TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Financial Statements As at and
for The Year Ended 31 December 2018
with Independent Auditor's Report

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Independent Auditors' Report

To the Shareholders of Türk Hava Yolları Anonim Ortaklığı

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in *Turkey*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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The recognition of the revenue, passenger liability and the Frequent Flyer Program

Refer to the note respectively, 2.3.1; 2.3.1 and 2.3.21 for "Revenue", "Passenger Liability" and "Frequent Flyer Program" for the relevant accounting policies, discussions and assumptions of significant accounting estimates.

Key Audit Matter	How the matter was adressed in our audit
The major part of the Group's revenue consists of the passenger revenue. The passenger revenue is recognized when the transportation service is completed. Unused tickets are recognized as passenger flight liabilities. The timing of revenue recognition for unused tickets requires significant management judgment. Group makes estimated computations for unredeemed tickets using assumptions historical statistics and data. Total estimated unredeemed tickets are recognized as passenger revenue in consolidated financial statements. The determination of the amount of passenger revenue to be recognised for each flight includes complex internal information technology systems and involves the exchange of information and high volume of transactions. Since timing of revenue recognition for unused tickets requires significant management judgment and recognition of passenger revenue accurately through the complex internal information technology (IT) systems and involves the exchange of high volume of transactions, the passenger revenue and the passenger flight liability have been determined as key audit matters. The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately	Our audit procedures performed related to this matter are listed below: For the revenue recognition of passenger revenue; — We have tested the effectiveness and appropriateness of IT systems and internal control that are designed to account passenger revenue. Additionally, we have tested key manual controls to ensure of effectiveness and appropriateness of internal control. During these tests, our IT specialists were involved. — We have tested application controls of the systems configured systems to recognize passenger revenues. — The selected application controls tested included those relating to the completeness of transfers of data between systems, the existence of a ticket verification. and price specification regarding to each all flight throughout — We have performed expectation analysis with external market data and traffic data tested by IT specialists. For the revenue recognition of unused tickets; — We have tested their sale date, recording area/period and validity by using sample size

identifiable component of the sales transaction(s). The amount as a liability is measured based on the current sales price of the awarded miles. The current sales price is measured on the basis of the value of the awards for which they could be redeemed. Management uses estimates to determine the sales price of the awards for which the miles will be redeemed. These estimates are based on historical redemption patterns. An estimate is made of the number of miles that will expire without use based on historical expiry patterns and the anticipated impact of changes to the programme. Revenue is recognised when Miles and Smiles members fly, or when it is assessed that the miles awarded will expire without use. The accounting of frequent flyer program has been identified as one of the key audit matter, as accounting policies and estimates to determination of the breakage amount to which unused tickets, are complex and include some judgments and estimates.	determinations. Moreover, we have tested consistency and mathematical accuracy of applied methods in order to determine price flight attributing to unused tickets with historical data and estimation. — We have evaluated the assumptions in the mathematical models that are used in order to determine fair values of Miles and Smiles rewards. — We have verified the revenue amount of usage and derived parametres and assumption concluded from that for purpose of evaluation appropriateness of Miles liability in computed mile programs as of balance sheet date. — We have also involved IT specialists. With IT specialist's contribution, we have tested the internal controls, the effectiveness and the appropriateness of IT systems founded for accounting miles liabilities. Additionally, we have tested effectiveness and appropriateness of manual key internal controls. — We have aimed to test calculation of bonus (payoff) value by comparing statistical redemption model, history and observable market price. We tested controls that applied in models. We have also tested the accuracy of the miles amount that are going to lose its validity with respect to the historical experience and statistical mile-usage history. — Among the application controls that are identified to tests comprise the completeness of data transfer

	between systems, miles verifying to detect data errors and gained/used miles statements for each flight. — Key manual controls were also tested in order to ensure whether processing exceptions are in proper way. -

The Component Accounting of Aircrafts

Refer to the note 2.3.3 for the assumptions, accounting policies and considerations about the component accounting of aircrafts

Key Audit Matter	How the matter was addressed in our audit
The accounting of aircrafts has a material impact for the Group due to the value of aircrafts and their long useful lives. Significant key assumptions and judgment are listed below: — Identifying residual values and useful lives of aircrafts with respect to physical, economic and commercial environments. — Determining the components of aircrafts. — Reviewing of carrying values of aircraft allocated to different parts of the business that use the aircraft (cash generating units (CGUs)). The Group has classified the cost of assets that are acquired directly or through finance leases into the following parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; a) fuselage, b) overhaul maintenance for the fuselage, c) engine and d) overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life.	Our audit procedures performed related to this matter are listed below: — We have compared the estimations of useful lives, residual values with the group's future fleet plan, the purchasing transactions of the aircraft and contractual rights. — We have compared the useful lives of the components of aircrafts with the sector benchmark — We have analyzed the Group's depreciation policies, predictive useful lives, residual value of aircrafts and purchasing and disposal future, flight plan. — We have compared useful lives of aircraft components with average sector range. — We have recalculated the aircraft depreciation expenses based on previously determined useful lives.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Gökhan Atılgan
Partner
4 March 2019
İstanbul, Türkiye

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

ASSETS	Notes	31 December 2018	31 December 2017
Non-Current Assets			
Financial Investments	6	86	51
Other Receivables			
-Third Parties	12	1,004	619
Investments Accounted by Using Equity Method	3	358	320
Property and Equipment	15	13,918	13,002
Intangible Assets			
- Other Intangible Assets	16	82	66
- Goodwill	17	12	12
Prepaid Expenses	14	767	496
TOTAL NON-CURRENT ASSETS		**16,227**	**14,566**
Current Assets			
Cash and Cash Equivalents	5	1,636	1,891
Financial Investments	6	519	195
Trade Receivables			
-Related Parties	9	2	2
-Third Parties	10	568	590
Other Receivables			
-Related Parties	9	3	-
-Third Parties	12	1,178	319
Derivative Financial Instruments	34	57	203
Inventories	13	190	193
Prepaid Expenses	14	192	119
Current Income Tax Assets	32	61	32
Other Current Assets	24	99	87
TOTAL CURRENT ASSETS		**4,505**	**3,631**
TOTAL ASSETS		**20,732**	**18,197**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Balance Sheet as at 31 December 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

LIABILITIES	Notes	31 December 2018	31 December 2017
Equity			
Share Capital	25	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	25	(35)	(15)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	25	(160)	(108)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	25	-	61
-Gains on Remeasuring FVOCI	25	(6)	1
Restricted Profit Reserves	25	36	36
Previous Years Profit	25	3,760	3,551
Net Profit for the Year		753	223
Equity of the Parent		**5,945**	**5,346**
Non-Controlling Interests (*)		-	-
TOTAL EQUITY		**5,945**	**5,346**
Non- Current Liabilities			
Long-Term Borrowings	7 and 18	8,239	7,339
Other Payables			
-Third Parties	12	36	83
Deferred Income	14	60	42
Long-Term Provisions			
-Provisions for Employee Benefits	22	130	128
Deferred Tax Liability	32	1,138	962
TOTAL NON-CURRENT LIABILITIES		**9,603**	**8,554**
Current Liabilities			
Short Term Borrowings	7	1,099	744
Short-Term Portion of Long-Term Borrowings	7 and 18	1,270	983
Other Financial Liabilities	8	6	16
Trade Payables			
-Related Parties	9	231	168
-Third Parties	10	791	687
Payables Related to Employee Benefits	11	199	200
Other Payables			
-Related Parties	9	-	7
-Third Parties	12	78	65
Derivative Financial Instruments	34	196	128
Deferred Income	14	1,052	1,016
Current Tax Provision	32	-	12
Short-Term Provisions			
-Provisions for Employee Benefits	20	39	41
-Other Provisions	20	16	22
Other Current Liabilities	24	207	208
TOTAL CURRENT LIABILITIES		**5,184**	**4,297**
TOTAL LIABILITIES AND EQUITY		**20,732**	**18,197**

(*) 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
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

PROFIT OR LOSS	**Notes**	**31 December 2018**	**31 December 2017**
Revenue	26	12,855	10,958
Cost of Sales (-)	27	(10,136)	(8,762)
GROSS PROFIT		**2,719**	**2,196**
General Administrative Expenses (-)	28	(260)	(275)
Marketing and Sales Expenses (-)	28	(1,290)	(1,127)
Other Operating Income	29	165	264
Other Operating Expenses (-)	29	(143)	(36)
OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES		**1,191**	**1,022**
Income from Investment Activities	30	101	178
Expenses from Investment Activities	30	(2)	(1)
Share of Investments' Profit Accounted by Using The Equity Method	3	123	102
OPERATING PROFIT		**1,413**	**1,301**
Financial Income	31	129	56
Financial Expenses (-)	31	(588)	(1,078)
PROFIT BEFORE TAX		**954**	**279**
Tax Expense		**(201)**	**(56)**
Current Tax Expense	32	(40)	(49)
Deferred Tax Expense	32	(161)	(7)
NET PROFIT FOR THE YEAR		**753**	**223**
OTHER COMPREHENSIVE INCOME			
Items That May Be Reclassified Subsequently To Profit or Loss		**(120)**	**40**
Currency Translation Adjustment		(52)	(2)
(Losses) / Gains on Remeasuring FVOCI		(9)	1
Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges		(86)	65
Fair Value Gains / (Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		3	(12)
Related Tax of Other Comprehensive Income		24	(12)
Items That Will Not Be Reclassified Subsequently To Profit or Loss		**(20)**	**(4)**
Actuarial Gains on Retirement Pay Obligation		(25)	(5)
Related Tax of Other Comprehensive Income		5	1
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		**(140)**	**36**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**613**	**259**
Basic Gain Per Share (Full US Cents)	33	0.55	0.16
Diluted Gain Per Share (Full US Cents)	33	0.55	0.16

