</u>	<u>72</u>	<u>128</u>	<u>96</u>

Financial information for Sun Express as of 30 September 2019 and 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Total assets	2,000	1,350
Total liabilities	1,647	1,079
Shareholders'equity	353	271
Group's share in joint venture's shareholders' equity	177	136

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Revenue	1,225	670	1,190	601
Profit for the period	89	117	100	125
Group's share in joint venture's profit for the period	44	58	50	63

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

Financial information for THY Opet as of 30 September 2019 and 2018 are as follows:

	30 September		31 December	
	2019		2018	
Total assets	431		621	
Total liabilities	361		504	
Shareholders'equity	70		117	
Group's share in joint venture's shareholders' equity	35		58	
	1 January -	1 July -	1 January -	1 July -
	30 September 2019	30 September 2019	30 September 2018	30 September 2018
Revenue	841	206	1,779	721
Profit for the period	33	12	81	31
Group's share in joint venture's profit for the period	17	6	41	16

Financial information for TEC as of 30 September 2019 and 2018 are as follows:

	30 September		31 December	
	2019		2018	
Total assets	164		189	
Total liabilities	62		62	
Shareholders'equity	102		127	
Group's share in joint venture's shareholders' equity	50		62	
	1 January -	1 July -	1 January -	1 July -
	30 September 2019	30 September 2019	30 September 2018	30 September 2018
Revenue	252	34	403	128
(Loss) / Profit for the period	(25)	(12)	20	6
Group's share in joint venture's (loss) / profit for the period	(12)	(6)	10	3

Financial information for Turkish DO&CO as of 30 September 2019 and 2018 are as follows:

	30 September		31 December	
	2019		2018	
Total assets	201		168	
Total liabilities	93		62	
Shareholders'equity	108		106	
Group's share in joint venture's shareholders' equity	54		53	

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

Financial information for Turkish DO&CO as of 30 September 2019 and 2018 are as follows (cont'd):

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Revenue	260	97	219	71
Profit for the period	20	8	19	7
Group's share in joint venture's profit for the period	10	4	9	3

Financial information for TGS as of 30 September 2019 and 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Total assets	182	130
Total liabilities	109	52
Shareholders'equity	73	78
Group's share in joint venture's shareholders' equity	37	39

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Revenue	273	107	220	76
Profit for the period	38	21	36	21
Group's share in joint venture's profit for the period	19	11	18	10

Financial information for Uçak Koltuk as of 30 September 2019 and 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Total assets	28	25
Total liabilities	16	15
Shareholders'equity	12	10
Group's share in joint venture's shareholders' equity	6	5

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Revenue	23	6	8	4
Profit for the period	4	1	-	1
Group's share in joint venture's profit for the period	2	-	-	1

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

Financial information for TCI as of 30 September 2019 and 2018 are as follows:

	30 September		31 December
	2019		2018
Total assets	18		17
Total liabilities	7		11
Shareholders'equity	11		6
Group's share in joint venture's shareholders' equity	6		3
	1 January -	1 July -	1 January -
	30 September 2019	30 September 2019	30 September 2018
Revenue	11	4	8
Loss for the period	-	-	(1)
Group's share in joint venture's (loss) / profit for the period	-	-	-

Financial information for Goodrich as of 30 September 2019 and 2018 are as follows:

	30 September		31 December
	2019		2018
Total assets	12		10
Total liabilities	5		5
Shareholders'equity	7		5
Group's share in joint venture's shareholders' equity	3		2
	1 January -	1 July -	1 January -
	30 September 2019	30 September 2019	30 September 2018
Revenue	19	6	12
Profit for the period	3	1	1
Group's share in joint venture's profit for the period	1	-	-

Financial information for Air Albania as of 30 September 2019 and 2018 are as follows:

	30 September		31 December
	2019		2018
Total assets	7		-
Total liabilities	4		-
Shareholders'equity	3		-
Group's share in joint venture's shareholders' equity	1		-

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

Financial information for Air Albania as of 30 September 2019 and 2018 are as follows (cont'd):

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Revenue	5	5	-	-
Loss for the period	(2)	(2)	-	-
Group's share in joint venture's loss for the period	(1)	(1)	-	-

4. SEGMENT REPORTING

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector. The detailed information about the revenue of the Group is given in Note 20.

4.1 Total Assets and Liabilities

Total Assets	<u>30 September 2019</u>	<u>31 December 2018</u>
Aviation	23,775	20,638
Technical	1,456	1,326
Total	25,231	21,964
Less: Eliminations due to consolidation	(1,287)	(1,232)
Total assets in consolidated financial statements	<u>23,944</u>	<u>20,732</u>
Total Liabilities	<u>30 September 2019</u>	<u>31 December 2018</u>
Aviation	17,299	14,883
Technical	319	291
Total	17,618	15,174
Less: Eliminations due to consolidation	(305)	(387)
Total liabilities in consolidated financial statements	<u>17,313</u>	<u>14,787</u>

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4. SEGMENT REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 30 September 2019	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	9,720	228	-	9,948
Inter-Segment Sales	39	753	(792)	-
Revenue	9,759	981	(792)	9,948
Cost of Sales (-)	(8,227)	(739)	792	(8,174)
Gross Profit	1,532	242	-	1,774
Administrative Expenses (-)	(155)	(71)	4	(222)
Marketing and Sales Expenses (-)	(1,100)	(5)	1	(1,104)
Other Operating Income	125	21	(4)	142
Other Operating Expenses (-)	(35)	(14)	(1)	(50)
Operating Profit Before Investment Activities	367	173	-	540
Income from Investment Activities	115	1	-	116
Expenses from Investment Activities	(78)	(1)	-	(79)
Share of Investments' Profit / (Loss) Accounted by Using The Equity Method	91	(11)	-	80
Operating Profit	495	162	-	657
Financial Income	68	-	(13)	55
Financial Expense (-)	(239)	(4)	13	(230)
Profit Before Tax	324	158	-	482

