

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

Consolidated Financial Statements As at and  
for The Year Ended 31 December 2019  
with Independent Auditor's Report

This report includes 9 pages of Independent Auditors' Report and  
91 pages of financial statements together with their explanatory  
notes.



KPMG Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
İş Kuleleri Kule 3 Kat:2-9  
Levent 34330 İstanbul  
Tel +90 212 316 6000  
Fax +90 212 316 6060  
www.kpmg.com.tr

## 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 2019, 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 2019, 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.



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.

<b>Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The major part of the Group's revenue consists of the passenger revenue. The passenger revenue is recognized when the transportation service is completed. Unused tickets are recognized as passenger flight liabilities. The significant estimations and judgments of the management regarding the revenue are as follows:</p> <p>The timing of revenue recognition for unused tickets requires significant management judgment.</p> <p>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.</p> <p>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.</p> <p>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</p>	<p>Our audit procedures performed related to this matter are listed below:</p> <p>For the revenue recognition of passenger revenue;</p> <ul style="list-style-type: none"><li>• 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.</li><li>• We have tested application controls of the systems configured systems to recognize passenger revenues.</li><li>• 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</li><li>• We have performed expectation analysis with external market</li></ul>



<p>exchange of high volume of transactions, the passenger revenue and the passenger flight liability have been determined as key audit matters.</p> <p>The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Revenue is recognised when Miles and Smiles members fly, or when it is assessed that the miles awarded will expire without use.</p> <p>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.</p>	<p>data and traffic data tested by IT specialists.</p> <ul style="list-style-type: none"><li>• For the revenue recognition of unused tickets;</li><li>• We have tested their sale date, recording area/period and validity by using sample size 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.</li><li>• We have evaluated the assumptions in the models that are used in order to determine fair values of Miles and Smiles rewards.</li><li>• 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.</li><li>• 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</li></ul>
---	---



	<p>manual key internal controls.</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• Key manual controls were also tested in order to ensure whether processing exceptions are in proper way.</li></ul> <p>-</p>
--	--



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
<p>The accounting of aircrafts has a material impact for the Group due to the value of aircrafts and their long useful lives.</p> <p>Significant key assumptions and judgment are listed below:</p> <ul style="list-style-type: none"><li>• Identifying residual values and useful lives of aircrafts with respect to physical, economic and commercial environments.</li><li>• Determining the components of aircrafts.</li><li>• Reviewing of carrying values of aircraft allocated to different parts of the business that use the aircraft (cash generating units (CGUs)).</li></ul> <p>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.</p>	<p>Our audit procedures performed related to this matter are listed below:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• We have compared the useful lives of the components of aircrafts with the sector benchmark</li><li>• We have analyzed the Group's depreciation policies, predictive useful lives, residual value of aircrafts and purchasing and disposal future, flight plan.</li><li>• We have compared useful lives of aircraft components with average sector range.</li><li>• We have recalculated the aircraft depreciation expenses based on previously determined useful lives.</li></ul>



Initial application of IFRS 16 Leases

Refer to the note 2.3.4 for the assumptions, accounting policies and considerations about the initial application of IFRS 16 Leases.

<b>Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>IFRS 16 replaces the existing standard IAS 17 and specifies how an entity will recognize, measure, present and disclose leases.</p> <p>The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for the lease term is 12 months or less or the underlying asset has a low value.</p> <p>The Group has applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.</p> <p>The adjustments arising from applying IFRS 16 are material to the Group, and this disclosure of impact is a key focus area in our audit.</p> <p>Significant judgement is required in the assumptions and estimates made in order to determine the Right of Use ("ROU") asset and lease liability. The assumptions and estimates include assessment of lease term, components of the ROU asset where appropriate, the accounting for lease liabilities and the determination of appropriate discount rates.</p>	<p>Our audit procedures performed related to this matter are listed below:</p> <ul style="list-style-type: none"><li>• Through our discussions with the Group Management, we understood the Group's process in identifying lease contracts, or contracts that contained leases.</li><li>• A sample of lease contracts that have been signed between the Group and the lessors have been examined and assessed whether such contracts fall within the scope of IFRS 16</li><li>• We examined a sample of contracts to agree whether underlying asset is low value and leases with a term of less than 12 months determined by the Group</li><li>• We examined the discount rates used regarding the terms of the contracts covered and the type of currency. in calculation</li><li>• We obtained the Group's quantification of ROU assets and lease liabilities. For a sample of leases, we agreed the inputs used in the quantification to the lease agreements,</li></ul>



<p>Since the adjustments resulting from the initial application of IFRS 16 is significant for the consolidated financial statements of the Group, disclosures regarding the initial application have become a focus area in our audit.</p> <p>Since the lease contracts can be complex, initial application of IFRS 16 has been identified as a key audit matter, since it will require significant judgment by the management when determining the accounting basis specific to each situation.</p>	<p>challenged the calculations of the discount rate applied, and made recalculations.</p> <ul style="list-style-type: none"><li>• We assessed the appropriateness of Group's accounting policies for ROU assets and lease liabilities in accordance with IFRS 16.</li><li>• We assessed the Group's accounting for aircraft right of use asset components and aircraft lease return provisions.</li><li>• We evaluated the appropriateness and adequacy of the disclosures in the notes to the consolidated financial statements.</li></ul>
--	---

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

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

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

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

#### *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  
5 March 2020  
İstanbul, Türkiye

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Consolidated Balance Sheet as at 31 December 2019**

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

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Non-Current Assets</b>			
Financial Investments	6	90	86
Other Receivables			
-Third Parties	12	1,276	1,004
Investments Accounted by Using Equity Method	3	369	358
Property and Equipment	15	17,261	13,918
Intangible Assets			
- Other Intangible Assets	16	82	82
- Goodwill	17	12	12
Prepaid Expenses	14	864	767
<b>TOTAL NON-CURRENT ASSETS</b>		<b>19,954</b>	<b>16,227</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	5	2,075	1,636
Financial Investments	6	400	519
Trade Receivables			
-Related Parties	9	-	2
-Third Parties	10	540	568
Other Receivables			
-Related Parties	9	28	3
-Third Parties	12	1,053	1,178
Derivative Financial Instruments	34	52	57
Inventories	13	290	190
Prepaid Expenses	14	149	192
Current Income Tax Assets	32	43	61
Other Current Assets	24	140	99
<b>TOTAL CURRENT ASSETS</b>		<b>4,770</b>	<b>4,505</b>
<b>TOTAL ASSETS</b>		<b>24,724</b>	<b>20,732</b>