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

(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 Year	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	-	(20)	(52)	(61)	(7)	-	-	753	613	-	613
As of 31 December 2018	**1,597**	**(35)**	**(160)**	**-**	**(6)**	**36**	**3,760**	**753**	**5,945**	**-**	**5,945**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2018
(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/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net (Loss) for The Year	Total Equity
As of 1 January 2017	**1,597**	**(11)**	**(106)**	**20**	**-**	**36**	**3,628**	**(77)**	**5,087**
Transfers	-	-	-	-	-	-	(77)	77	-
Total comprehensive income	-	(4)	(2)	41	1	-	-	223	259
As of 31 December 2017	**1,597**	**(15)**	**(108)**	**61**	1	**36**	**3,551**	**223**	**5,346**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	31 December 2018	31 December 2017
Net Profit for the year		753	223
Adjustments to Reconcile Profit / (Loss)			
Adjustments for Depreciation and Amortisation Expense	15 and 16	1,087	1,066
Adjustments for Provisions Related with Employee Benefits	20 and 22	23	21
Adjustments for Provisions for Payables	20	2	5
Adjustments for Reversal of Probable Risks	35	(7)	(1)
Adjustments for Interest Income	30 and 31	(123)	(113)
Adjustments for Interest Expense	22 and 31	265	221
Adjustments For Unrealised Foreign Exchange Losses		(98)	656
Adjustments for Manufacturers' Credits	14	1	3
Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments	31	(36)	39
Adjustments for Undistributed Profits of Associates	3	(123)	(102)
Adjustments for Tax Income	32	201	56
Adjustments for Gains Arised From Sale of Tangible Assets	30	(5)	(49)
Adjustments for Losses Arised from Sale of Other Non-Current Assets	15	29	31
Operating Profit Before Changes in Working Capital		**1,969**	**2,056**
Increase in Trade Receivables from Non Related Parties	10	27	(212)
Increase in Other Non-Related Party Receivables Related with Operations	12	(272)	(10)
Adjustments for Decrease in Inventories	13	3	24
Adjustments for (Increase)/ Decrease in Prepaid Expenses	14	(344)	1
Increase in Trade Payables to Related Parties	9	63	39
Increase in Trade Payables to Non-Related Parties	10	104	200
Adjustments for Decrease in Payables Due to Employee Benefits	11	(1)	57
(Decrease) / Increase in Other Operating Payables to Non-Related Parties	12	(42)	48
Increase in Deferred Income	14	53	249
Increase in Other Assets Related with Operations	24	(12)	(61)
Cash Flows From Operations		**1,548**	**2,391**
Payments for Provisions Related with Employee Benefits	22	(10)	(14)
Income taxes paid	32	(81)	(9)
Net Cash From Operating Activities		**1,457**	**2,368**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		13	941
Cash Payments From Purchasing of Property, Plant and Equipment (*)	15 and 16	(1,242)	(848)
Cash Payments From Purchasing of Other Long-term Assets	6	(359)	150
Other Cash Advances and Loans	12	(969)	439
Dividends Received		31	21
Interest Received	30 and 31	123	113
Net Cash Flows / (Used In) Investing Activities		**(2,403)**	**816**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds From Loans	7	3,055	2,175
Payments of Loans		(1,228)	(2,936)
Payments of Finance Lease Liabilities	7	(906)	(1,806)
Interest Paid		(220)	(204)
Other (Outflows) / Inflows of Cash	8	(10)	12
Net Cash Used in Financing Activities		**691**	**(2,759)**
Net Change in Cash and Cash Equivalents		**(255)**	**425**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,891**	**1,466**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**1,636**	**1,891**

(*) USD 817 portion of property and equipment and intangible assets purchases in total of USD 2,059 for the period ended 31 December 2018 was financed through finance leases. (31 December 2017: USD 660 portion of property and equipment and intangible assets purchases in total of USD 1,508 was financed through finance leases.)

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

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

1. GROUP ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the "Company" or "THY") was incorporated in Turkey in 1933. As of 31 December 2018 and 2017, the shareholders and their respective shareholdings in the Group are as follows:

	31 December 2018	**31 December 2017**
Turkey Wealth Fund (*)	49.12 %	49.12 %
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	-	-
Other (publicly held)	50.88 %	50.88 %
Total	100.00 %	100.00 %

(*) The name of Republic of Turkey Prime Ministry Privatization is amended as Republic of Turkey Treasury and Finance Ministry Privatization Administration in 2017. 49.12% of the share capital of the Company that used to be owned by Republic of Turkey Treasury and Finance Ministry Privatisation Administry has been transferred to Turkey Wealth Fund on 3 February 2017. Turkey Wealth Fund, of which capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatisation Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer has not led to any change on the current management structure, business strategy, policies and commercial decisions of the Company.

The number of employees working for the Group as of 31 December 2018 is 35,205 (31 December 2017: 31,510). The average number of employees working for the Group for the period ended 31 December 2018 and 2017 are 33,034 and 30,719 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 Group's equity securities have been traded on Borsa İstanbul (BIST) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 December 2018 and 2017:

		Ownership Rate		Country of
Name of the Company	Principal Activity	31 December 2018	31 December 2017	Registration
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%	-	Turkey
Cornea Havacılık Sistemleri San. Ve Tic. A.Ş. (**)	Software System Maintenance Services	80%	-	Turkey

(*) The association was established in September 2018 to operate in the fields of cargo and courier transportation by the Board of Directors.
(**)The association was established in October 2018 to operate in the fields of software system maintenance by the Board of Directors.

(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 31 December 2018 and 2017:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
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

The Group owns 49%, 49%, 40% and 30% equity shares of TEC, Air Albania, 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, 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).

Board of Directors has approved the consolidated financial statements as of 31 December 2018 on 4 March 2019. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

Basis of Preparation

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

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

2.1 Basis of Presentation (cont'd)

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 affiliates 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 nine 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 affiliates 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.

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

Business Combinations

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

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

2.1 Basis of Presentation (cont'd)

Business Combinations (cont'd)

The Group measures goodwill at the acquisition date as:

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

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

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

2.2 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these consolidated financial statements as at and for the year ended 31 December 2018 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2017.

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.

-Trade receivables from non-related parties amounting to USD 2 included for the year 1 January- 31 December 2017 is classified to trade receivables from related parties.

2.3 Summary of Significant Accounting Policies

2.3.1 Revenue

Rendering of services:

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

The Group develops estimates using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

Rendering of services (cont'd):

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretation.

The Group has adopted IFRS 15 with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method – by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information presented for 2017 has not been restated and continues to be as previously reported under IAS 18 and IAS 11 and related interpretations.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's services are set out below.

a) Expired Ticket Revenue

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

b) Ticket Reissue Revenue

Each fare type that the Group issues will have its own conditions attached, which may include it being restricted, non-upgradeable or non-refundable. This means that if passengers need to make a change to their booking, cancel flights or buy replacement tickets then a change fee may apply. Under previous standards the Group recognize change fees as revenue when a passenger request a change and pays the fee. With the adoption of IFRS 15 the change service is not considered distinctly because the customer cannot benefit from it without taking the flight. Although the change service is provided in advance of the flight, the benefit from it is not provided until the customer takes the flight. As a result, the change fee is recognized as revenue together with the original ticket sale on the date of travel. The impacts of the changes are an increase in the liabilities and a decrease in the revenue and equity.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

b) Ticket Reissue Revenue (cont'd)

Dividend and interest income:

Dividend income generated from equity investments is recognized as shareholders gain the dividend rights.

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

2.3.2 Inventories

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

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

2.3.3 Property and Equipment

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

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

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.3 Property and Equipment (cont'd)

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

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

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

2.3.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases (cont'd)

Group management has recognized various sale and leaseback transactions for its aircraft and engines in accordance with IAS 17 "Leases". If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. Sales proceeds over the carrying amount excess is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

2.3.5 Intangible Assets

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

Goodwill

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

2.3.6 Impairment on Assets

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.3.8 Financial Instruments

Financial assets and liabilities are recognized in the consolidated financial statements when the Group is a legal party to these financial instruments.

(a) Financial assets

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

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

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

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

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

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of USD 7 in the allowance for impairment over these receivables was recognized in opening retained earnings at 1 January 2018 on transition to IFRS 9.

Cash and cash equivalents

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

Loans and receivables

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

Impairment of Financial Assets

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

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

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

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Impairment of Financial Assets (cont'd)

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

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

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

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

Presentation of impairment

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

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

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss and OCI. As a result, the Group reclassified impairment gains amounting to USD 5, recognized under IAS 39, from 'other operating expenses and other operating income' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the year ended 31 December 2018.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(b) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The major source of interest rate risk is finance lease liabilities. The Group's policy is to convert some financial liabilities with fixed interest rates into financial liabilities with floating interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in USD. The derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments is directly accounted in profit or loss. The Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments.

The Group applies hedge accounting since 2009 to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in interest rates. The Group also enters into derivative financial instruments to hedge against jet fuel price risks. The Group applies hedge accounting to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in jet fuel prices.

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(b) Financial liabilities (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

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

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

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

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

2.3.9 Foreign Currency Transactions

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

Gains and losses arising on settlement and translation of foreign currency items are included in profit or loss.
The closing and average US Dollar-TL exchange rates as at 31 December 2018, 2017 and 2016 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2018	5.2609	4.8301
Year ended 31 December 2017	3.7719	3.6445
Year ended 31 December 2018	3.5192	3.0181

	Closing Rate	Average Rate
Year ended 31 December 2018	1/ 1.1458	1/ 1.1757
Year ended 31 December 2017	1/ 1.1971	1/ 1.1294
Year ended 31 December 2016	1/ 1.0542	1/ 1.1059

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.10 Earnings per Share

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

2.3.11 Events After the Reporting Date

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

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

2.3.12 Provisions, Contingent Liabilities, Contingent Assets

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

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

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous Contracts

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

2.3.13 Segmental Information

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

2.3.14 Investment Property

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.14 Investment Property (cont'd)

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

When an investment property is transferred from investment property measured at fair value (whether to own-use properties or to inventories), the transfer is accounted for at fair value. The fair value at the date of transfer is then deemed to be the property's cost for subsequent accounting under IAS 2 or IAS 16. Any difference between the carrying amount of the property before transfer and its fair value on the date of transfer is recognized in profit or loss in the same way as any other change in the fair value of investment property.