1 January - 30 September 2018	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	9,703	166	-	9,869
Inter-Segment Sales	38	733	(771)	-
Revenue	9,741	899	(771)	9,869
Cost of Sales (-)	(7,605)	(667)	771	(7,501)
Gross Profit	2,136	232	-	2,368
Administrative Expenses (-)	(148)	(56)	-	(204)
Marketing and Sales Expenses (-)	(993)	(6)	1	(998)
Other Operating Income	132	7	(25)	114
Other Operating Expenses (-)	(143)	(12)	24	(131)
Operating Profit Before Investment Activities	984	165	-	1,149
Income from Investment Activities	155	-	-	155
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Loss Accounted by Using The Equity Method	118	10	-	128
Operating Profit	1,256	175	-	1,431
Financial Income	57	-	(2)	55
Financial Expense (-)	(611)	26	2	(583)
Profit Before Tax	702	201	-	903

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4. SEGMENT REPORTING (cont'd)

4.3 Investment Operations

	Aviation	Technic	Inter-segment elimination	Total
1 January - 30 September 2019				
Purchase of property and equipment and intangible assets	2,283	261	-	2,544
Current period depreciation and amortization charge	779	109	-	888
Investments accounted by using equity method	313	56	-	369
1 January - 30 September 2018				
Purchase of property and equipment and intangible assets	932	127	-	1,059
Current period depreciation and amortization charge	695	112	-	807
Investments accounted by using equity method	293	69	-	362

5. CASH AND CASH EQUIVALENTS

	30 September 2019	31 December 2018
Cash	2	2
Banks – Time deposits	1,699	1,570
Banks – Demand deposits	70	64
Other liquid assets	18	-
	<u>1,789</u>	<u>1,636</u>

Details of the time deposits as of 30 September 2019 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 September 2019
322	TL	12.32% - 20.31%	November 2019	58
192	USD	2.08%	October 2019	192
1,286	EUR	0.64% - 1.32%	December 2019	1,408
4,960	DZD	1.89% - 3.37%	December 2019	41
				<u>1,699</u>

Details of the time deposits as of 31 December 2018 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2018
1,718	TL	19.98% - 24.70%	March 2019	335
232	USD	3.57% - 5.92%	January 2019	233
871	EUR	2.54% - 3.60%	March 2019	1,002
				<u>1,570</u>

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6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Fair value through other comprehensive income (FVOCI)		
- Government debt securities	88	90
- Corporate debt securities	9	26
Fair value through profit and loss (FVTPL)		
- Equity securities	14	17
Time deposits with maturity more than 3 months	-	386
	<u>111</u>	<u>519</u>

Time deposit with maturity more than 3 months as of 31 December 2018 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
500	TL	23.28% - 23.99%	April 2019	98
251	EUR	3.28% - 3.08%	April 2019	288
				<u>386</u>

Long-term financial investments are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
FVOCI		
- Government debt securities	49	45
- Corporate debt securities	38	40
Other	1	1
	<u>88</u>	<u>86</u>

Period remaining to contractual maturity dates for FVOCI as of 30 September 2019 and 31 December 2018 is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Less than 1 year	97	116
1 to 5 years	3	8
Over 5 years	84	77
	<u>184</u>	<u>201</u>

	<u>30 September 2019</u>	<u>31 December 2018</u>
FVTPL		
- Equity securities	14	17

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7. BORROWINGS

Short-term borrowings are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Bank borrowings	1,157	1,099

Short-term borrowings as of 30 September 2019 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>30 September 2019</u>
1,059	EUR	0.40% - 0.75%	February 2020	1,157

Short-term borrowings as of 31 December 2018 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
959	EUR	0.40% - 0.75%	December 2019	1,099

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Finance lease obligations (Note: 14)	1,075	980
Bank borrowings	392	290
	<u>1,467</u>	<u>1,270</u>

Long-term borrowings are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Finance lease obligations (Note: 14)	7,350	7,006
Bank borrowings	1,279	1,233
	<u>8,629</u>	<u>8,239</u>

Details of bank borrowings as of 30 September 2019 and 31 December 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Less than 1 year	392	290
Between 1 – 5 years	1,279	1,233
	<u>1,671</u>	<u>1,523</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u> <u>Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>30 September</u> <u>2019</u>
820	EUR	Fixed	3.45% - 5.15%	Oct' 19 - Aug' 24	835
710	EUR	Floating	Euribor + 2.45% - Euribor 3.70%	Nov' 19 - July' 24	836
					<u>1,671</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u> <u>Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December</u> <u>2018</u>
623	EUR	Fixed	4.00% - 4.60%	May'19 - June'23	714
706	EUR	Floating	Euribor + 2.45% - Euribor + 3.50%	Jan'19 - July'23	809
					<u>1,523</u>

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7. BORROWINGS (cont'd)

Reconciliation of liabilities arising from financing activities:

	<u>31 December</u>			<u>30 September</u>	
	<u>2018</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>Additions</u>	<u>2019</u>
Lease Liabilities	7,986	(842)	(16)	1,297	8,425
Bank Borrowings	2,622	(1,201)	(95)	1,502	2,828
	<u>10,608</u>	<u>(2,043)</u>	<u>(111)</u>	<u>2,799</u>	<u>11,253</u>

Reconciliation of lease liabilities:

	<u>1 January</u>			<u>30 September</u>	
	<u>2019</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>Additions</u>	<u>2019</u>
Aircraft	1,534	(243)	40	42	1,373
Property	55	(10)	-	-	45
Other	6	(3)	1	-	4
	<u>1,595</u>	<u>(256)</u>	<u>41</u>	<u>42</u>	<u>1,422</u>

8. OTHER FINANCIAL LIABILITIES

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Other financial liabilities	<u>25</u>	<u>6</u>

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

9. RELATED PARTIES

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
TEC	2	-
Air Albania	2	-
Posta ve Telgraf Teşkilatı A.Ş (PTT)	-	1
Other (*)	-	1
	<u>4</u>	<u>2</u>

(*) Related parties of which amounts are less than USD 1 are classified as other.

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
TGS	36	-
THY Opet	7	-
Turkish DO&CO	2	2
TCI	-	1
	<u>45</u>	<u>3</u>

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9. RELATED PARTIES (cont'd)

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Turkish DO&CO	27	35
Sun Express	24	19
TGS	23	19
THY Opet	20	95
Goodrich	2	2
TEC	-	60
TCI	-	1
	<u>96</u>	<u>231</u>

Transactions with related parties for the period ended 30 September 2019 and 2018 are as follows:

a) Sales to related parties:

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Sun Express	28	8	28	3
TEC	23	9	19	6
TGS	4	1	3	1
PTT	3	1	3	1
Goodrich	2	1	-	-
Air Albania	2	1	-	-
TCI	1	1	-	-
Uçak Koltuk	-	-	2	-
Turkish DO&CO	-	-	1	-
	<u>63</u>	<u>22</u>	<u>56</u>	<u>11</u>

b) Purchases from related parties:

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
THY Opet	647	114	1,424	529
TGS	244	91	199	64
Turkish DO&CO	241	89	209	69
Sun Express	137	53	133	46
TEC	130	21	215	61
Goodrich	16	6	10	3
Uçak Koltuk	5	2	-	-
TCI	1	1	-	-
PTT	-	-	1	-
Türk Telekom	-	-	1	-
Other	1	-	5	2
	<u>1,422</u>	<u>377</u>	<u>2,197</u>	<u>774</u>

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9. RELATED PARTIES (cont'd)

Details of the financial assets and liabilities for related parties as of 30 September 2019 and 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Financial investments	975	1,529
Debt securities	9	25
Banks – Demand deposits	5	2
Equity share	-	4
Bank credit	(121)	(115)
Letter of credit	(886)	(862)
	<u>(18)</u>	<u>583</u>

Details of the financial investments and time deposits deposited at related parties as of 30 September 2019 and 2018 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>30 September 2019</u>
891	EUR	0.80% - 1.50%	December 2019	<u>975</u>
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
1,310	TL	23.28% - 24.70%	April 2019	297
1,072	EUR	2.54% - 3.62%	May 2019	<u>1,232</u>
				<u>1,529</u>

Interest income from related parties:

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Türkiye Halk Bankası A.Ş.	34	17	32	18
Ziraat Bankası A.Ş.	1	-	3	2
	<u>35</u>	<u>17</u>	<u>35</u>	<u>20</u>

Interest expense to related parties:

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Ziraat Bankası A.Ş.	4	1	2	2

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

The total amount of salaries and other short-term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 3 (1 January- 30 September 2018: USD 2).

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10. OTHER RECEIVABLES

Other short-term receivables from third parties as of 30 September 2019 and 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Predelivery payments made for aircrafts	840	809
Receivables from technical purchases	123	118
Bank deposits with transfer limitations (*)	64	90
Value added tax receivables	63	134
Receivables from pilots for flight training	21	19
Others	7	8
	<u>1,118</u>	<u>1,178</u>

(*)As of 30 September 2019, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D’ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Angola, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Benin, Republic of Kenya, Republic of Zimbabwe, Argentina, Democratic Republic of the Congo and Iran. (As of 31 December 2018, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D’ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Republic of Kenya, Republic of Zimbabwe, Iran and Benin.)

Other long-term receivables from third parties as of 30 September 2019 and 2018 are as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Predelivery payments made for aircrafts	716	505
Receivables related to investment certificates	293	238
Receivables from pilots for flight training	138	114
Deposits and guarentees given	42	47
Interest and commodity swap agreement deposits	6	94
Bank deposits with transfer limitations (**)	6	6
	<u>1,201</u>	<u>1,004</u>

(**) As of 30 September 2019, the balance of this account includes bank deposits in Syria.