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

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

**Consolidated Balance Sheet as at 31 December 2019**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Equity</b>			
Share Capital	25	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	25	( 38)	( 35)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	25	( 184)	( 160)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	25	171	-
-Gains on Remeasuring FVOCI	25	( 1)	( 6)
Restricted Profit Reserves	25	67	36
Previous Years Profit	25	4,463	3,760
Net Profit for the Year		788	753
Equity of the Parent		<b>6,863</b>	<b>5,945</b>
Non-Controlling Interests (*)		1	-
<b>TOTAL EQUITY</b>		<b>6,864</b>	<b>5,945</b>
<b>Non- Current Liabilities</b>			
Long-Term Borrowings	7 and 18	8,995	8,239
Long Term Lease Liabilities	7 and 18	1,271	-
Other Payables			
-Third Parties	12	37	36
Deferred Income	14	120	65
Long-Term Provisions			
-Provisions for Employee Benefits	22	135	130
-Other Provisions		45	-
Deferred Tax Liability	32	1,293	1,138
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,896</b>	<b>9,608</b>
<b>Current Liabilities</b>			
Short Term Borrowings	7	1,241	1,099
Short-Term Portion of Long-Term Borrowings	7 and 18	1,609	1,270
Short Term Portion of Lease Liabilities	7 and 18	256	-
Other Financial Liabilities	8	19	6
Trade Payables			
-Related Parties	9	172	231
-Third Parties	10	958	791
Payables Related to Employee Benefits	11	160	199
Other Payables			
-Third Parties	12	98	78
Derivative Financial Instruments	34	70	196
Deferred Income	14	1,071	1,047
Short-Term Provisions			
-Provisions for Employee Benefits	20	39	39
-Other Provisions	20	13	16
Other Current Liabilities	24	258	207
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,964</b>	<b>5,179</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24,724</b>	<b>20,732</b>

(\*) 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 2019**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<b><u>PROFIT OR LOSS</u></b>	<b>Notes</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Revenue	26	13,229	12,855
Cost of Sales (-)	27	( 10,928)	( 10,136)
<b>GROSS PROFIT</b>		<b>2,301</b>	<b>2,719</b>
General Administrative Expenses (-)	28	( 299)	( 260)
Marketing and Sales Expenses (-)	28	( 1,417)	( 1,290)
Other Operating Income	29	355	161
Other Operating Expenses (-)	29	( 64)	( 139)
<b>OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES</b>		<b>876</b>	<b>1,191</b>
Income from Investment Activities	30	169	101
Expenses from Investment Activities	30	( 80)	( 2)
Share of Investments' Profit Accounted by Using The Equity Method	3	82	123
<b>OPERATING PROFIT</b>		<b>1,047</b>	<b>1,413</b>
Financial Income	31	139	129
Financial Expenses (-)	31	( 310)	( 588)
<b>PROFIT BEFORE TAX</b>		<b>876</b>	<b>954</b>
<b>Tax Income Expense</b>		<b>( 88)</b>	<b>( 201)</b>
Current Tax Expense	32	-	( 40)
Deferred Tax Expense	32	( 88)	( 161)
<b>NET PROFIT FOR THE YEAR</b>		<b>788</b>	<b>753</b>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
<b>Items That May Be Reclassified Subsequently To Profit or Loss</b>		<b>152</b>	<b>( 120)</b>
Currency Translation Adjustment		( 24)	( 52)
Gains / (Losses) on Remeasuring FVOCI		7	( 9)
Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges		212	( 86)
Fair Value Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		6	3
Related Tax of Other Comprehensive Income		( 49)	24
<b>Items That Will Not Be Reclassified Subsequently To Profit or Loss</b>		<b>( 3)</b>	<b>( 20)</b>
Actuarial Losses on Retirement Pay Obligation		( 4)	( 25)
Related Tax of Other Comprehensive Income		1	5
<b>OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR</b>		<b>149</b>	<b>( 140)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>937</b>	<b>613</b>
Basic Gain Per Share (Full US Cents)	33	0.57	0.55
Diluted Gain Per Share (Full US Cents)	33	0.57	0.55

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 2019**

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

	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss				Retained Earnings				Total Equity
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Year	Equity Holders of the Parent	Non-controlling Interests	
<b>As of 1 January 2019</b>	<b>1,597</b>	<b>(35)</b>	<b>(160)</b>	<b>-</b>	<b>(6)</b>	<b>36</b>	<b>3,760</b>	<b>753</b>	<b>5,945</b>	<b>-</b>	<b>5,945</b>
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	(18)	-	(18)	-	(18)
<b>As of 1 January 2019</b>	<b>1,597</b>	<b>(35)</b>	<b>(160)</b>	<b>-</b>	<b>(6)</b>	<b>36</b>	<b>3,742</b>	<b>753</b>	<b>5,927</b>	<b>-</b>	<b>5,927</b>
Transfers	-	-	-	-	-	-	753	(753)	-	-	-
Total comprehensive income	-	(3)	(24)	171	5	31	(32)	788	936	1	937
<b>As of 31 December 2019</b>	<b>1,597</b>	<b>(38)</b>	<b>(184)</b>	<b>171</b>	<b>(1)</b>	<b>67</b>	<b>4,463</b>	<b>788</b>	<b>6,863</b>	<b>1</b>	<b>6,864</b>

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

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

**Consolidated Statement of Changes in Equity**

**For the Year Ended 31 December 2019**

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

	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings					
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Year	Equity Holders of the Parent	Non-controlling Interests	Total Equity
<b>As of 1 January 2018</b>	<b>1,597</b>	<b>(15)</b>	<b>(108)</b>	<b>61</b>	<b>1</b>	<b>36</b>	<b>3,551</b>	<b>223</b>	<b>5,346</b>	<b>-</b>	<b>5,346</b>
Adjustment on initial application of IFRS 15	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Adjustment on initial application of IFRS 9	-	-	-	-	-	-	(7)	-	(7)	-	(7)
<b>Restated As of 1 January 2018</b>	<b>1,597</b>	<b>(15)</b>	<b>(108)</b>	<b>61</b>	<b>1</b>	<b>36</b>	<b>3,537</b>	<b>223</b>	<b>5,332</b>	<b>-</b>	<b>5,332</b>
Transfers	-	-	-	-	-	-	223	(223)	-	-	-
Total comprehensive income	-	(20)	(52)	(61)	(7)	-	-	753	613	-	613
<b>As of 31 December 2018</b>	<b>1,597</b>	<b>(35)</b>	<b>(160)</b>	<b>-</b>	<b>(6)</b>	<b>36</b>	<b>3,760</b>	<b>753</b>	<b>5,945</b>	<b>-</b>	<b>5,945</b>