2.3.15 Taxation and Deferred Tax

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

Income tax expense represents the sum of the current tax and deferred tax expenses.

Current tax

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

Deferred Tax

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.15 Taxation and Deferred Tax (cont'd)

Deferred Tax (cont'd)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the year

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

2.3.16 Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

2.3.17 Employee Benefits / Retirement Pay Provision

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.18 Share Capital and Dividends

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

2.3.19 Manufacturers' Credits

Manufacturers' credits are received against acquisition or lease of aircraft and engines. The Group records these credits as a reduction to the cost of the owned and amortizes them over the related asset's remaining economic life. Manufacturers' credits related to operating leases are recorded as deferred revenue and amortized over the lease term.

2.3.20 Maintenance and Repair Cost

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

2.3.21 Frequent Flyer Program

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

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

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

IFRS 9 Financial Instruments and IFRS 15 Revenue From Contracts With Customers

The Group has initially adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018.

The effect of initially applying these standards is mainly attributed to the following:

- recognition of ticket breakage revenue after the scheduled flight date;
- recognition of ticket reissue revenue with the scheduled flight date;
- an increase in impairment losses recognized on financial assets.

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 15 Revenue From Contracts With Customers

The following table summarizes the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

Retained Earnings	Notes	Impact of adopting IFRS 15 at 1 Jan 2018
Decrease of Expired Ticket Revenue	(a)	7
Decrease of Ticket Reissue Revenue	(b)	2
Related Tax		(2)
Impact at 1 January 2018		**7**

The following tables summarize the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss. There was no material impact on the Group's interim statement of cash flows and OCI for the year ended 31 December 2018.

Impact on the consolidated statement of financial positon

31 December 2018	Notes	As Reported	Adjustment	Amounts without adoption of IFRS 15
ASSETS				
CURRENT ASSETS		**4,505**	-	**4,505**
NON-CURRENT ASSETS		**16,227**	-	**16,227**
TOTAL ASSETS		**20,732**	-	**20,732**
LIABILITIES				
CURRENT LIABILITIES		**5,184**	**17**	**5,167**
Deferred Income	(a), (b)	1,052	17	1,035
NON-CURRENT LIABILITIES		**9,603**	**-**	**9,603**
EQUITY		**5,945**	**(17)**	**5,962**
Previous Years Profit	(a), (b)	3,760	(7)	3,767
Net Profit / (Loss) for the Year	(a), (b)	753	(10)	763
TOTAL LIABILITIES AND EQUITY		**20,732**	-	**20,732**

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 15 Revenue From Contracts With Customers (cont'd)

Impact on the consolidated statement of profit or loss

31 December 2018	Notes	As Reported	Adjustment	Amounts without adoption of IFRS 15
PROFIT OR LOSS				
Revenue	(a), (b)	12,855	(8)	12,863
GROSS PROFIT		**2,719**	**(8)**	**2,727**
OPERATING PROFIT / (LOSS) BEFORE INVESTMENT ACTIVITIES		**1,191**	**-**	**1,191**
OPERATING PROFIT / (LOSS)		**1,413**	**-**	**1,413**
PROFIT / (LOSS) BEFORE TAX		**954**	**(8)**	**962**
Tax Expense		**(201)**	**(2)**	**(199)**
Deferred Tax (Expense) / Income	(a), (b)	(161)	(2)	(159)
NET PROFIT / (LOSS) FOR THE YEAR		**753**	**(10)**	**763**

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings.

	Impact of adopting IFRS 9 on opening balance
Retained Earnings	
Recognition of expected credit losses under IFRS 9	9
Related tax	(2)
Impact at 1 January 2018	**7**

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 31 December 2018.

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Trade and other receivables	Loans and receivables	Amortized cost	2,759	2,755
Cash and cash equivalents	Loans and receivables	Amortized cost	1,957	1,956
Corporate debt securities	Available for sale	FVOCI-debt instrument	66	66
Governmet debt securities	Available for sale	FVOCI-debt instrument	135	135
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	Cash Flow – hedging instrument	Cash Flow – hedging instrument	(34)	(34)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	Cash Flow – hedging instrument	Cash Flow – hedging instrument	-	-
Collar contracts for hedging against cash flow risk of fuel prices	Cash Flow – hedging instrument	Cash Flow – hedging instrument	(85)	(85)
Forward currency contracts for hedging purposes	Cash Flow – hedging instrument	Cash Flow – hedging instrument	(30)	(30)
Cross-currency swap contracts not subject to hedge accounting	Mandatorily at FVTPL	Mandatorily at FVTPL	12	12
Interest rate swap contracts not subject to hedge accounting	Mandatorily at FVTPL	Mandatorily at FVTPL	(5)	(5)
Forward currency contracts not for hedging purposes	Mandatorily at FVTPL	Mandatorily at FVTPL	3	3
Total Financial Assets			**4,778**	**4,773**

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

Loss allowance as at 31 December 2017 under IAS 39	75
Additional impairment recognized at 1 January 2018 on;	
Trade and other receivables as at 31 December 2017	8
Cash and cash equivalents as at 31 December 2017	1
Loss allowance as at 31 December 2017 under IFRS 9	**84**

Trade Receivables and Contract Assets

The following analysis provides further detail about the calculation of ECLs related to trade receivables and contract assets on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past two years. The Group performed the calculation of ECL rates separately for trade and other receivables.

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, delinquency status, geographic region, age of relationship.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

Maturity Ranges As of 31.12.2018	Weighted Average Lost Rate	Gross Carrying Amount	Impairment Loss Allowance
Current	0.12%	514	1
1-30 days past due	0.53%	55	-
30-90 days past due	5.89%	3	-
90-360 days past due	2.56%	19	-
More than 1 year past due	59.21%	2	1
		593	2

The following table provides information about the exposure to credit risk and ECLs for time deposits, other receivables and debt to securities as at 31 December 2018.

Equivalent to External Credit Rating	Weighted Average Lost Rate	Gross Carrying Amount	Impairment Loss Allowance
AA2	0.02%	1,673	-
BA3	0.05%	2,105	1
B2	1.5%	132	2
		3,910	3

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

2.3 Summary of Significant Accounting Policies (cont'd)

Transition

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Non-Derivative Financial Instruments and Hedge Accounting

As of 2018, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against foreign exchange rate risk due to highly probable future foreign currency revenues. Unrealized foreign exchange differences arising from the financial lease liabilities are recognized in other comprehensive income.

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are given below:

The Determination of Impairment on Long Term Assets:

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

Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.3.21, Group has a FFP program called "Miles and Smiles" for its members. In the calculation of the liability historical statistics are used for miles earned from flights.

Useful Lives and Salvage Values of Tangible Assets:

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

Deferred Tax:

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

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

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

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements (cont'd)

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

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

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

The Group has right to benefit from some incentives in "Investment Incentive System" due to airline cargo and passenger transportation activities. As a result of the applications within this scope, Investment Incentive Certificates are obtained for supply of aircraft and ground handling services. The information on the Investment Incentive Certificates that may have an impact on the current or future financial reports of the Incorporation and the incentives utilized are listed below:

Date of Cabinet Decree	Number of Cabinet Decree	Date of Inv. Incentive Certificate	Investment Status	Tax Reduction	Total Amount of Investment USD: (*)	Utilized Contribution Amount of Investment USD: (**)
14.07.2009	2009/15199	28.12.2010	Completed	Tax Reduction %50 / Contribution rate to Investment %20	25,220	3
15.06.2012	2012/3305	18.12.2014	Continue	Tax Reduction %50 / Contribution rate to Investment %15	3,225	-
20.01.2018	2017/11133	9.08.2018	Continue	Tax Reduction %90 / Contribution rate to Investment %50	936	-
20.01.2018	2017/11133	11.09.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %25	479	-
15.06.2012	2012/3305	1.03.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %15	68	20
15.06.2012	2012/3305	11.07.2017	Continue	Tax Reduction %50 / Contribution rate to Investment %15	-	-
15.06.2012	2012/3305	18.09.2017	Continue	General Investment Incentive	-	-

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

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

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

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements (cont'd)

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

There is no clear guidance in regards to the accounting for government tax incentives on investments in IAS 12 "Income Tax" and IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". Since the use of "contribution amount" depends on future earnings from the related investment over many years, the Group management considers that the accounting for the related investment contribution will be more appropriate if the grant is classified as profit or loss on a systematic and rational basis over the useful life of the related assets.

2.5 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. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

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. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 23 Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

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

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

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 28- Long-term Interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, 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 28.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

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

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

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, 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 19.

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. 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.

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 that seek to clarify this matter. The amendments include an election to use a concentration test. 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.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

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

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

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

Annual Improvements to IFRSs 2015-2017 Cycle (cont'd)

Improvements to IFRSs (cont'd)

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

2.6 Determination of Fair Values

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.

- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.

- Level 3: Variables, which are not related to observable market variable for assets and liabilities (unobservable variables).