11. DEFERRED INCOME

Deferred income is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Passenger flight liabilities	1,202	1,002
Other short-term deferred income	35	45
	<u>1,237</u>	<u>1,047</u>

Passenger flight liability is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Flight liability generating from ticket sales	946	741
Flight liability generating from frequent flyer program	256	261
	<u>1,202</u>	<u>1,002</u>

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11. DEFERRED INCOME (cont'd)

Other short-term deferred income is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Advances received	14	24
Deferred finance income	11	11
Unearned bank protocol revenue accruals	10	10
	<u>35</u>	<u>45</u>

Long-term deferred income is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Deferred finance income	118	52
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(31)	(30)
Unearned bank protocol revenue accruals	5	12
	<u>123</u>	<u>65</u>

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12. PROPERTY AND EQUIPMENT

	Land, land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2019	303	429	214	17,491	738	583	531	718	21,007
Additions	-	31	19	1,750	82	152	18	483	2,535
Transfer (*)	-	3	1	107	20	-	44	(176)	(1)
Disposals	-	(4)	(3)	(768)	(42)	(80)	(17)	-	(914)
Closing balance at 30 September 2019	303	459	231	18,580	798	655	576	1,025	22,627
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2019	89	235	151	5,835	267	310	202	-	7,089
Depreciation charge	9	27	19	681	44	65	31	-	876
Disposals	-	(3)	(3)	(676)	(40)	(51)	(16)	-	(789)
Closing balance at 30 September 2019	98	259	167	5,840	271	324	217	-	7,176
Net book value at 30 September 2019	205	200	64	12,740	527	331	359	1,025	15,451
Net book value at 31 December 2018	214	194	63	11,656	471	273	329	718	13,918

As of 30 September 2019, carrying value of the aircrafts and spare engines acquired through finance leases is USD 12,010 (31 December 2018: USD 10,892)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 1,080 (30 September 2018: USD 771), general administrative expenses is amounting to USD 38 (30 September 2018: USD 31) and marketing and sales expenses is amounting to USD 5 (30 September 2018: USD 5) in total of USD 1,123 as of 30 September 2019 (30 September 2018: USD 807).

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12. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2018	222	376	187	16,398	648	551	520	334	19,236
Additions	72	36	11	542	61	93	9	230	1,054
Transfer	-	1	-	10	8	-	14	(35)	(2)
Disposals	-	(15)	(2)	(85)	(5)	(72)	(6)	-	(185)
Closing balance at 30 September 2018	294	398	196	16,865	712	572	537	529	20,103
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2018	78	204	132	5,138	225	285	172	-	6,234
Depreciation charge	8	26	17	605	35	73	35	-	799
Disposals	-	(4)	(2)	(85)	(5)	(49)	(6)	-	(151)
Closing balance at 30 September 2018	86	226	147	5,658	255	309	201	-	6,882
Net book value at 30 September 2018	208	172	49	11,207	457	263	336	529	13,221
Net book value at 31 December 2017	144	172	55	11,260	423	266	348	334	13,002

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12. PROPERTY AND EQUIPMENT (cont'd)

Right of Use

	<u>Aircraft</u>	<u>Real Estate</u>	<u>Other</u>	<u>Total</u>
<u>Cost</u>				
Opening balance at 1 January 2019	1,576	56	6	1,638
Additions	43	1	-	44
Closing balance at 30 September 2019	<u>1,619</u>	<u>57</u>	<u>6</u>	<u>1,682</u>
<u>Accumulated Depreciation</u>				
Opening balance at 1 January 2019	-	-	-	-
Depreciation charge	226	7	2	235
Closing balance at 30 September 2019	<u>226</u>	<u>7</u>	<u>2</u>	<u>235</u>
Net book value at 30 September 2019	<u>1,393</u>	<u>50</u>	<u>4</u>	<u>1,447</u>

13. INTANGIBLE ASSETS

	<u>Slot rights and acquired technical licenses</u>	<u>Rights</u>	<u>Other intangible assets</u>	<u>Total</u>
<u>Cost</u>				
Opening balance at 1 January 2019	44	175	5	224
Additions	-	9	-	9
Transfers	-	1	-	1
Closing balance at 30 September 2019	<u>44</u>	<u>185</u>	<u>5</u>	<u>234</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2019	-	141	1	142
Amortization charge	-	12	-	12
Closing balance at 30 September 2019	<u>-</u>	<u>153</u>	<u>1</u>	<u>154</u>
Net book value at 30 September 2019	<u>44</u>	<u>32</u>	<u>4</u>	<u>80</u>
Net book value at 31 December 2018	<u>44</u>	<u>34</u>	<u>4</u>	<u>82</u>
<u>Cost</u>				
Opening balance at 1 January 2018	44	148	5	197
Additions	-	5	-	5
Transfers	-	2	-	2
Closing balance at 30 September 2018	<u>44</u>	<u>155</u>	<u>5</u>	<u>204</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2018	-	130	1	131
Amortization charge	-	8	-	8
Closing balance at 30 September 2018	<u>-</u>	<u>138</u>	<u>1</u>	<u>139</u>
Net book value at 30 September 2018	<u>44</u>	<u>17</u>	<u>4</u>	<u>65</u>
Net book value at 31 December 2017	<u>44</u>	<u>18</u>	<u>4</u>	<u>66</u>

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13. INTANGIBLE ASSETS (cont'd)

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

14. LEASING TRANSACTIONS

Maturities of lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	30 September 2019		30 September 2019		30 September 2019	
Less than 1 year	296		(47)		249	
Between 1 – 5 years	827		(121)		706	
Over 5 years	553		(86)		467	
	<u>1,676</u>		<u>(254)</u>		<u>1,422</u>	

Maturities of finance lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Less than 1 year	1,246	1,127	(143)	(147)	1,103	980
Between 1 – 5 years	4,569	3,741	(373)	(359)	4,196	3,382
Over 5 years	3,233	3,733	(107)	(109)	3,126	3,624
	<u>9,048</u>	<u>8,601</u>	<u>(623)</u>	<u>(615)</u>	<u>8,425</u>	<u>7,986</u>
					<u>30 September 2019</u>	<u>31 December 2018</u>
Interest Range:						
Floating rate obligations					5,520	5,020
Fixed rate obligations					2,905	2,966
					<u>8,425</u>	<u>7,986</u>

The Group acquired certain portion of its aircrafts and spare engines through finance leases. The lease terms are between 10 to 12 years. The Group has options to purchase related assets for an insignificant amount at the end of lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased asset.