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 2019**

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

	Notes	31 December 2019	31 December 2018
Net Profit for the year		788	753
<b>Adjustments to Reconcile Profit / (Loss)</b>			
Adjustments for Depreciation and Amortisation Expense	15 and 16	1.521	1.087
Adjustments for Provisions Related with Employee Benefits	20 and 22	22	23
Adjustments for Provisions for Payables	20	(2)	2
Adjustments for Reversal of Probable Risks	35	20	(7)
Adjustments for Interest Income	30 and 31	(97)	(123)
Adjustments for Interest Expense	22 and 31	257	265
Adjustments For Unrealised Foreign Exchange Gains		(802)	(98)
Adjustments for Manufacturers' Credits	14	-	1
Adjustments for Fair Value Losses / (Gains) on Derivative Financial Instruments	31	23	(36)
Adjustments for Undistributed Profits of Associates	3	(82)	(123)
Adjustments for Tax Income	32	88	201
Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets	30	74	(5)
Adjustments for Losses Arised from Sale of Other Non-Current Assets	15	39	29
<b>Operating Profit Before Changes in Working Capital</b>		<b>1.849</b>	<b>1.969</b>
Increase in Trade Receivables from Non Related Parties	10	15	27
Decrease / (Increase) in Other Non-Related Party Receivables Related with Operations	12	66	(272)
Adjustments for (Increase) / Decrease in Inventories	13	(100)	3
Adjustments for Increase in Prepaid Expenses	14	(54)	(344)
(Decrease) / Increase in Trade Payables to Related Parties	9	(59)	63
Increase in Trade Payables to Non-Related Parties	10	167	104
Adjustments for Decrease in Payables Due to Employee Benefits	11	(39)	(1)
Increase / (Decrease) in Other Operating Payables to Non-Related Parties	12	160	(42)
Increase in Deferred Income	14	175	53
Increase in Other Assets Related with Operations	24	(41)	(12)
<b>Cash Flows From Operations</b>		<b>2.139</b>	<b>1.548</b>
Payments for Provisions Related with Employee Benefits	22	(10)	(10)
Income taxes (paid)	32	(18)	(81)
<b>Net Cash From Operating Activities</b>		<b>2.111</b>	<b>1.457</b>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		17	13
Cash Payments From Purchasing of Property, Plant and Equipment (*)	15 and 16	(1.068)	(1.242)
Cash Receipts / (Payments) From Purchasing of Other Long-term Assets	6	115	(359)
Other Cash Advances and Loans	12	(225)	(969)
Dividends Received		61	31
Interest Received	30 and 31	84	123
<b>Net Cash Flows Used In Investing Activities</b>		<b>(1.016)</b>	<b>(2.403)</b>
<b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>			
Proceeds From Loans	7	3.161	3.055
Payments of Loans		(2.268)	(1.228)
Payments of Finance Lease Liabilities		(974)	(906)
Payments of Lease Liabilities		(341)	-
Interest Paid		(247)	(220)
Other Cash Inflows/ (Outflows)	8	13	(10)
<b>Net Cash Used in Financing Activities</b>		<b>(656)</b>	<b>691</b>
<b>Net Change in Cash and Cash Equivalents</b>		<b>439</b>	<b>(255)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>1.636</b>	<b>1.891</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	5	<b>2.075</b>	<b>1.636</b>

(\*) USD 2,289 portion of property and equipment and intangible assets purchases in total of USD 3,357 for the year ended 31 December 2019 was acquired through leases. (31 December 2018: USD 817 portion of property and equipment and intangible assets purchases in total of USD 2,059 was acquired through leases.)

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



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

### 1. GROUP ORGANIZATION AND ITS OPERATIONS

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

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

The number of employees working for the Group as of 31 December 2019 is 38,849 (31 December 2018: 35,205). The average number of employees working for the Group for the years ended 31 December 2019 and 2018 are 37,670 and 33,347 respectively. The Group is registered in İstanbul, Turkey and its head office address is as follows:

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

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

#### Subsidiaries and Joint Ventures

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

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

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

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

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

### Subsidiaries and Joint Ventures (cont'd)

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

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

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

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Basis of Presentation

#### Statement of Compliance

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

Board of Directors has approved the consolidated financial statements as of 31 December 2019 on 5 March 2020. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.1 Basis of Presentation (cont'd)

#### **Basis of Preparation**

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

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

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

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

##### **Functional currency**

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

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

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

#### **Basis of Consolidation**

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.1 Basis of Presentation (cont'd)

#### Business Combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

### 2.2 Changes and Errors in Accounting Policies Estimates

#### *Transition to IFRS 16:*

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

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

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.2 Changes and Errors in Accounting Policies Estimates (cont'd)

#### *Transition to IFRS 16 (cont'd):*

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

	<u>1 January 2019</u>
Lease commitments	1,915
-Discounted amount (-)	(299)
-Short term and low value leases (-)	(21)
Total lease liability	<u>1,595</u>

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognized USD 315 depreciation charges and USD 57 interest costs from these leases.

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

- Short term deferred income amounting to USD 5 included for the year 1 January- 31 December 2018 is classified to long term deferred income.
- Other operating income amounting to USD 4 included for the year 1 January- 31 December 2018 is classified to other operating expense.

### 2.3 Summary of Significant Accounting Policies

#### 2.3.1 Revenue

##### **IFRS 15 Revenue from contracts with customers**

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

The Company 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.

General model for revenue recognition

IFRS 15 requires revenue recognition for all contracts with customers to follow the five-step approach to revenue recognition.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.1 Revenue (cont'd)

##### IFRS 15 Revenue from contracts with customers (cont'd)

###### Step 1: Identifying the contract

A contract exists only if it is legally enforceable, the collection of the consideration is probable, the rights to goods and services and payment terms can be identified, the contract has commercial substance; and the contract is approved and the parties are committed to their obligations.

If either contracts were negotiated as a single commercial package, or consideration in one contract depends on the other contract or goods or services (or some of the goods or services) are a single performance obligation the Company accounts the contracts as a single contract.

###### Step 2: Identifying the performance obligations

The Company defines 'performance obligation' as a unit of account for revenue recognition. The Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either a good or service that is distinct; or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. A contract may contain promises to deliver a series of distinct goods or services that are substantially the same. At contract inception, an entity determines whether the series of goods or services is a single performance obligation.

###### Step 3: Determining the transaction price

In order to determine the transaction price, the Company assesses how much consideration it expects to be entitled to by fulfilling the contract. In arriving at the assessment, the Company considers variable elements of consideration, as well as the existence of a significant financing component.