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	31 December 2018	31 December 2017
Sun Express	136	105
TEC	62	56
THY Opet	58	54
Turkish DO&CO	53	60
TGS	39	36
Uçak Koltuk	5	4
TCI	3	3
Goodrich	2	2
Vergi İade Aracılık (*)	-	-
	358	320

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

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

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

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

	1 January - 31 December 2018	1 January - 31 December 2017
Sun Express	33	28
TEC	11	12
THY Opet	45	39
Turkish DO&CO	12	12
TGS	21	12
Uçak Koltuk	1	(1)
TCI	-	-
Goodrich	-	-
Vergi İade	-	-
	123	102

Financial information for Sun Express as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total assets	1,350	1,439
Total liabilities	1,079	1,229
Shareholders'equity	271	210
Group's share in joint venture's shareholders' equity	136	105
	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	1,479	1,288
Profit for the year	67	55
Group's share in joint venture's profit for the year	33	28

Financial information for TEC as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total assets	189	163
Total liabilities	62	49
Shareholders'equity	127	114
Group's share in joint venture's shareholders' equity	62	56
	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	542	526
Profit for the year	22	25
Group's share in joint venture's profit for the year	11	12

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

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

Financial information for THY Opet as of 31 December 2018 and 2017 are as follows:

	31 December 2018	**31 December 2017**
Total assets	621	616
Total liabilities	504	509
Shareholders'equity	117	107
Group's share in joint venture's shareholders' equity	58	54
	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	2,291	1,619
Profit for the year	90	78
Group's share in joint venture's profit for the year	45	39

Financial information for Turkish DO&CO as of 31 December 2018 and 2017 are as follows:

	31 December 2018	**31 December 2017**
Total assets	168	180
Total liabilities	62	60
Shareholders'equity	106	120
Group's share in joint venture's shareholders' equity	53	60
	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	285	279
Profit for the year	24	24
Group's share in joint venture's profit for the year	12	12

Financial information for TGS as of 31 December 2018 and 2017 are as follows:

	31 December 2018	**31 December 2017**
Total assets	130	127
Total liabilities	52	55
Shareholders'equity	78	72
Group's share in joint venture's shareholders' equity	39	36
	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	286	258
Profit for the year	42	23
Group's share in joint venture's profit for the year	21	12

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

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

Financial information for Uçak Koltuk as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total assets	25	16
Total liabilities	15	8
Shareholders'equity	10	8
Group's share in joint venture's shareholders' equity	5	4

	1 January - 31 December 2018	1 January - 31 December 2017
Revenue	14	11
Profit / (Loss) for the year	1	(2)
Group's share in joint venture's profit / (loss) for the year	1	(1)

Financial information for TCI as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total assets	17	10
Total liabilities	11	4
Shareholders'equity	6	6
Group's share in joint venture's shareholders' equity	3	3

	1 January - 31 December 2018	1 January - 31 December 2017
Revenue	9	7
Profit for the year	-	1
Group's share in joint venture's profit / (loss) for the year	-	-

Financial information for Goodrich as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total assets	10	7
Total liabilities	5	3
Shareholders'equity	5	4
Group's share in joint venture's shareholders' equity	2	2

	1 January - 31 December 2018	1 January - 31 December 2017
Revenue	18	15
Profit for the year	1	1
Group's share in joint venture's profit / (loss) for the year	-	-

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

4. SEGMENTAL 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 sales revenue of the Group is given in Note 26.

4.1 Total Assets and Liabilities

Total Assets	**31 December 2018**	**31 December 2017**
Aviation	20,638	18,085
Technical	1,326	1,256
Total	21,964	19,341
Less: Eliminations due to consolidation	(1,232)	(1,144)
Total assets in consolidated financial statements	20,732	18,197

Total Liabilitites	**31 December 2018**	**31 December 2017**
Aviation	14,883	12,874
Technical	291	363
Total	15,174	13,237
Less: Eliminations due to consolidation	(387)	(386)
Total liabilitites in consolidated financial statements	14,787	12,851

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

4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 31 December 2018	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	12,629	226	-	12,855
Inter-Segment Sales	49	991	(1,040)	-
Revenue	12,678	1,217	(1,040)	12,855
Cost of Sales (-)	(10,238)	(938)	1,040	(10,136)
Gross Profit	2,440	279	-	2,719
Administrative Expenses (-)	(181)	(82)	3	(260)
Marketing and Sales Expenses (-)	(1,283)	(9)	2	(1,290)
Other Operating Income	189	10	(34)	165
Other Operating Expenses (-)	(159)	(13)	29	(143)
Operating Profit Before Investment Activities	1,006	185	-	1,191
Income from Investment Activities	101	-	-	101
Expenses from Investment Activities	(2)	-	-	(2)
Share of Investments' Profit Accounted by Using The Equity Method	112	11	-	123
Operating Profit	1,217	196	-	1,413
Financial Income	132	-	(3)	129
Financial Expense (-)	(614)	23	3	(588)
Profit Before Tax	735	219	-	954

1 January - 31 December 2017	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	10,785	173	-	10,958
Inter-Segment Sales	44	936	(980)	-
Revenue	10,829	1,109	(980)	10,958
Cost of Sales (-)	(8,897)	(845)	980	(8,762)
Gross Profit	1,932	264	-	2,196
Administrative Expenses (-)	(193)	(89)	7	(275)
Marketing and Sales Expenses (-)	(1,123)	(5)	1	(1,127)
Other Operating Income	272	35	(43)	264
Other Operating Expenses (-)	(41)	(30)	35	(36)
Operating (Loss) / Profit Before Investment Activities	847	175	-	1,022
Income from Investment Activities	178	-	-	178
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Loss Accounted by Using The Equity Method	90	12	-	102
Operating (Loss) / Profit	1,114	187	-	1,301
Financial Income	58	6	(8)	56
Financial Expense (-)	(1,075)	(11)	8	(1,078)
Profit Before Tax	97	182	-	279

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

4. SEGMENTAL REPORTING (cont'd)

4.3 Investment Operations

1 January - 31 December 2018	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	1,827	232	-	2,059
Current period depreciation and amortization charge	939	148	-	1,087
Investments accounted by using equity method	293	65	-	358

1 January - 31 December 2017	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	1,366	142	-	1,508
Current period depreciation and amortization charge	883	183	-	1,066
Investments accounted by using equity method	261	59	-	320

5. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash	2	2
Banks – Time deposits	1,570	1,768
Banks – Demand deposits	64	116
Other liquid assets	-	5
	1,636	1,891

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
				1,570

Details of the time deposits as of 31 December 2017 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
153	TL	11.41% - 12.58%	January 2018	41
141	USD	2.87% - 3.53%	March 2018	142
1,322	EUR	1.60% - 2.34%	March 2018	1,585
				1,768

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

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	31 December 2018	31 December 2017
FVOCI		
- Governmet debt securities	90	-
- Corporate debt securities	26	-
FVTPL		
- Equity securities	17	-
Time deposits with maturity more than 3 months	386	195
	519	195

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

Amount	Currency	Effective Interest Rate	Maturity	31 December 2018
500	TRY	23.28% - 23.99%	April 2019	98
251	EUR	3.28% - 3.08%	April 2019	288
				386

Time deposit with maturity more than 3 months as of 31 December 2017 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
162	EUR	1.68% - 1.93%	May 2018	195

Long-term financial investments are as follows:

	31 December 2018	31 December 2017
FVOCI		
- Governmet debt securities	45	17
- Corporate debt securities	40	33
Other	1	1
	86	51

Period remaining to contractual maturity dates for FVOCI as of 31 December 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
Less than 1 year	116	-
1 to 5 years	8	-
Over 5 years	77	50
	201	50

	31 December 2018	31 December 2017
FVTPL		
- Equity securities	17	-

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

7. BORROWINGS

Short-term borrowings are as follows:

	31 December 2018	31 December 2017
Bank borrowings	1,099	744

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

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

Short-term borrowings as of 31 December 2017 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
400	USD	1.64% - 2.30%	October 2018	400
288	EUR	0.40% - 0.75%	December 2018	344
				744

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

	31 December 2018	31 December 2017
Finance lease obligations (Note: 18)	980	954
Bank borrowings	290	29
	1,270	983

Long-term borrowings are as follows:

	31 December 2018	31 December 2017
Finance lease obligations (Note: 18)	7,006	7,259
Bank borrowings	1,233	80
	8,239	7,339

Details of bank borrowings as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Less than 1 year	290	29
Between 1 – 5 years	1,233	80
	1,523	109

Amount	Currency	Interest Rate Type	Effective Interest Rate	Payment Period	31 December 2018
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
					1,523

Amount	Currency	Interest Rate Type	Effective Interest Rate	Payment Period	31 December 2017
91	EUR	Floating	Euribor + 2.45%	Feb'18-Sep' 21	109

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

7. BORROWINGS (cont'd)

Reconciliation of liabilities arising from financing activities:

	2017	Payment	Non-cash Changes	Proceeds From	2018
Lease Liabilities	8,213	(1,086)	43	816	7,986
Bank Borrowings	853	(1,268)	(20)	3,057	2,622
	9,066	(2,354)	23	3,873	10,608

8. OTHER FINANCIAL LIABILITIES

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

	31 December 2018	31 December 2017
Other financial liabilities	6	16

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

9. RELATED PARTIES

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

	31 December 2018	31 December 2017
Posta ve Telgraf Teşkilatı A.Ş (PTT)	1	1
Other (*)	1	1
	2	2

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

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

	31 December 2018	31 December 2017
Turkish DO&CO	2	-
TCI	1	-
	3	-

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

	31 December 2018	31 December 2017
THY Opet	-	7

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

	31 December 2018	31 December 2017
THY Opet	95	77
TEC	60	36
Turkish DO&CO	35	28
Sun Express	19	8
TGS	19	16
Goodrich	2	1
TCI	1	2
	231	168