As of 30 September 2019, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.51% (31 December 2018: 2.66%) for the fixed rate obligations and 1.21% (31 December 2018: 1.56%) for the floating rate obligations.

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15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 30 September 2019 and 2018 are as follows:

Short-term provision for employee benefits is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Provisions for unused vacation	46	39

Changes in the provisions for the period ended 30 September 2019 and 2018 are set out below:

	<u>1 January - 30 September 2019</u>	<u>1 January - 30 September 2018</u>
Provisions at the beginning of the period	39	41
Provisions for the current period	239	32
Provisions released	(229)	(20)
Foreign currency translation differences	(3)	(2)
Provisions at the end of the period	<u>46</u>	<u>51</u>

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

Other short-term provision is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Provisions for legal claims	14	16

Changes in the provisions for legal claims for the period ended 30 September 2019 and 2018 are set out below:

	<u>1 January - 30 September 2019</u>	<u>1 January - 30 September 2018</u>
Provisions at the beginning of the period	16	22
Provisions for the current period	3	2
Provisions released	(4)	(2)
Foreign currency translation differences	(1)	(8)
Provisions at the end of the period	<u>14</u>	<u>14</u>

The Group provides with provisions for lawsuits initiated against itself due to its operations. The lawsuits initiated against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. It is expected that provision amount will be paid within one year.

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16. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letters of guarantees given as of 30 September 2019 is USD 1,233 (31 December 2018: USD 1,179).

	30 September 2019		31 December 2018	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,233	-	1,179
-Collaterals				
TL	43	8	38	7
EUR	1,072	1,171	976	1,118
USD	44	44	45	45
Other	-	10	-	9
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>1,233</u>		<u>1,179</u>

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 30 September 2019 (31 December 2018: 0%)

As at 30 September 2019, the letters of guarantee are given to various authorities (i.e. various banks and vendors.)

b) Aircraft purchase commitments:

To be delivered between the years 2019/10-2023, the Group signed an agreement for 203 aircrafts, (193 of aircrafts are contractual and 10 of them are optional) with a list price value of 28,800 US Dollars. The Group has made an advance payment of 1,567 US Dollars relevant to these purchases as of 30 September 2019.

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17. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 30 September 2019 and 2018 is comprised of the following:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Provision for retirement pay liability	<u>139</u>	<u>130</u>

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

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,127 (full) (equivalent of TL 6,380 (full)) as of 30 September 2019. (31 December 2018: US Dollar 1,144 (full) equivalent of TL 6,018 (full)).

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

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 30 September 2019 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 10.00% annual inflation rate (31 December 2018: 10.00%) and 14.00% interest rate (31 December 2018: 14.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.55% (31 December 2018: 2.63%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,127 (full) which is in effect since 30 September 2019 is used in the calculation of Group’s provision for retirement pay liability.

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

	<u>1 January - 30 September 2019</u>	<u>1 January - 30 September 2018</u>
Provision at the beginning of the period	130	128
Interest charges	12	8
Service charge for the period	9	14
Actuarial loss	5	-
Payments	(8)	(9)
Foreign currency translation difference	(9)	(50)
Provision at the end of the period	<u>139</u>	<u>91</u>

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18. EXPENSES BY NATURE

Expenses by nature for the period ended 30 September 2019 and 2018 are as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Fuel expenses	2,899	1,063	2,785	1,061
Personnel expenses	1,594	553	1,300	407
Depreciation and amortisation charges	1,123	387	807	271
Ground services expenses	611	220	546	180
Aircraft maintenance expenses	560	176	569	202
Passenger services and catering expenses	472	174	423	143
Airport expenses	457	172	391	139
Air traffic control expenses	414	151	419	149
Commissions and incentives	398	140	335	114
Wet lease expenses	222	82	200	78
Reservation systems expenses	217	73	205	64
Advertisement and promotion expenses	124	36	126	37
Rents	62	20	53	17
Service expenses	61	21	54	16
Insurance expenses	41	14	35	12
Taxes and duties	37	5	33	5
IT & communication expenses	34	12	35	10
Transportation expenses	30	10	24	7
Operating lease expenses	29	10	251	84
Consultancy expenses	15	5	22	8
Systems use and associateship expenses	7	3	8	3
Membership fees	4	1	5	2
Utility expenses	3	1	2	-
Other expenses	86	29	75	24
	9,500	3,358	8,703	3,033

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19. SHAREHOLDERS' EQUITY

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

(Millions of TL)	Class	%	30 September		31 December	
			2019	%	2018	
Turkey Wealth Fund (*)	A	49.12	678	49.12	678	
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	C	-	-	-	-	
Other (publicly held)	A	50.88	702	50.88	702	
Paid-in capital (Turkish Lira)			1,380		1,380	
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124	
Share capital (Turkish Lira)			<u>2,504</u>		<u>2,504</u>	
Share capital (USD Equivalent)			<u>1,597</u>		<u>1,597</u>	