###### Significant financing component

The Company revises the promised amount of consideration for the effect of a significant financing component to the amount that reflects what the cash selling price of the promised good or service.

As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the entity expects the period between customer payment and the transfer of goods or services to be one year or less. In cases where advance for the services are received and the payment scheme is broadly aligned with the Company's performance throughout the period, the Company concludes that the period between performance and payment is never more than 12 months, therefore the expedient is applied.

###### Variable consideration

The Company's identifies items such as price concessions, incentives, performance bonuses, price adjustment clauses, penalties, discounts, credits, or similar items may result in variable consideration if there is any in a customer contract.

###### *Step 4: Allocating the transaction price to performance obligations*

If distinct goods or services are delivered under a single arrangement, then the consideration is allocated based on relative stand-alone selling prices of the distinct goods or services (performance obligations). If directly observable stand-alone selling prices are not available, the total consideration in the service contracts is allocated based on their expected cost plus a margin.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.1 Revenue (cont'd)

#### IFRS 15 Revenue from contracts with customers (cont'd)

##### *Step 5: Recognition of revenue*

The Company recognises revenue over-time if any of the following conditions is met:

- Customer simultaneously receives and consumes the benefits as the entity performs, or
- The customer controls the asset as the entity creates or enhances it, or
- Company's performance does not create an asset for which the entity has a use; and alternative there is a right to payment for performance to date.

For each performance obligation that is satisfied over time, an entity selects a single measure of progress, which depicts the transfer of control of the goods or services to the customer. The Company uses a method that measures the work performed reliably. The Company uses cost incurred to measure the progress towards to completion of the project where the input method is used and uses units transferred to measure the progress towards to completion of the project where the output method is used. If a performance obligation is not satisfied over time, then the Company recognise revenue at the point in time at which it transfers control of the good or service to the customer.

The Company recognises a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits.

##### *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.

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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.1 Revenue (cont'd)

##### *Rendering of services (cont'd):*

##### **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.

##### *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.



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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

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.

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

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

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25 and 50	-
- Aircrafts and Engines	25	10%
- Cargo Aircraft and Engines	25	10%
- Overhaul Maintenance for Airframe	6	-
- Overhaul Maintenance for Engines	3-8	-
- Overhaul Maintenance for Spare Engines	3-13	-
- Components	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	-

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.4 Leases

##### IFRS 16 Leases

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

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

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

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

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

##### *Right-of-use assets*

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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

Right-of-use assets are subject to impairment.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.4 Leases (cont'd)

##### IFRS 16 Leases (cont'd)

###### *Right-of-use assets (cont'd)*

###### *Aircraft;*

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

###### *Real estate and other leases;*

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

###### *Lease liabilities*

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.4 Leases (cont'd)

##### IFRS 16 Leases (cont'd)

###### *Short-term leases and leases of low-value assets*

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

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

##### **Redelivery maintenance prior year affect**

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

#### 2.3.5 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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)

#### 2.3.6 Impairment on Assets (cont'd)

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.

#### 2.3.7 Borrowing Costs

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

#### 2.3.8 Financial Instruments

##### (a) *Financial assets*

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

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

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.8 Financial Instruments (cont'd)

##### (a) Financial assets (cont'd)

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.8 Financial Instruments (cont'd)

##### (a) Financial assets (cont'd)

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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.8 Financial Instruments (cont'd)

##### (a) Financial assets (cont'd)

#### 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.



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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*

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 2019, 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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 and US Dollar-EUR exchange rates as at 31 December 2019, 2018 and 2017 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2019	5.9402	5.6712
Year ended 31 December 2018	5.2609	4.8301
Year ended 31 December 2017	3.7719	3.6445

  

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2019	1/ 1.1196	1/ 1.1194
Year ended 31 December 2018	1/ 1.1458	1/ 1.1757
Year ended 31 December 2017	1/ 1.1971	1/ 1.1294

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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)

#### 2.3.10 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.14 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.

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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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)

#### 2.3.15 Taxation and Deferred Tax (cont'd)

##### Deferred Tax (cont'd)

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

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

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

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

##### Current and deferred tax for the year

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

#### 2.3.16 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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)

#### 2.3.17 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.

#### 2.3.18 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 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

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

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

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

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

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

#### The Determination of Impairment on Long Term Assets:

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

#### Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.3.21, 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.

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

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

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

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

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

The 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: (**)
20.01.2018	2017/11133	9.08.2018	Continue	Tax Reduction %90 / Contribution rate to Investment %50	4,190	-
15.06.2012	2012/3305	18.12.2014	Completed	Tax Reduction %50 / Contribution rate to Investment %15	2,857	-
14.07.2009	2009/15199	28.12.2010	Completed	Tax Reduction %50 / Contribution rate to Investment %20	2,234	3
20.01.2018	2017/11133	11.09.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %25	424	-
15.06.2012	2012/3305	1.03.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %15	141	25
15.06.2012	2012/3305	11.07.2017	Continue	Tax Reduction %50 / Contribution rate to Investment %15	-	-
15.06.2012	2012/3305	18.09.2017	Continue	General Investment Incentive	-	-

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

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

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



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

### **Notes to the Consolidated Financial Statements**

#### **For the Year Ended 31 December 2019**

(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**

#### **Standards issued but not yet effective and not early adopted**

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows:

#### **IFRS 17 Insurance Contracts**

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

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

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

#### **The revised Conceptual Framework (Version 2018)**

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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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)

#### Amendments to IAS 1 and IAS 8 - Definition of Material

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

#### 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. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With this amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of 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; 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 3.

#### Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

- pre-replacement issues—issues affecting financial reporting in the period before the reform; and
- replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

- (a) The highly probable requirement;
- (b) Prospective assessments;
- (c) IAS 39 retrospective assessment; and
- (d) Separately identifiable risk components.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

(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)

#### Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (cont'd)

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The Group shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

### 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:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Sun Express	166	136
TEC	59	62
Turkish DO&CO	55	53
TGS	40	39
THY Opet	33	58
Uçak Koltuk	6	5
TCI	6	3
Goodrich	3	2
We World Express	1	-
	<u>369</u>	<u>358</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

(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:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Sun Express	31	33
TGS	22	21
THY Opet	16	45
Turkish DO&CO	13	12
Uçak Koltuk	2	1
Goodrich	1	-
We World Express	-	-
TEC	(3)	11
	<u>82</u>	<u>123</u>

Financial information for Sun Express as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Total assets	1,865	1,350
Total liabilities	1,533	1,079
Shareholders'equity	332	271
Group's share in joint venture's shareholders' equity	166	136

  

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Revenue	1,567	1,479
Profit for the year	62	67
Group's share in joint venture's profit for the year	31	33

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total assets	315	621
Total liabilities	248	504
Shareholders'equity	67	117
Group's share in joint venture's shareholders' equity	33	58
	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Revenue	977	2,291
Profit for the year	32	90
Group's share in joint venture's profit for the year	16	45

Financial information for TEC as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total assets	219	189
Total liabilities	99	62
Shareholders'equity	120	127
Group's share in joint venture's shareholders' equity	59	62
	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Revenue	399	542
(Loss) / Profit for the year	(6)	22
Group's share in joint venture's (loss) / profit for the year	(3)	11

Financial information for Turkish DO&CO as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total assets	190	168
Total liabilities	80	62
Shareholders'equity	110	106
Group's share in joint venture's shareholders' equity	55	53

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 Turkish DO&CO as of 31 December 2019 and 2018 are as follows (cont'd):

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Revenue	344	285
Profit for the year	26	24
Group's share in joint venture's profit for the year	13	12

Financial information for TGS as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Total assets	172	130
Total liabilities	93	52
Shareholders'equity	79	78
Group's share in joint venture's shareholders' equity	40	39
	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Revenue	358	286
Profit for the year	45	42
Group's share in joint venture's profit for the year	22	21

Financial information for Uçak Koltuk as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Total assets	29	25
Total liabilities	18	15
Shareholders'equity	11	10
Group's share in joint venture's shareholders' equity	6	5
	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Revenue	30	14
Profit for the year	3	1
Group's share in joint venture's profit for the year	2	1

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 TCI as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total assets	19	17
Total liabilities	8	11
Shareholders'equity	11	6
Group's share in joint venture's shareholders' equity	6	3
	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Revenue	13	9
Profit for the year	1	-
Group's share in joint venture's profit for the year	-	-

Financial information for Goodrich as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total assets	12	10
Total liabilities	4	5
Shareholders'equity	8	5
Group's share in joint venture's shareholders' equity	3	2
	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Revenue	24	18
Profit for the year	3	1
Group's share in joint venture's profit for the year	1	-

Financial information for We World Express as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total assets	4	-
Total liabilities	1	-
Shareholders'equity	3	-
Group's share in joint venture's shareholders' equity	1	-
	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Revenue	3	-
Profit for the year	-	-
Group's share in joint venture's profit for the year	-	-

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

#### 4. SEGMENT REPORTING

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

##### Air Transport ("Aviation")

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

##### Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector. The detailed information about the revenue of the Group is given in Note 26.

#### 4.1 Total Assets and Liabilities

<b>Total Assets</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Aviation	24,490	20,638
Technical	1,568	1,326
Total	26,058	21,964
Less: Eliminations due to consolidation	(1,334)	(1,232)
Total assets in consolidated financial statements	24,724	20,732

  

<b>Total Liabilities</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Aviation	17,825	14,883
Technical	386	291
Total	18,211	15,174
Less: Eliminations due to consolidation	(351)	(387)
Total liabilities in consolidated financial statements	17,860	14,787



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

**4.2 Profit / (Loss) before Tax**

Segment Results:

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

<b>1 January - 31 December 2018</b>	<b>Inter-segment</b>			<b>Total</b>
	<b>Aviation</b>	<b>Technic</b>	<b>elimination</b>	
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	185	10	(34)	161
Other Operating Expenses (-)	(155)	(13)	29	(139)
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' Loss				
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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

**4.3 Investment Operations**

	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
<b>1 January - 31 December 2019</b>				
Purchase of property and equipment and intangible assets	3,003	354	-	3,357
Current period depreciation and amortization charge	1,385	136	-	1,521
Investments accounted by using equity method	304	65	-	369
<b>1 January - 31 December 2018</b>				
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

**5. CASH AND CASH EQUIVALENTS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Cash	1	2
Banks – Time deposits	2,000	1,570
Banks – Demand deposits	74	64
	<u>2,075</u>	<u>1,636</u>

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

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

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

<b><u>Amount</u></b>	<b><u>Currency</u></b>	<b><u>Effective Interest Rate</u></b>	<b><u>Maturity</u></b>	<b><u>31 December 2018</u></b>
1,718	TL	19.98% - 24.70%	March 2019	335
232	USD	3.57% - 5.92%	January 2019	233
871	EUR	2.54% - 3.62%	March 2019	1,002
				<u>1,570</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**6. FINANCIAL INVESTMENTS**

Short-term financial investments are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Fair value through other comprehensive income (FVOCI)		
- Government debt securities	-	90
- Corporate debt securities	9	26
Fair value through profit and loss (FVTPL)		
- Equity securities	15	17
Time deposits with maturity more than 3 months	376	386
	<u>400</u>	<u>519</u>

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

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

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

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

Long-term financial investments are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
FVOCI		
- Government debt securities	49	45
- Corporate debt securities	40	40
Other	1	1
	<u>90</u>	<u>86</u>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Less than 1 year	9	116
1 to 5 years	3	8
Over 5 years	86	77
	<u>98</u>	<u>201</u>

  

	<u>31 December 2019</u>	<u>31 December 2018</u>
FVTPL		
- Equity securities	15	17

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**7. BORROWINGS**

Short-term borrowings are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Bank borrowings	1,241	1,099

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Finance lease obligations (Note: 18)	1,118	980
Lease liabilities (Note: 18) (*)	256	-
Bank borrowings	491	290
	<u>1,865</u>	<u>1,270</u>

Long-term borrowings are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Finance lease obligations (Note: 18)	7,274	7,006
Lease liabilities (Note: 18) (*)	1,271	-
Bank borrowings	1,721	1,233
	<u>10,266</u>	<u>8,239</u>

(\*) According to IFRS 16, these amounts are lease liabilities.