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

9. RELATED PARTIES (cont'd)

Transactions with related parties for the year ended 31 December 2018 and 2017 are as follows:

a) Sales to related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
Sun Express	42	24
TEC	27	13
PTT	9	8
TGS	4	6
Uçak Koltuk	2	-
Turkish DO&CO	1	1
Goodrich	1	-
Türk Telekomünikasyon A.Ş. (Türk Telekom)	-	1
	86	53

b) Purchases from related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
THY Opet	1,889	1,388
TEC	317	288
Turkish DO&CO	274	240
TGS	266	241
Sun Express	169	158
Goodrich	14	9
Uçak Koltuk	3	2
TCI	2	1
PTT	2	1
Türk Telekom	1	1
	2,937	2,329

Details of the financial assets for related parties as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Financial investments	1,529	928
Letter of credit	862	434
Bank credit	115	-
Debt securities	25	-
Equity share	4	-
Banks – Demand deposits	2	3
	2,537	1,365

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

9. RELATED PARTIES (cont'd)

Details of the time deposits deposited at related parties as of 31 December 2018 and 2017 are as follows (cont'd):

Amount	Currency	Effective Interest Rate	Maturity	31 December 2018
1,310	TL	23.28% - 24.70%	April 2019	297
1,072	EUR	2.54% - 3.62%	May 2019	1,232
				1,529

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
147	TL	12.58%	January 2018	39
34	USD	3.53%	March 2018	34
713	EUR	1.68% - 2.34%	April 2018	855
				928

Interest income from related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
Türkiye Halk Bankası A.Ş.	57	28
Ziraat Bankası A.Ş.	3	1
	60	29

Interest expense from related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
Ziraat Bankası A.Ş.	4	6

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 4 (1 January- 31 December 2017: USD 4).

10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from third parties as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Trade receivables	638	665
Allowance for doubtful receivables	(70)	(75)
	568	590

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

10. TRADE RECEIVABLES AND PAYABLES (cont'd)

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

Trade payables to third parties as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Trade payables	791	686
Other trade payables	-	1
	791	687

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

11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Salary accruals	115	108
Social security premiums payable	43	40
Bonus accruals	33	41
Due to Personnel	8	11
	199	200

Changes in the provisions for bonus for the years ended 31 December 2018 and 2017 are set out below:

	1 January - 31 December 2018	1 January - 31 December 2017
Provisions at the beginning of the year	41	-
Provisions for the current year	33	41
Provisions released	(41)	-
Provisions at the end of the year	33	41

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

12. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables from third parties as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Predelivery payments made for aircrafts	809	117
Value added tax receivables	134	54
Receivables from technical purchases	118	71
Bank deposits with transfer limitations (*)	90	55
Receivables from pilots for flight training	19	16
Others	8	6
	1,178	319

(*)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, Benin, Republic of Kenya, Republic of Zimbabwe and Iran. (As of 31 December 2017, 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, Gabon and Benin.)

Other long-term receivables from third parties as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Predelivery payments made for aircrafts	505	247
Receivables related to investment certificates	238	256
Receivables from pilots for flight training	114	101
Interest and commodity swap agreement deposits	94	-
Deposits and guarentees given	47	9
Bank deposits with transfer limitations (**)	6	6
	1,004	619

(**) As of 31 December 2018, the balance of this account includes bank deposits in Syria.

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

	31 December 2018	31 December 2017
Taxes and funds payable	52	43
Deposits and guarantees received	12	10
Payables to lessors	10	10
Other liabilities	4	2
	78	65

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

	31 December 2018	31 December 2017
Payables to lessors	20	30
Deposits and guarantees received	16	15
Interest and commodity swap agreement deposits	-	38
	36	83

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

13. INVENTORIES

	31 December 2018	31 December 2017
Spare parts	139	145
Other inventories	73	73
	212	218
Provision for impairment (-)	(22)	(25)
	190	193

The change in the value of provision for impairment for the years ended 31 December 2018 and 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Provision at the beginning of the year	25	19
Charges during the year	(3)	6
Provision at the end of the year	22	25

14. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses are as follows:

	31 December 2018	31 December 2017
Advances given for purchases	79	25
Prepaid operating lease expenses	20	20
Prepaid advertising expenses	19	13
Prepaid sales commissions	15	13
Other prepaid expenses	59	48
	192	119

Long-term prepaid expenses are as follows:

	31 December 2018	31 December 2017
Prepaid engine maintenance expenses	609	435
Advances given for property and equipment purchases	109	8
Prepaid aircraft financing expenses	43	47
Other prepaid expenses	6	6
	767	496

Deferred income is as follows:

	31 December 2018	31 December 2017
Passenger flight liabilites	1,002	1,000
Other short-term deferred income	50	16
	1,052	1,016

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

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

Passenger flight liability is as follows:

	31 December 2018	**31 December 2017**
Flight liability generating from ticket sales	741	763
Flight liability generating from frequent flyer program	261	237
	1,002	1,000

Other short-term deferred income is as follows:

	31 December 2018	**31 December 2017**
Advances received	29	10
Deferred finance income	11	5
Unearned bank protocol revenue accruals	10	1
	50	16

Long-term deferred income is as follows:

	31 December 2018	**31 December 2017**
Deferred finance income	47	40
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(30)	(29)
Unearned bank protocol revenue accruals	12	-
	60	42

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

15. 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
Cost									
Opening balance at 1 January 2018	222	376	187	16,398	648	551	520	334	19,236
Additions	63	67	30	1,204	87	130	16	437	2,034
Transfer (*)	18	1	-	10	8	-	14	(53)	(2)
Disposals	-	(15)	(3)	(121)	(5)	(98)	(19)	-	(261)
Closing balance at 31 December 2018	303	429	214	17,491	738	583	531	718	21,007
Accumulated Depreciation									
Opening balance at 1 January 2018	78	204	132	5,138	225	285	172	-	6,234
Depreciation charge	11	36	22	818	47	94	48	-	1,076
Disposals	-	(5)	(3)	(121)	(5)	(69)	(18)	-	(221)
Closing balance at 31 December 2018	89	235	151	5,835	267	310	202	-	7,089
Net book value at 31 December 2018	214	194	63	11,656	471	273	329	718	13,918
Net book value at 31 December 2017	144	172	55	11,260	423	266	348	334	13,002

(*) Construction in progress amounting to USD 2 has been transferred to intangible assets.

As of 31 December 2018, carrying value of the aircrafts and spare engines acquired through finance leases is USD 10,892 (31 December 2017: USD 10,826)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 1,038 (31 December 2017: USD 1,009), general administrative expenses is amounting to USD 43 (31 December 2017: USD 51) and marketing and sales expenses is amounting to USD 6 (31 December 2017: USD 6).

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

15. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
Cost									
Opening balance at 1 January 2017	218	367	176	16,279	608	539	500	235	18,922
Additions	-	15	11	1,138	92	94	20	131	1,501
Transfer	4	1	3	23	-	-	-	(32)	(1)
Disposals	-	(7)	(3)	(1,042)	(52)	(82)	-	-	(1,186)
Closing balance at 31 December 2017	222	376	187	16,398	648	551	520	334	19,236
Accumulated Depreciation									
Opening balance at 1 January 2017	66	177	112	4,549	204	203	135	-	5,446
Depreciation charge	12	30	23	772	44	133	37	-	1,051
Disposals	-	(3)	(3)	(183)	(23)	(51)	-	-	(263)
Closing balance at 31 December 2017	78	204	132	5,138	225	285	172	-	6,234
Net book value at 31 December 2017	144	172	55	11,260	423	266	348	334	13,002
Net book value at 31 December 2016	152	190	64	11,730	404	336	365	235	13,476

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

16. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2018	44	148	5	197
Additions	-	25	-	25
Transfers	-	2	-	2
Closing balance at 31 December 2018	44	175	5	224
Accumulated Amortization				
Opening balance at 1 January 2018	-	130	1	131
Amortization charge	-	11	-	11
Closing balance at 31 December 2018	-	141	1	142
Net book value at 31 December 2018	44	34	4	82
Net book value at 31 December 2017	44	18	4	66

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2017	44	140	5	189
Additions	-	7	-	7
Transfers	-	1	-	1
Closing balance at 31 December 2017	44	148	5	197
Accumulated Amortization				
Opening balance at 1 January 2017	-	115	1	116
Amortization charge	-	15	-	15
Closing balance at 31 December 2017	-	130	1	131
Net book value at 31 December 2017	44	18	4	66
Net book value at 31 December 2016	44	25	4	73

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

17. GOODWILL

The goodwill amounting to 12 USD is recognized from the acquisition of MNG Teknik has been recognized in the consolidated financial statements.

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

18. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Less than 1 year	1,127	1,105	(147)	(155)	980	950
Between 1 – 5 years	3,741	3,718	(359)	(431)	3,382	3,287
Over 5 years	3,733	4,189	(109)	(213)	3,624	3,976
	8,601	9,012	(615)	(799)	7,986	8,213

	31 December 2018	**31 December 2017**
Interest Range:		
Floating rate obligations	5,020	4,979
Fixed rate obligations	2,966	3,234
	7,986	8,213

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 31 December 2018, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.66% (31 December 2017: 2.77%) for the fixed rate obligations and 1.56% (31 December 2017: 1.48%) for the floating rate obligations.

19. GOVERNMENT GRANTS AND INCENTIVES

Incentive certificates dated, 28.12.2010, 18.12.2014, 11.07.2017, 18.09.2017, 1.03.2018, 09.08.2018 and 11.09.2018 were obtained from Ministry of Industry and Technology for investment of aircrafts. These certificates provide the Group with certain advantages on reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.3.16 for the accounting of corporate tax effect of these investment certificates.