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

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

As of 30 September 2019, Registered paid-in share capital of the Company comprised 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. The Class C share belongs to the Republic of Turkey Treasury and Finance Ministry Privatization Administration and has the following privileges:

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

19. SHAREHOLDERS' EQUITY (cont'd)

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

f) Decisions relating to merges and liquidation,

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

Restricted Profit Reserves

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

Foreign Currency Translation Differences

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

Distribution of Dividends

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

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

Actuarial Differences on Defined Benefit Plans

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

Gains/Losses from Cash Flow Hedges

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

As of 2019, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %51 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

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20. REVENUE

Breakdown of gross profit is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Passenger revenue				
Scheduled	8,400	3,449	8,407	3,413
Unscheduled	59	39	58	38
Total passenger revenue	<u>8,459</u>	<u>3,488</u>	<u>8,465</u>	<u>3,451</u>
Cargo revenue				
Carried by passenger aircraft	549	194	598	199
Carried by cargo aircraft	668	224	590	205
Total cargo revenue	<u>1,217</u>	<u>418</u>	<u>1,188</u>	<u>404</u>
Total passenger and cargo revenue	<u>9,676</u>	<u>3,906</u>	<u>9,653</u>	<u>3,855</u>
Technical revenue	228	78	167	55
Other revenue	44	15	49	19
Net sales	<u>9,948</u>	<u>3,999</u>	<u>9,869</u>	<u>3,929</u>
Cost of sales (-)	<u>(8,174)</u>	<u>(2,917)</u>	<u>(7,501)</u>	<u>(2,648)</u>
Gross profit	<u><u>1,774</u></u>	<u><u>1,082</u></u>	<u><u>2,368</u></u>	<u><u>1,281</u></u>

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

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
International flights				
- Europe	2,819	1,203	2,876	1,202
- Far East	2,330	857	2,270	829
- Middle East	1,141	480	1,120	480
- America	1,455	568	1,361	535
- Africa	948	378	935	373
Total	<u>8,693</u>	<u>3,486</u>	<u>8,562</u>	<u>3,419</u>
Domestic flights	983	420	1,091	436
Total passenger and cargo revenue	<u><u>9,676</u></u>	<u><u>3,906</u></u>	<u><u>9,653</u></u>	<u><u>3,855</u></u>

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21. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Fuel expenses	2,899	1,063	2,785	1,061
Personnel expenses	1,252	439	997	308
Depreciation and amortisation charges	1,080	373	771	259
Ground services expenses	611	220	546	180
Aircraft maintenance expenses	560	176	569	202
Passenger services and catering expenses	472	174	423	143
Airport expenses	457	172	391	139
Air traffic control expenses	414	151	419	149
Wet lease expenses	222	82	200	78
Rents	49	16	29	10
Insurance expenses	39	13	34	12
Transportation expenses	30	10	24	7
Operating lease expenses	29	10	251	84
Service expenses	25	8	23	7
Taxes and duties	8	1	11	3
IT & communication expenses	3	1	4	1
Other expenses	24	8	24	5
	8,174	2,917	7,501	2,648

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Personnel expenses	101	35	82	25
Depreciation and amortisation charges	38	12	31	10
Service expenses	25	9	22	7
IT & communication expenses	24	8	26	8
Consultancy expenses	10	4	15	6
Systems use and associateship expenses	7	3	8	3
Utility expenses	3	1	2	-
Insurance expenses	2	1	1	-
Taxes and duties	2	1	1	-
Rents	-	-	8	2
Other general administrative expenses	10	3	8	3
	222	77	204	64

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

Breakdown of marketing and sales expenses is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Commissions and incentives	398	140	335	114
Personnel expenses	241	79	221	74
Reservation systems expenses	217	73	205	64
Advertisement and promotion expenses	124	36	126	37
Taxes and duties	27	3	21	2
Rents	13	4	16	5
Service expenses	11	4	9	2
IT & communication expenses	7	3	5	1
Consultancy expenses	5	1	7	2
Depreciation and amortisation charges	5	2	5	2
Membership fees	4	1	5	2
Other marketing and sales expenses	52	18	43	16
	<u>1,104</u>	<u>364</u>	<u>998</u>	<u>321</u>

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Manufacturers' credits	64	8	53	38
Insurance, indemnities, penalties income	26	8	27	13
Provisions released	8	2	6	2
Non- interest income from banks	8	3	8	3
Rent income	5	2	2	-
Turnover premium from suppliers	4	2	4	1
Rediscount interest income	2	-	3	2
Delay interest income	2	1	-	-
IFRS 9 Adjustment	-	-	3	-
Foreign exchange gains from operational activities, net	-	2	-	-
Other operating income	23	18	8	(9)
	<u>142</u>	<u>46</u>	<u>114</u>	<u>50</u>

Breakdown of other operating expenses is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Provisions	15	2	7	2
Foreign exchange losses from operational activities, net	13	-	108	61
Indemnity and penalty expenses	5	2	6	-
Rediscount interest expenses	-	2	-	-
IFRS 9 Adjustment	-	-	-	1
Other operating expenses	17	6	10	(9)
	<u>50</u>	<u>12</u>	<u>131</u>	<u>55</u>

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24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Income from investment incentives	74	30	43	13
Interest income from financial investment	31	(4)	7	1
Gain on sale of financial investments	7	2	100	100
Gain on sale of fixed assets	4	1	5	1
	<u>116</u>	<u>29</u>	<u>155</u>	<u>115</u>

Breakdown of expense from investment activities is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Loss on sale of fixed assets	79	-	1	1