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Less than 1 year	1,732	1,389
Between 1 – 5 years	1,721	1,233
	<u>3,453</u>	<u>2,622</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December 2019</u>
2,243	EUR	Fixed	0.30% - 4.93%	February 2020 - December 2024	2,511
841	EUR	Floating	Euribor + 2.03% - Euribor + 3.77%	February 2020 - July 2024	942
					<u>3,453</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate Type</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December 2018</u>
1,582	EUR	Fixed	4.00% - 4.60%	May 2019 - June 2023	1,813
706	EUR	Floating	Euribor + 2.45% - Euribor + 3.50%	January 2019 - July 2023	809
					<u>2,622</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

Reconciliation of liabilities arising from financing activities:

	<u>31 December</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>New</u>	<u>31 December</u>
	<u>2018</u>			<u>Leases</u>	<u>2019</u>
Lease Liabilities	7,986	(1,149)	115	1,440	8,392
	<u>31 December</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>New</u>	<u>31 December</u>
	<u>2017</u>			<u>Leases</u>	<u>2018</u>
Lease Liabilities	8,213	(1,086)	43	816	7,986
	<u>31 December</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>31 December</u>
	<u>2018</u>				<u>2019</u>
Bank Borrowings	2,622	(2,340)	10	3,161	3,453
	<u>31 December</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>Cash-in</u>	<u>31 December</u>
	<u>2017</u>				<u>2018</u>
Bank Borrowings	853	(1,268)	(20)	3,057	2,622

In accordance to IFRS 16 reconciliation of lease liabilities:

	<u>1 January</u>	<u>Payment</u>	<u>Non-cash Changes</u>	<u>New</u>	<u>31 December</u>
	<u>2019</u>			<u>Leases</u>	<u>2019</u>
Aircraft	1,534	(325)	52	205	1,466
Property	55	(13)	2	14	58
Other	6	(3)	-	-	3
	<u>1,595</u>	<u>(341)</u>	<u>54</u>	<u>219</u>	<u>1,527</u>

**8. OTHER FINANCIAL LIABILITIES**

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Other financial liabilities	19	6

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

**9. RELATED PARTIES**

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Posta ve Telgraf Teşkilatı A.Ş (PTT)	-	1
Other (*)	-	1
	<u>-</u>	<u>2</u>

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

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
TGS	28	-
Turkish DO&CO	-	2
TCI	-	1
	<u>28</u>	<u>3</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

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

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

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
TEC	55	60
THY Opet	38	95
TGS	37	19
Turkish DO&CO	21	35
Sun Express	19	19
Goodrich	2	2
TCI	-	1
	<u>172</u>	<u>231</u>

Transactions with related parties for the period ended 31 December 2019 and 2018 are as follows:

**a) Sales to related parties:**

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Sun Express	40	42
TEC	40	27
PTT	6	9
TGS	5	4
Air Albania	5	-
Goodrich	2	1
TCI	1	-
Uçak Koltuk	1	2
We World Express Ltd.	1	-
Turkish DO&CO	-	1
	<u>101</u>	<u>86</u>

**b) Purchases from related parties:**

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
THY Opet	752	1,889
TGS	329	266
Turkish DO&CO	314	274
TEC	275	317
Sun Express	170	169
Goodrich	20	14
Uçak Koltuk	7	3
PTT	-	2
TCI	1	2
Türk Telekomünikasyon A.Ş. (Türk Telekom)	1	1
	<u>1,869</u>	<u>2,937</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

Details of the financial assets and liabilities for related parties as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Financial investments	275	322
Banks - Time deposits	1,435	1,207
Banks - Demand deposits	8	2
Financial assets	104	223
Equity share	-	4
Bank borrowing	(312)	(115)
	<u>1,510</u>	<u>1,643</u>

As of 31 December 2019, the amount of letters of guarantee given to the related parties is USD 886. (31 December 2018: USD 862)

Details of the financial investments at related parties as of 31 December 2019 and 2018 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
246	EUR	0.28% - 0.40%	April 2020	275
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
140	TL	23.28%	April 2019	32
252	EUR	3.08% - 3.28%	May 2019	290
				<u>322</u>

Details of the time deposits at related parties as of 31 December 2019 and 2018 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
2,381	TL	9.35% - 10.00%	January 2020	401
922	EUR	0.36% - 0.56%	March 2020	1,033
1	USD	1.50%	January 2020	1
				<u>1,435</u>
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
1,170	TL	23.28% - 24.70%	March 2019	265
820	EUR	2.54% - 3.62%	March 2020	942
				<u>1,207</u>

Details of the financial assets at related parties as of 31 December 2019 and 2018 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
104	USD	3.875% - 8.5%	February 2020 - June 2020	104
<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
123	USD	3.88% - 8.5%	April 2019 - June 2019	123
4	EUR	3.50%	June 2019	5
450	TRY	13.00%	November 2019	95
				<u>223</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

Details of the bank borrowings at related parties as of 31 December 2019 and 2018 are as follows:

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

<u>Amount</u>	<u>Currency</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
100	EUR	4.00%	December 2023	115

**Interest income from related parties:**

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Türkiye Halk Bankası A.Ş.	54	57
Ziraat Bankası A.Ş.	1	3
	<u>55</u>	<u>60</u>

**Interest expense to related parties:**

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Ziraat Bankası A.Ş.	3	4

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 2018: USD 4).

**10. TRADE RECEIVABLES AND PAYABLES**

Trade receivables from third parties as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables	625	638
Allowance for doubtful receivables	(85)	(70)
	<u>540</u>	<u>568</u>

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

Trade payables to third parties as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade payables	958	791

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



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**11. PAYABLES RELATED TO EMPLOYEE BENEFITS**

Payables related to employee benefits as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Salary accruals	124	115
Social security premiums payable	36	43
Bonus accruals	-	33
Due to Personnel	-	8
	<u>160</u>	<u>199</u>

Changes in the provisions for bonus for the years ended 31 December 2019 and 2018 are set out below:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Provisions at the beginning of the year	33	41
Provisions for the current year	-	33
Provisions released	(33)	(41)
Provisions at the end of the year	<u>-</u>	<u>33</u>

**12. OTHER RECEIVABLES AND PAYABLES**

Other short-term receivables from third parties as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Predelivery payments made for aircrafts	778	809
Receivables from technical purchases	168	118
Value added tax receivables	42	134
Bank deposits with transfer limitations (*)	36	90
Receivables from pilots for flight training	24	19
Others	5	8
	<u>1,053</u>	<u>1,178</u>

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

Other long-term receivables from third parties as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Predelivery payments made for aircrafts	761	505
Receivables related to investment certificates	313	238
Receivables from pilots for flight training	154	114
Deposits and guarentees given	42	141
Bank deposits with transfer limitations (**)	6	6
	<u>1,276</u>	<u>1,004</u>

(\*\*) As of 31 December 2019, the balance of this account includes bank deposits in Syria.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**12. OTHER RECEIVABLES AND PAYABLES (cont'd)**

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Taxes and funds payable	62	52
Payables to lessors	11	10
Deposits and guarantees received	10	12
Payables to insurance companies	7	-
Other liabilities	8	4
	<u>98</u>	<u>78</u>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Deposits and guarantees received	19	16
Payables to lessors	9	20
Interest and commodity swap agreement deposits	9	-
	<u>37</u>	<u>36</u>