20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 December 2018 and 31 December 2017 are as follows:

Short-term provision for employee benefits is as follows:

	31 December 2018	**31 December 2017**
Provisions for unused vacation	39	41

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

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

Changes in the provisions for the years ended 31 December 2018 and 2017 are set out below:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Provisions at the beginning of the year	41	44
Provisions for the current year	98	(1)
Provisions released	(88)	-
Foreign currency translation differences	(12)	(2)
Provisions at the end of the year	39	41

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

Other short-term provision is as follows:

	31 December 2018	**31 December 2017**
Provisions for legal claims	16	22

Changes in the provisions for legal claims for the years ended 31 December 2018 and 2017 are set out below:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Provisions at the beginning of the year	22	17
Provisions for the current year	4	7
Provisions released	(2)	(2)
Foreign currency translation differences	(8)	-
Provisions at the end of the year	16	22

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.

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

21. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letters of guarantees given as of 31 December 2018 is USD 1,179 (31 December 2017: USD 859).

	31 December 2018		31 December 2017	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,179	-	859
-Collaterals				
TL	38	7	34	9
EUR	976	1,118	326	391
USD	45	45	451	451
Other	-	9	-	8
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	-	-	-	-
		1,179		859

The ratio of other GPM ("D") given by the group to its equity is 0% as of 31 December 2018 (31 December 2017: 0%)

b) Operational lease liabilities: The breakdown of operational lease liabilities related to aircrafts is as follows:

	31 December 2018	31 December 2017
Less than 1 year	337	359
Between 1 – 5 years	809	950
More than 5 years	608	757
	1,754	2,066

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

21. COMMITMENTS (cont'd)

c) Other operational lease liabilities :

The Group has operational lease agreements for 15 years related to the land for the aircraft maintenance hangar and building and another operational lease agreement for 23 years related to the land for the aircraft maintenance hangar. The liabilities of the Group related to these lease agreements are as follows:

	31 December 2018	31 December 2017
Less than 1 year	4	4
Between 1 – 5 years	20	20
More than 5 years	17	23
	41	47

d) Aircraft purchase commitments:

To be delivered between the years 2018-2023, the Group signed an agreement for 230 aircrafts, (220 of aircrafts are contractual and 10 of them are optional) with a list price value of 37,400 US Dollars. 12 of these aircrafts were delivered in 2018. The Group has made an advance payment of 1,349 US Dollars relevant to these purchases as of 31 December 2018.

22. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 December 2018 and 2017 is comprised of the following:

	31 December 2018	31 December 2017
Provision for retirement pay liability	130	128

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 1,144 (full) (equivalent of TL 6,018 (full) and 5,002 (full) as 31 December 2018 and 2017 respectively) as of 31 December 2018. (31 December 2017: US Dollar 1,326 (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.

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

22. EMPLOYEE BENEFITS (cont'd)

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2018 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 2017: 7.00%) and 14.00% interest rate (31 December 2017: 12.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.63% (31 December 2017: 2.64%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,144 (full) which is in effect since 31 December 2018 is used in the calculation of Group's provision for retirement pay liability.

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

	1 January - 31 December 2018	1 January - 31 December 2017
Provision at the beginning of the year	128	113
Service charge for the year	13	22
Interest charges	11	12
Actuarial loss	25	5
Payments	(10)	(14)
Foreign currency translation difference	(37)	(10)
Provision at the end of the year	130	128

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

23. EXPENSES BY NATURE

Expenses by nature for the year ended 31 December 2018 and 2017 are as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Fuel expenses	3,768	2,866
Personnel expenses	1,772	1,761
Depreciation and amortisation charges	1,087	1,066
Aircraft maintenance expenses	804	645
Ground services expenses	733	656
Passenger services and catering expenses	560	510
Air traffic control expenses	542	509
Airport expenses	514	469
Commissions and incentives	401	318
Operating lease expenses	336	324
Wet lease expenses	259	203
Reservation systems expenses	255	232
Advertisement and promotion expenses	189	165
Service expenses	73	71
Rents	68	68
IT & communication expenses	47	47
Insurance expenses	47	51
Taxes and duties	41	39
Transportation expenses	37	30
Consultancy expenses	27	14
Systems use and associateship expenses	11	9
Other expenses	115	111
	11,686	10,164

24. OTHER ASSETS AND LIABILITIES

Other current assets as of 31 December 2018 and 2017 are as follows:

	31 December 2018	**31 December 2017**
Deffered VAT	92	83
Personnel and business advances	7	4
	99	87

Other short-term liabilities as of 31 December 2018 and 2017 are as follows:

	31 December 2018	**31 December 2017**
Accruals for maintenance expenses of aircraft under operating lease	198	196
Accruals for other expenses	7	9
Other liabilities	2	3
	207	208

25. SHAREHOLDERS' EQUITY

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

(Millions of TL)	Class	%	31 December 2018	%	31 December 2017
Turkey Wealth Fund (*)	A	49.12	678	49.12	678
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	C	-	-	-	-
Other (publicly held)	A	50.88	702	50.88	702
Paid-in capital (Turkish Lira)			1,380		1,380
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124
Share capital (Turkish Lira)			2,504		2,504
Share capital (USD Equivalent)			1,597		1,597

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

49.12% share of the Group owned by Republic of Turkey Treasury and Finance Ministry Privatisation Administry has been transferred to Turkey Wealth Fund as of 3 February 2017. Turkey Wealth Fund, whose capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatization Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

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

As of 31 December 2018, 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,

25. SHAREHOLDERS' EQUITY (cont'd)

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

c) Increasing share capital,

d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

e) Every decision or action which directly or indirectly put the Group under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Group's shares held by Turkish State decrease under 20%.)

f) Decisions relating to merges and liquidation,

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

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 immediately in other comprehensive income.

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

25. SHAREHOLDERS' EQUITY (cont'd)

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 2018, 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.

26. REVENUE

Breakdown of gross profit is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Passenger revenue		
Scheduled	10,854	9,330
Unscheduled	64	73
Total passenger revenue	10,918	9,403
Cargo revenue		
Carried by passenger aircraft	829	722
Carried by cargo aircraft	818	595
Total cargo revenue	1,647	1,317
Total passenger and cargo revenue	12,565	10,720
Technical revenue	226	173
Other revenue	64	65
Net sales	12,855	10,958
Cost of sales (-)	(10,136)	(8,762)
Gross profit	2,719	2,196

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

International flights	1 January - 31 December 2018	1 January - 31 December 2017
- Europe	3,730	3,113
- Far East	2,908	2,581
- Middle East	1,549	1,270
- America	1,797	1,429
- Africa	1,230	997
Total	11,214	9,390
Domestic flights	1,351	1,330
Total passenger and cargo revenue	12,565	10,720

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

27. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Fuel expenses	3,768	2,866
Personnel expenses	1,379	1,369
Depreciation and amortisation charges	1,038	1,009
Aircraft maintenance expenses	804	645
Ground services expenses	733	656
Passenger services and catering expenses	560	510
Air traffic control expenses	542	509
Airport expenses	514	469
Operating lease expenses	336	324
Wet lease expenses	259	203
Insurance expenses	45	49
Transportation expenses	37	30
Rents	36	34
Service expenses	30	29
Taxes and duties	15	14
IT & communication expenses	5	6
Other expenses	35	40
	10,136	8,762

28. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	95	112
Depreciation and amortisation charges	43	51
IT & communication expenses	35	34
Service expenses	30	31
Consultancy expenses	19	6
Systems use and associateship expenses	11	9
Rents	10	13
Insurance expenses	2	2
Taxes and duties	2	2
Other general administrative expenses	13	15
	260	275

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

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

Breakdown of marketing and sales expenses is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Commissions and incentives	401	318
Personnel expenses	298	280
Reservation systems expenses	255	232
Advertisement and promotion expenses	189	165
Taxes and duties	24	23
Rents	22	21
Service expenses	13	11
Consultancy expenses	8	8
IT & communication expenses	7	7
Depreciation and amortisation charges	6	6
Other marketing and sales expenses	67	56
	1,290	1,127

29. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Manufacturers' credits	79	46
Insurance, indemnities, penalties income	34	46
Turnover premium from suppliers	11	11
Provisions released	10	17
Non- interest income from banks	10	8
Rediscount interest income	5	1
IFRS 9 Adjustment	4	-
Rent income	3	8
Delay interest income	1	2
Foreign exchange gains from operational activities, net	-	119
Other operating income	8	6
	165	264

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

29. OTHER OPERATING INCOME / EXPENSES (cont'd)

Breakdown of other operating expenses is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange losses from operational activities, net	109	-
Provisions	9	21
Indemnity and penalty expenses	6	2
Other operating expenses	19	13
	143	36

30. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Income from investment incentives	62	62
Interest income from financial investment	30	65
Gain on sale of fixed assets	7	50
Gain on sale of financial investments	2	1
	101	178

Breakdown of expense from investment activities is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Loss on sale of fixed assets	1	1
Fair value losses	1	-
	2	1

31. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Interest income	93	48
Fair value gains on derivative financial instruments, net	36	-
Other financial incomes	-	8
	129	56

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

31. FINANCIAL INCOME/ EXPENSES (cont'd)

Breakdown of financial expenses is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange losses on financial activities, net	282	780
Finance lease interest expenses	235	209
Aircraft financing expenses	21	29
Rediscount interest expense from repayments of aircrafts	19	-
Interest expenses on employee benefits	11	12
Fair value losses on derivative financial instruments, net	-	39
Other financial expenses	20	9
	588	1,078

32. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	31 December 2018	31 December 2017
Prepaid taxes	61	32

Tax liability is as follows:

	31 December 2018	31 December 2017
Provisions for corporate tax	40	49
Prepaid taxes and funds	(40)	(37)
Corporate tax liability	-	12

Tax expense is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Current year tax expense	40	49
Deferred tax expense	161	7
Tax expense	201	56

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

32. TAX ASSETS AND LIABILITIES (cont'd)

Tax effect related to other comprehensive income is as follows:

	1 January - 31 December 2018			1 January - 31 December 2017		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	(52)	-	(52)	(2)	-	(2)
Change in cash flow hedge reserve	(83)	22	(61)	53	(12)	41
Gains on Remeasuring FVOCI	(9)	2	(7)	1	-	1
Change in actuarial losses from retirement pay obligation	(25)	5	(20)	(5)	1	(4)
Other comprehensive income	(169)	29	(140)	47	(11)	36

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 31 December 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 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% (2017: 20%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2018. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, tax rate for temporary tax is set to 22% for the years 2018, 2019 and 2020.