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Interest income	35	19	55	31
Fair value gains on derivative financial instruments, net	11	27	-	-
Rediscount interest income from repayments of aircrafts	9	-	-	-
Foreign exchange gains from financial activities, net	-	55	-	-
Other financial incomes	-	-	-	4
	<u>55</u>	<u>101</u>	<u>55</u>	<u>35</u>

Breakdown of financial expenses is as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Interest expense from financial activities	148	49	173	64
Interest expense from leasing liabilities	42	14	-	-
Aircraft financing expenses	17	7	14	9
Interest expenses on employee benefits	12	6	8	2
Foreign exchange losses on financial activities, net	6	-	350	172
Fair value losses on derivative financial instruments, net	-	-	4	25
Rediscount interest expense from repayments of aircrafts	-	1	24	1
Other financial expenses	5	2	10	-
	<u>230</u>	<u>79</u>	<u>583</u>	<u>273</u>

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26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Prepaid taxes	38	61

Tax expense is as follows:

	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Current period tax expense	-	(4)	54	21
Deferred tax expense	30	147	94	128
Tax expense	<u>30</u>	<u>143</u>	<u>148</u>	<u>149</u>

Tax effect related to other comprehensive income is as follows:

	<u>1 January - 30 September 2019</u>			<u>1 January - 30 September 2018</u>		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Change in cash flow hedge reserve	328	(67)	261	138	(27)	111
Gains on Remeasuring FVOCI	10	(3)	7	(22)	5	(17)
Change in actuarial losses from retirement pay obligation	(5)	1	(4)	-	-	-
Changes in foreign currency translation difference	(12)	-	(12)	(67)	-	(67)
Other comprehensive income	<u>321</u>	<u>(69)</u>	<u>252</u>	<u>49</u>	<u>(22)</u>	<u>27</u>

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

Corporate Tax

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

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

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26. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

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

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

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

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

Income Withholding Tax

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

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below. For calculation of deferred tax asset and liabilities, the corporate tax rate of 22% is used.

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

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26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

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

	30 September 2019	31 December 2018
Fixed assets	(2,175)	(1,910)
Adjustments for passenger flight liabilities	(175)	(150)
Tax loss carried forward	546	674
Lease obligations	284	-
Income and expense for future years	111	92
Accruals for expenses	74	48
Miles accruals	33	35
Provisions for employee benefits	28	27
Change in fair value of derivative instruments	10	31
Provisions for unused vacation	10	8
Other	10	7
Deferred tax liabilities	<u>(1,244)</u>	<u>(1,138)</u>

The changes of deferred tax liability for the period ended 1 January – 30 September 2019 and 2018 are as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance at 1 January	1,138	962
Adjustments for changes in accounting policies	(5)	(4)
Restated deferred tax liability at the beginning of the year	1,133	958
Tax expense from hedging reserves	66	25
Deferred tax expense	30	94
Foreign currency translation difference	12	102
Tax (expense) / income from FVOCI	2	(3)
Tax income of actuarial losses on retirement pay obligation	1	-
Deferred tax liability at the end of the period	<u>1,244</u>	<u>1,176</u>

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26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Reconciliation with current tax charge for the period 1 January – 30 September 2019 and 2018 are as follows:

<u>Reconciliation of effective tax charge</u>	<u>1 January - 30 September 2019</u>	<u>1 July - 30 September 2019</u>	<u>1 January - 30 September 2018</u>	<u>1 July - 30 September 2018</u>
Profit from operations before tax	482	798	903	863
Tax rate of 22%	(106)	(176)	(199)	(190)
Taxation effects on:				
- foreign currency translation difference	29	(4)	18	29
- investment incentive	29	11	-	-
- investments accounted by using the equity method	16	14	26	19
- expense from investment certificates	15	6	9	3
- non deductible expenses	2	6	-	-
- effect of the change in the deferred tax rate	-	-	(4)	(9)
- adjustment for prior year loss	(15)	-	2	(1)
Tax charge in statement of loss	<u>(30)</u>	<u>(143)</u>	<u>(148)</u>	<u>(149)</u>

27. EARNINGS PER SHARE

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

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

Number of total shares and calculation of earnings per share at 1 January – 30 September 2019 and 2018:

	<u>1 January - 30 September 2019</u>	<u>1 January - 30 September 2018</u>
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
Number of shares outstanding at 30 September (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the period (in full)	138,000,000,000	138,000,000,000
Net profit for the period	452	755
Basic profit per share (Full US Cents) (*)	0.33	0.55
Diluted profit per share (Full US Cents) (*)	0.33	0.55

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

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28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 30 September 2019 and 2018 are as follows:

<u>Derivative financial assets</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
Derivative instruments not subject to hedge accounting	66	17
Derivative instruments for cross currency rate cash flow hedge	14	6
Derivative instruments for fuel prices cash flow hedge	7	34
	<u>87</u>	<u>57</u>
<u>Derivative financial liabilities</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
Derivative instruments for fuel prices cash flow hedge	75	118
Derivative instruments for interest rate cash flow hedge	46	34
Derivative instruments not subject to hedge accounting	8	8
Derivative instruments for cross currency rate cash flow hedge	5	36
	<u>134</u>	<u>196</u>

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29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