**13. INVENTORIES**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Spare parts	221	139
Other inventories	81	73
	302	212
Provision for impairment (-)	(12)	(22)
	<u>290</u>	<u>190</u>

The change in the value of provision for impairment for the years ended 31 December 2019 and 2018 is as follows:

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Provision at the beginning of the year	22	25
Release during the year	(10)	(3)
Provision at the end of the year	<u>12</u>	<u>22</u>

**14. PREPAID EXPENSES AND DEFERRED INCOME**

Short-term prepaid expenses are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Advances given for purchases	76	79
Prepaid sales commissions	14	15
Prepaid operating lease expenses	10	20
Prepaid advertising expenses	9	19
Other prepaid expenses	40	59
	<u>149</u>	<u>192</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2019**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Prepaid engine maintenance expenses	659	609
Advances given for property and equipment purchases	138	109
Prepaid aircraft financing expenses	55	43
Other prepaid expenses	12	6
	<u>864</u>	<u>767</u>

**Deferred income is as follows:**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Passenger flight liabilities	1,032	1,002
Other short-term deferred income	39	45
	<u>1,071</u>	<u>1,047</u>

**Passenger flight liability is as follows:**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Flight liability generating from ticket sales	797	741
Flight liability generating from frequent flyer program	235	261
	<u>1,032</u>	<u>1,002</u>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Advances received	18	24
Deferred finance income	11	11
Unearned bank protocol revenue accruals	10	10
	<u>39</u>	<u>45</u>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Deferred finance income	118	52
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(31)	(30)
Unearned bank protocol revenue accruals	2	12
	<u>120</u>	<u>65</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**15. PROPERTY AND EQUIPMENT**

	Land, land improvements and buildings	Technical Equipment, Simulator and Vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction In Progress	Total
<b><u>Cost</u></b>									
Opening balance at 1 January 2019	303	429	214	17,491	738	583	531	718	21,007
Recognition of right of use asset on initial application of IFRS 16	56	6	-	1,576	-	-	-	-	1,638
Adjusted Opening balance as of 1 January 2019	359	435	214	19,067	738	583	531	718	22,645
Additions	94	112	28	2,289	113	183	42	480	3,341
Transfer (*)	111	49	2	300	28	-	14	(506)	(2)
Transfers between the account	384	-	-	-	-	-	(384)	-	-
Disposals	-	(5)	(5)	(842)	(53)	(106)	(20)	-	(1,031)
Closing balance at 31 December 2019	948	591	239	20,814	826	660	183	692	24,953
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2019	89	235	151	5,835	267	310	202	-	7,089
Depreciation charge	48	40	26	1,238	62	72	17	-	1,503
Transfers between the account	105	-	-	-	-	-	(105)	-	-
Disposals	-	(4)	(4)	(756)	(50)	(67)	(19)	-	(900)
Closing balance at 31 December 2019	242	271	173	6,317	279	315	95	-	7,692
Net book value at 31 December 2019	706	320	66	14,497	547	345	88	692	17,261
Net book value at 31 December 2018	214	194	63	11,656	471	273	329	718	13,918

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

As of 31 December 2019, the total net book value of the property, plant and equipment acquired by leases is USD 13,618 (31 December 2018: USD 10,892)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 1,462 (31 December 2018: USD 1,038 ), general administrative expenses is amounting to USD 52 (31 December 2018: USD 43) and marketing and sales expenses is amounting to USD 7 (31 December 2018: USD 6) in total of USD 1,521 as of 31 December 2019 (31 December 2018: USD 1,087).

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**15. PROPERTY AND EQUIPMENT (cont'd)**

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<b><u>Cost</u></b>									
Opening balance at 1 January 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
<b><u>Accumulated Depreciation</u></b>									
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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**15. PROPERTY AND EQUIPMENT (cont'd)**

Right of use assets are as follows:

	<b>Aircraft</b>	<b>Spare engines</b>	<b>Real Estate</b>	<b>Vehicles</b>	<b>Total</b>
<b><u>Cost</u></b>					
Opening balance at 1 January 2019	15,749	148	56	6	15,959
Additions	2,300	25	18	-	2,343
Disposals	(131)	(8)	-	-	(139)
Transfers between the accounts (*)	(271)	-	-	-	(271)
Closing balance at 31 December 2019	17,647	165	74	6	17,892

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

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

The Group is still carrying out negotiations with the airport operator company (İGA Havalimanı İşletmesi A.Ş.) regarding the rental areas, rental fee, renting conditions and period for İstanbul Airport. Yet, no agreement is signed and there is no Board Decision about the above mentioned rental matters. Despite the fact that there is a PPP tariff issued by State Airports Authority (DHMI), it does not eliminate the uncertainties regarding rental areas, rental fee, renting conditions and period which are considered as material terms of a contract. Thus, it is not considered as appropriate to consider them under IFRS16 scope and no calculations for assets or liabilities are made concerning the İstanbul Airport rentals at 2019 financial statements. However, the payments for the areas used at İstanbul Airport are made with reservation according to PPP tariff and they are recorded under expense accounts for the period.

**16. INTANGIBLE ASSETS**

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**16. INTANGIBLE ASSETS (cont'd)**

	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
<b><u>Cost</u></b>				
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
<b><u>Accumulated Amortization</u></b>				
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

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

**17. GOODWILL**

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

**18. LEASING TRANSACTIONS**

Resulting from IFRS16, maturities of lease obligations are as follows:

	Future Minimum Lease Payments	Interest	Present Values of Minimum Lease Payments
	31 December 2019	31 December 2019	31 December 2019
Less than 1 year	308	(52)	256
Between 1 – 5 years	891	(129)	762
Over 5 years	597	(88)	509
	1,796	(269)	1,527

Maturities of finance lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Less than 1 year	1,257	1,127	(139)	(147)	1,118	980
Between 1 – 5 years	4,738	3,741	(370)	(359)	4,368	3,382
Over 5 years	2,991	3,733	(85)	(109)	2,906	3,624
	8,986	8,601	(594)	(615)	8,392	7,986

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

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

**18. LEASING TRANSACTIONS (cont'd)**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Interest Range:		
Floating rate obligations	5,394	5,020
Fixed rate obligations	2,998	2,966
	<u>8,392</u>	<u>7,986</u>

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

Lease term of Group's contracts under IFRS 16 is 1-45 years. As of 31 December 2019 the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 5.41%.