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

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

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

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

32. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

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.

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

	31 December 2018	31 December 2017
Fixed assets	(1,910)	(1,539)
Adjustments for passenger flight liabilities	(150)	(126)
Tax loss carried forward	674	537
Income and expense for future years	92	74
Accruals for expenses	48	48
Miles accruals	35	35
Change in fair value of derivative instruments	31	(17)
Provisions for employee benefits	27	24
Provisions for unused vacation	8	1
Other	7	1
Deferred tax liabilities	(1,138)	(962)

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

32. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The changes of deferred tax liability for the period ended 1 January – 31 December 2018 and 2017 are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance at 1 January	962	955
Adjustments for changes in accounting policies	(4)	-
Restated deferred tax liability at the beginning of the year	958	955
Deferred tax expense	161	7
Foreign currency translation difference	48	(11)
Tax (income) / expensefrom hedging reserves	(22)	12
Tax income from FVOCI	(1)	-
Tax income of actuarial losses on retirement pay obligation	(6)	(1)
Deferred tax liability at the end of the year	1,138	962

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

	31 December 2018	31 December 2017
Expired as of 2020	75	105
Expired as of 2021	1,225	1,709
Expired as of 2022	579	789
Expired as of 2023	1,488	-
	3,367	2,603

Reconciliation with current tax charge for year period 1 January – 31 December 2018 and 2017 are as follows:

Reconciliation of effective tax charge	1 January - 31 December 2018	1 January - 31 December 2017
Profit from operations before tax	954	279
Domestic expense tax rate of 22%	(210)	(56)
Taxation effects on:		
- deduction	26	-
- investments accounted by using the equity method	25	20
- expense from investment certificates	12	12
- investment incentive	4	-
- adjustment for prior year loss	3	(2)
- effect of the change in the defered tax rate	-	3
- non deductible expenses	(15)	-
- foreign currency translation difference	(15)	(33)
- exception	(10)	-
- others	(21)	-
Tax charge in statement of loss	(201)	(56)

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

33. EARNINGS PER SHARE

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

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

Number of total shares and calculation of earnings per share at 1 January – 31 December 2018 and 2017:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
Number of shares outstanding at 31 December (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net profit for the year	753	223
Basic profit per share (Full US Cents) (*)	0.55	0.16
Diluted profit per share (Full US Cents) (*)	0.55	0.16

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

34. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2018 and 2017 are as follows:

Derivative financial assets	**31 December 2018**	**31 December 2017**
Derivative instruments for fuel prices cash flow hedge	34	184
Derivative instruments for cross currency rate cash flow hedge	6	3
Derivative instruments for interest rate cash flow hedge	-	1
Derivative instruments not subject to hedge accounting	17	15
	57	203

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

34. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2018 and 2017 are as follows (cont'd):

Derivative financial liabilities	31 December 2018	31 December 2017
Derivative instruments for fuel prices cash flow hedge	118	4
Derivative instruments for interest rate cash flow hedge	34	35
Derivative instruments for cross currency rate cash flow hedge	36	41
Derivative instruments not subject to hedge accounting	8	48
	196	128

35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

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

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

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt. The overall strategy of the Group has not changed compared to 2017.

	31 December 2018	31 December 2017
Total debts	10,614	9,082
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(2,241)	(2,137)
Net debt (A)	8,373	6,945
Total shareholders' equity (B)	5,945	5,346
Total capital stock (A+B)	14,318	12,291
Net debt/total capital stock ratio	0.58	0.57

(b) Financial Risk Factors

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

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

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

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

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management

	Receivables								
	Trade receivables		**Other receivables**						
31 December 2018	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks (***)**	**Derivative Instruments**	**Goverment Debt Securities**	**Corporate Debt Securities**	**Equity Securities**
Maximum credit risk as of balance sheet date (*)	2	509	3	2,182	2,020	57	135	66	17
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	(59)	-	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	2	360	3	2,182	2,020	57	135	66	17
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	79	-	-	-	-	-	-	-
-The part under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets									
-Past due (gross carrying amount)	-	70	-	-	-	-	-	-	-
-Impairment(-)	-	(70)	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-	-	-	-

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

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

	Receivables								
	Trade receivables		Other receivables						
31 December 2017	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks (***)**	**Derivative Instruments**	**Goverment Debt Securities**	**Corporate Debt Securities**	**Equity Securities**
Maximum credit risk as of balance sheet date (*)	2	496	-	938	2,079	203	17	33	-
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	(94)	-	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	2	265	-	938	2,079	203	17	33	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	156	-	-	-	-	-	-	-
-The part under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets									
-Past due (gross carrying amount)	-	75	-	-	-	-	-	-	-
-Impairment(-)	-	(75)	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-	-	-	-

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

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

The aging of past due receivables as of 31 December 2018 are as follows:

	Receivables					
31 December 2018	**Trade Receivables**	**Other Receivables**	**Deposits in Banks**	**Derivative Instruments**	**Other**	**Total**
Past due 1-30 days	55	-	-	-	-	55
Past due 1-3 months	3	-	-	-	-	3
Past due 3-12 months	19	-	-	-	-	19
Past due 1-5 years	72	-	-	-	-	72
Total past due receivables	149	-	-	-	-	149
The part under guarantee with collateral etc.	25	-	-	-	-	25

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

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

(b) Financial Risk Factors (cont'd)

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

The aging of past due receivables as of 31 December 2017 are as follows:

	Receivables					
31 December 2017	**Trade Receivables**	**Other Receivables**	**Deposits in Banks**	**Derivative Instruments**	**Other**	**Total**
Past due 1-30 days	46	-	-	-	-	46
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	109	-	-	-	-	109
Past due 1-5 years	41	-	-	-	-	41
Total past due receivables	231	-	-	-	-	231
The part under guarantee with collateral etc.	29	-	-	-	-	29

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

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

(b) Financial Risk Factors (cont'd)

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

As of balance sheet date, total amount of cash collateral and letter of guarantee received by Group for past due and not impaired receivable is 25 USD (31 December 2017: 29 USD).

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

b.2) Impairment

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

Changes in provisions for doubtful receivables for the years ended 31 December 2018 and 2017 are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening Balance	75	76
Charge for the year	5	14
Collections during the year	(8)	(15)
Ifrs 9 adjustment	(4)	-
Currency translation adjustment	2	-
Closing Balance	70	75

b.3) Liquidity risk management

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

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

Liquidity risk table:

31 December 2018

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	2,622	(2,744)	(308)	(1,126)	(1,310)	-
Finance lease obligations	7,986	(8,601)	(280)	(847)	(3,741)	(3,733)
Trade payables	1,022	(1,022)	(1,022)	-	-	-
Other payables	30	(30)	(3)	(7)	(20)	-
Other financial liabilities	6	(6)	(6)	-	-	-
Total	11,666	(12,403)	(1,619)	(1,980)	(5,071)	(3,733)

31 December 2017

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	853	(858)	(244)	(531)	(83)	-
Finance lease obligations	8,213	(9,012)	(276)	(829)	(3,718)	(4,189)
Trade payables	855	(855)	(855)	-	-	-
Other payables	40	(40)	(3)	(7)	(30)	-
Other financial liabilities	16	(16)	(16)	-	-	-
Total	9,977	(10,781)	(1,394)	(1,367)	(3,831)	(4,189)

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

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

(b) Financial Risk Factors (cont'd)

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

31 December 2018

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows	57	27	8	6	13	-
Derivative cash outflows	(196)	(167)	(33)	(77)	(30)	(27)
Derivative cash inflows/outflows,net	(139)	(140)	(25)	(71)	(17)	(27)

31 December 2017

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows	203	197	64	100	33	-
Derivative cash outflows	(128)	(120)	(42)	(26)	(21)	(31)
Derivative cash inflows/outflows,net	75	77	22	74	12	(31)

b.4) Market risk management

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

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

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

(b) Financial Risk Factors (cont'd)

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

b.4.1) Foreign currency risk management

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

	31 December 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	**-**	**-**	**-**	**-**	**-**	**-**

(*) 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 6,853 USD as of 31 December 2018.

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

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

(b) Financial Risk Factors (cont'd)

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

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

	31 December 2017					
	USD EQUIVALENT	**TL**	**EUR**	**JPY**	**CHF**	**OTHER**
1.Trade Receivables	567	125	114	3	7	318
2a.Monetary Financial Assets	1,945	57	1,838	4	2	44
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	369	142	102	7	5	113
4.Current Assets (1+2+3)	**2,881**	**324**	**2,054**	**14**	**14**	**475**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	107	4	94	-	-	9
8.Non Current Assets (5+6+7)	**107**	**4**	**94**	**-**	**-**	**9**
9.Total Assets (4+8)	**2,988**	**328**	**2,148**	**14**	**14**	**484**
10.Trade Payables	538	363	138	-	2	35
11.Financial Liabilities	721	16	478	207	20	-
12a.Other Liabilities, Monetary	958	793	145	19	1	-
12b.Other Liabilities, Non Monetary	63	63	-	-	-	-
13.Current Liabilities (10+11+12)	**2,280**	**1,235**	**761**	**226**	**23**	**35**
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	5,818	-	3,543	2,096	179	-
16a.Other Liabilities, Monetary	14	9	5	-	-	-
16b.Other Liabilities, Non Monetary	128	128	-	-	-	-
17.Non Current Liabilities (14+15+16)	**5,960**	**137**	**3,548**	**2,096**	**179**	**-**
18.Total Liabilities (13+17)	**8,240**	**1,372**	**4,309**	**2,322**	**202**	**35**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	**(5,252)**	**(1,044)**	**(2,161)**	**(2,308)**	**(188)**	**449**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(5,537)**	**(999)**	**(2,357)**	**(2,315)**	**(193)**	**327**
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

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

(b) Financial Risk Factors (cont'd)

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

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

The Group is exposed to foreign exchange risk primarily from TL, EURO, JPY and CHF. The following table details the Group's sensitivity to a 10% increase and decrease in TL,EURO, JPY and CHF.10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss with a same effect on equity. The Group accounted investment loans 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.