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

	30 September 2019					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	532	76	116	4	10	326
2a.Monetary Financial Assets	1,750	180	1,473	5	3	89
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	486	93	223	12	6	152
4.Current Assets (1+2+3)	2,768	349	1,812	21	19	567
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	258	258	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	470	293	166	-	-	11
8.Non Current Assets (5+6+7)	728	551	166	-	-	11
9.Total Assets (4+8)	3,496	900	1,978	21	19	578
10.Trade Payables	757	436	245	-	5	71
11.Financial Liabilities (*)	2,397	2	2,137	238	20	-
12a.Other Liabilities, Monetary	98	52	41	1	-	4
12b.Other Liabilities, Non Monetary	92	92	-	-	-	-
13.Current Liabilities (10+11+12)	3,344	582	2,423	239	25	75
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities (*)	7,356	-	5,413	1,802	141	-
16a.Other Liabilities, Monetary	32	25	6	-	-	1
16b.Other Liabilities, Non Monetary	139	139	-	-	-	-
17.Non Current Liabilities (14+15+16)	7,527	164	5,419	1,802	141	1
18.Total Liabilities (13+17)	10,871	746	7,842	2,041	166	76
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(7,375)	154	(5,864)	(2,020)	(147)	502
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(8,100)	(1)	(6,253)	(2,032)	(153)	339
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	932	-	932	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

(*) Net foreign exchange position of Group is mainly due to long term foreign currency borrowings denominated in Euro, Japanese Yen, Swiss Frank to funds its investments. Group uses these long term foreign currency borrowings to manage the risk of exchange differences with highly probable future foreign currency revenues. The USD equivalent of these borrowings amount to 7,444 USD as of 30 September 2019 (31 December 2018: USD 6,853).

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

Foreign currency risk management (cont'd)

	31 December 2018					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	485	70	122	4	9	280
2a.Monetary Financial Assets	1,903	540	1,313	2	2	46
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	567	225	158	10	6	168
4.Current Assets (1+2+3)	2,955	835	1,593	16	17	494
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	302	302	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	461	238	212	-	-	11
8.Non Current Assets (5+6+7)	763	540	212	-	-	11
9.Total Assets (4+8)	3,718	1,375	1,805	16	17	505
10.Trade Payables	678	458	164	-	2	54
11.Financial Liabilities	2,209	1	1,956	232	20	-
12a.Other Liabilities, Monetary	109	67	39	1	-	2
12b.Other Liabilities, Non Monetary	89	89	-	-	-	-
13.Current Liabilities (10+11+12)	3,085	615	2,159	233	22	56
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,966	-	4,882	1,926	158	-
16a.Other Liabilities, Monetary	12	6	4	-	-	2
16b.Other Liabilities, Non Monetary	130	130	-	-	-	-
17.Non Current Liabilities (14+15+16)	7,108	136	4,886	1,926	158	2
18.Total Liabilities (13+17)	10,193	751	7,045	2,159	180	58
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(6,475)	624	(5,240)	(2,143)	(163)	447
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(7,284)	380	(5,610)	(2,153)	(169)	268
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	168	-	168	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

Foreign currency risk management (cont'd)

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

	30 September 2019			
	Profit / (Loss)		Equity	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u>10 %</u>	<u>10 %</u>	<u>10 %</u>	<u>10 %</u>
1- TL net asset / liability	15	(15)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	<u>15</u>	<u>(15)</u>	<u>-</u>	<u>-</u>
4- Euro net asset / liability	45	(45)	(631)	631
5- Part hedged from Euro risk (-)	(93)	93	-	-
6- Euro net effect (4+5)	<u>(48)</u>	<u>48</u>	<u>(631)</u>	<u>631</u>
7- JPY net asset / liability	(108)	108	(94)	94
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	<u>(108)</u>	<u>108</u>	<u>(94)</u>	<u>94</u>
10- CHF net asset / liability	1	(1)	(16)	16
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	<u>1</u>	<u>(1)</u>	<u>(16)</u>	<u>16</u>
13- Other foreign currency net asset / liability	50	(50)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	<u>50</u>	<u>(50)</u>	<u>-</u>	<u>-</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>(90)</u></u>	<u><u>90</u></u>	<u><u>(741)</u></u>	<u><u>741</u></u>

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

Foreign currency risk management (cont'd)

	31 December 2018			
	Profit / (Loss)		Equity	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u>10 %</u>	<u>10 %</u>	<u>10 %</u>	<u>10 %</u>
1- TL net asset / liability	62	(62)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	<u>62</u>	<u>(62)</u>	<u>-</u>	<u>-</u>
4- Euro net asset / liability	44	(44)	(568)	568
5- Part hedged from Euro risk (-)	(17)	17	-	-
6- Euro net effect (4+5)	<u>27</u>	<u>(27)</u>	<u>(568)</u>	<u>568</u>
7- JPY net asset / liability	(114)	114	(100)	100
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	<u>(114)</u>	<u>114</u>	<u>(100)</u>	<u>100</u>
10- CHF net asset / liability	2	(2)	(18)	18
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	<u>2</u>	<u>(2)</u>	<u>(18)</u>	<u>18</u>
13- Other foreign currency net asset / liability	45	(45)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	<u>45</u>	<u>(45)</u>	<u>-</u>	<u>-</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>22</u></u>	<u><u>(22)</u></u>	<u><u>(686)</u></u>	<u><u>686</u></u>

30. EVENTS AFTER THE BALANCE SHEET DATE

Within the scope of fuel activities carried out at Istanbul Airport, negotiations have started for IGA Istanbul Havalimanı Akaryakıt Hizmetleri A.Ş., which is responsible for the operation of fuel supply facilities, to become a 25% shareholder through capital increase.