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

	31 December 2017			
	Profit / (Loss)		**Equity**	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(104)	104	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	(104)	104	-	-
4- Euro net asset / liability	(216)	216	-	-
5- Part hedged from Euro risk (-)	-	-	-	-
6- Euro net effect (4+5)	(216)	216	-	-
7- JPY net asset / liability	(231)	231	-	-
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(231)	231	-	-
10- CHF net asset / liability	(19)	19	-	-
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	(19)	19	-	-
13- Other foreign currency net asset / liability	45	(45)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	45	(45)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	(525)	525	-	-

b.4.2) Interest rate risk management

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

Interest Rate Position Table

	31 December 2018	**31 December 2017**
Instruments with fixed interest rate		
Financial Liabilities	2,966	3,234
Financial Instruments with Variable Interest Rate		
Financial Liabilities	5,020	4,979
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(5)	(8)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(34)	(34)

As indicated in Note 36, the Group fixed the interest rate for 3,352 USD of floating–interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2018.

Interest rate sensitivity

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

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

Current profit before tax of the Group for the year will decrease by USD 33 (For the year ended 31 December 2017 profit before tax will decrease by USD 29). In contrast, if Libor and Euribor interest rate decrease by 0.5%, profit before tax will increase by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in the event of a 0.5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by USD 34, excluding the deferred tax effect. (For the year ended 31 December 2017 the shareholders' equity of the Group will increase by USD 36, excluding the deferred tax effect.) In the event of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amounts, excluding the deferred tax effect.

b.4.3) Fuel prices sensitivity

As explained in Note 36, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by USD 60, excluding the deferred tax effect. (For the year ended 31 December 2017, the shareholders' equity of the Group will increase by USD 116 excluding deferred tax effect.)

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

(b) Financial Risk Factors (cont'd)

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

b.4.3) Fuel prices sensitivity (cont'd)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by USD 56, excluding the deferred tax effect. (For the year ended 31 December 2017, the shareholders' equity of the Group will decrease by USD 115, excluding deferred tax effect.)

36. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

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

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

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2018 Balance Sheet	Financial assets at amortized cost	Financial instruments at FVOCI	Financial instruments at FVTPL	Financial instruments FVOCI at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1,636	-	-	-	-	1,636	5
Financial investments and derivative financial instruments	386	241	34	1	-	662	6 and 34
Trade receivables	570	-	-	-	-	570	9 and 10
Other receivables	2,185	-	-	-	-	2,185	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	2,622	2,622	7 and 18
Finance lease obligations	-	-	-	-	7,986	7,986	7 and 18
Other financial liabilities and derivative financial instruments	-	188	8	-	6	202	8 and 34
Trade payables	-	-	-	-	1,022	1,022	9 and 10

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2017 Balance Sheet	Financial assets at amortized cost	Financial instruments at FVOCI	Financial instruments at FVTPL	Financial instruments FVOCI at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1,891	-	-	-	-	1,891	5
Financial investments and derivative financial instruments	195	238	15	1	-	449	6 and 34
Trade receivables	592	-	-	-	-	592	9 and 10
Other receivables	938	-	-	-	-	938	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	853	853	7 and 18
Finance lease obligations	-	-	-	-	8,213	8,213	7 and 18
Other financial liabilities and derivative financial instruments	-	80	48	-	16	144	8 and 34
Trade payables	-	-	-	-	855	855	9 and 10

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

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

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

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

		Fair value level as of the reporting date		
Financial assets	31 December 2018	Level 1 USD	Level 2 USD	Level 3 USD
Financial assets on remeasuring FVOCI	201	201	-	-
Financial assets on remeasuring FVTPL	17	17	-	-
Derivative instruments at fair value through profit or loss	17	-	17	-
Derivative instruments accounted for hedge accounting	40	-	40	-
Total	275	218	57	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	8	-	8	-
Derivative instruments accounted for hedge accounting	188	-	188	-
Total	196	-	196	-

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

		Fair value level as of the reporting date		
Financial assets	31 December 2017	Level 1 USD	Level 2 USD	Level 3 USD
Financial assets on remeasuring FVOCI	50	50	-	-
Derivative instruments at fair value through profit or loss	15	-	15	-
Derivative instruments accounted for hedge accounting	188	-	188	-
Total	253	50	203	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	48	-	48	-
Derivative instruments accounted for hedge accounting	80	-	80	-
Total	128	-	128	-

Derivative Instruments and Hedging Transactions

In order to increase predictability of cash flow in the future, the Group uses derivative financial instruments such as currency forward contracts, foreign currency options, cross currency swap contracts, interest rate swap contracts, brent options and swap contracts to hedge its risks associated with foreign currency, interest rate and jet fuel price fluctuation.

The floating-rate financial liabilities of the Group are explained in Note 35 b.4.2. In order to keep interest costs at an affordable level, the Group has hedged approximately 63% of floating rate USD, JPY and Euro denominated liabilities arising from financial leasing activities. Effective part of the change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

In order to control risk arising from fluctuations in fuel price, the Group has begun to hedging activities, in 2009. The fuel hedge strategy, which launched in June 2009, has been updated over the years regarding market experience and requirements. In accordance with the Group's BOD resolution issued on 14 July 2017, hedging trades are decided to be done for up-to 60% of budgeted fuel consumption of maximum next 24 months, regarding market conditions,. Also in the context of related change in strategy, premium paid options have also been added to the instrument alternatives, in addition to formerly used swap and zero-cost option structures. As a result of these changes, hedging strategy has become more flexible and accommodative to fuel market conditions with the optionality in tenor, hedge ratio and instrument. The effective portion of fair value of fuel hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

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

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

The currency mismatch between Group's income and expense causes the exchange rate risk. For this reason, FX risk hedging methodology was established for the first time in June, 2013 with the decision of the BOD and lastly updated in February 2015. Thus, it has been decided to hedge the Group's USD and TRY short positions with its EUR long position. According to the methodology, 30% of the forecasted monthly short position in TRY for the following 24 months is hedged by using forwards. Also, based on the market conditions, between 25% and 35% of the forecasted monthly short position in USD is hedged by using forwards or zero-cost collars in 24 month-period, similar to TRY. In this way, risk arising due to the exchange rate volatility is diminished and taken under control by either fixing the exchange rate at a predetermined level or controlling them in a range. The effective portion of fair value of currency hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

As of 2018, 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.

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2018 and 2017 are as follows:

Derivative Instruments Stated in Assets and Liabilities

31 December 2018	**Positive fair value**	**Negative fair value**	**Total**
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(34)	(34)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	-	-
Collar contracts for hedging against cash flow risk of fuel prices	34	(118)	(84)
Forward currency contracts for hedging purposes	6	(36)	(30)
Fair values of derivative instruments for hedging purposes	40	(188)	(148)
Cross-currency swap contracts not subject to hedge accounting	11	-	11
Interest rate swap contracts not subject to hedge accounting	2	(7)	(5)
Forward currency contracts not for hedging purposes	4	(1)	3
Fair values of derivative instruments not for hedging purposes	17	(8)	9
Total	57	(196)	(139)

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

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2018 and 2017 are as follows (cont'd):

Derivative Instruments Stated in Assets and Liabilities

31 December 2017	**Positive fair value**	**Negative fair value**	**Total**
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	1	(35)	(34)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	22	-	22
Collar contracts for hedging against cash flow risk of fuel prices	162	(4)	158
Forward currency contracts for hedging purposes	3	(41)	(38)
Fair values of derivative instruments for hedging purposes	188	(80)	108
Cross-currency swap contracts not subject to hedge accounting	6	-	6
Interest rate swap contracts not subject to hedge accounting	4	(12)	(8)
Forward currency contracts not for hedging purposes	5	(36)	(31)
Fair values of derivative instruments not for hedging purposes	15	(48)	(33)
Total	203	(128)	75

Derivative Instruments Stated in the Equity

31 December 2018	**Hedging against fuel risk**	**Hedging against interest risk**	**Hedging against currency risk**	**Total**
Fair values of derivative instruments for hedging purposes	(84)	(34)	(33)	(151)
The amount of financial expenses inside hedge funds	-	1	-	1
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(20)	-	-	(20)
Ineffecient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	166	166
Total	(104)	(33)	133	(4)
Deferred tax	23	7	(26)	4
Hedge reserve as of 31 December 2017	(81)	(26)	107	-

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

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2018 and 2017 are as follows (cont'd):

Derivative Instruments Stated in the Equity

31 December 2017	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	181	(34)	(45)	102
The amount of financial expenses inside hedge funds	-	1	-	1
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(24)	-	-	(24)
Foreign currency translation differences	-	-	-	-
Total	157	(33)	(45)	79
Deferred tax	(35)	7	10	(18)
Hedge reserve as of 31 December 2016	122	(26)	(35)	61

37. EVENTS AFTER THE BALANCE SHEET DATE

None.