As of 31 December 2019, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.37% ( 31 December 2018: 2.66%) for the fixed rate obligations and 1.29% (31 December 2018: 1.56% ) for the floating rate obligations.

**19. GOVERNMENT GRANTS AND INCENTIVES**

Incentive certificates dated, 28 December 2010, 18 December 2014, 11 July 2017, 18 September 2017, 1 March 2018, 09 August 2018 and 11 September 2018 were obtained from Ministry of Industry and Technology for investment of aircrafts. These certificates provide the Group with certain advantages on reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.3.16 for the accounting of corporate tax effect of these investment certificates.

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

Short-term provisions as of 31 December 2019 and 2018 are as follows:

Short-term provision for employee benefits is as follows:

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

Changes in the provisions for the period ended 31 December 2019 and 2018 are set out below:

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Provisions at the beginning of the year	39	41
Provisions for the current year	320	98
Provisions released	(315)	(88)
Foreign currency translation differences	(5)	(12)
Provisions at the end of the year	<u>39</u>	<u>39</u>

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



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

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

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

Other short-term provision is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Provisions for legal claims	13	16

Changes in the provisions for legal claims for the period ended 31 December 2019 and 2018 are set out below:

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Provisions at the beginning of the year	16	22
Provisions for the current year	4	4
Provisions released	(6)	(2)
Foreign currency translation differences	(1)	(8)
Provisions at the end of the year	13	16

The Group provides with provisions for lawsuits initiated against itself due to its operations. The lawsuits initiated against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 2019 is USD 1,334 (31 December 2018: USD 1,179).

As of 31 December 2019, the letters of guarantee are given to various authorities (i.e. various banks and vendors.)

	31 December 2019		31 December 2018	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,334	-	1,179
-Collaterals				
TL	52	9	38	7
EUR	1,131	1,266	976	1,118
USD	49	49	45	45
Other	-	10	-	9
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>1,334</u>		<u>1,179</u>

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

b) Aircraft purchase commitments:

To be delivered between the years 2020-2023, the Group signed an agreement for 197 aircrafts, (187 of aircrafts are contractual and 10 of them are optional) with a list price value of 28,230 US Dollars. The Group has made a predelivery payment of 1,562 US Dollars relevant to these purchases as of 31 December 2019.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

## 22. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 December 2019 and 2018 is comprised of the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Provision for retirement pay liability	135	130

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 1,133 (full) (equivalent of TL 6,730 (full)) as of 31 December 2019. (31 December 2018: US Dollar 1,144 (full) equivalent of TL 6,018 (full)).

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

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2019 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.65% annual inflation rate (31 December 2018: 10.00%) and 12.00% interest rate (31 December 2018: 14.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.62% (31 December 2018: 2.63%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,133 (full) which is in effect since 1 January 2020 is used in the calculation of Group’s provision for retirement pay liability.

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

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Provision at the beginning of the year	130	128
Interest charges	16	11
Service charge for the year	13	13
Actuarial loss	4	25
Payments	(10)	(10)
Foreign currency translation difference	(18)	(37)
Provision at the end of the year	135	130

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**23. EXPENSES BY NATURE**

Expenses by nature for the period ended 31 December 2019 and 2018 are as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Fuel expenses	3,873	3,768
Personnel expenses	2,067	1,772
Depreciation and amortisation charges	1,521	1,087
Ground services expenses	815	733
Aircraft maintenance expenses	791	804
Passenger services and catering expenses	622	560
Airport expenses	623	514
Air traffic control expenses	553	542
Commissions and incentives	504	401
Wet lease expenses	284	259
Reservation systems expenses	267	255
Advertisement and promotion expenses	175	189
Rents	85	68
Service expenses	83	73
Insurance expenses	54	47
Taxes and duties	52	41
IT & communication expenses	41	42
Transportation expenses	44	37
Aircraft rent expenses	27	336
Consultancy expenses	21	27
Systems use and associateship expenses	9	11
Other expenses	133	120
	<u>12,644</u>	<u>11,686</u>

**24. OTHER ASSETS AND LIABILITIES**

Other current assets as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Deffered VAT	131	92
Personnel and business advances	9	7
	<u>140</u>	<u>99</u>

Other current liabilities as of 31 December 2019 and 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Accruals for maintenance expenses of aircraft		
under operating lease	234	198
Accruals for other expenses	19	7
Other liabilities	5	2
	<u>258</u>	<u>207</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

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

**25. SHAREHOLDERS' EQUITY**

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

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

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

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

As of 31 December 2019, Registered paid-in share capital of the Company comprised 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. The Class C share belongs to the Republic of Turkey Treasury and Finance Ministry Privatization Administration and has the following privileges:

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

## 25. SHAREHOLDERS' EQUITY (cont'd)

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

f) Decisions relating to merges and liquidation,

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

### Restricted Profit Reserves

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

### Foreign Currency Translation Differences

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

### Distribution of Dividends

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

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

### Actuarial Differences on Defined Benefit Plans

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

### Gains/Losses from Cash Flow Hedges

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

As of 2019, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %49 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2019**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

**26. REVENUE**

Breakdown of gross profit is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Passenger revenue		
Scheduled	11,100	10,854
Unscheduled	67	64
Total passenger revenue	<u>11,167</u>	<u>10,918</u>
Cargo revenue		
Carried by passenger aircraft	760	829
Carried by cargo aircraft	928	818
Total cargo revenue	<u>1,688</u>	<u>1,647</u>
Total passenger and cargo revenue	<u>12,855</u>	<u>12,565</u>
Technical revenue	305	226
Other revenue	69	64
Net sales	<u>13,229</u>	<u>12,855</u>
Cost of sales (-)	<u>(10,928)</u>	<u>(10,136)</u>
Gross profit	<u><u>2,301</u></u>	<u><u>2,719</u></u>

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

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
International flights		
- Europe	3,711	3,730
- Far East	3,191	2,908
- America	1,946	1,797
- Middle East	1,467	1,549
- Africa	1,276	1,230
Total	<u>11,591</u>	<u>11,214</u>
Domestic flights	<u>1,264</u>	<u>1,351</u>
Total passenger and cargo revenue	<u><u>12,855</u></u>	<u><u>12,565</u></u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

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

**27. COST OF SALES**

Breakdown of the cost of sales is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Fuel expenses	3,873	3,768
Personnel expenses	1,624	1,379
Depreciation and amortisation charges	1,462	1,038
Ground services expenses	815	733
Aircraft maintenance expenses	791	804
Airport expenses	623	514
Passenger services and catering expenses	622	560
Air traffic control expenses	553	542
Wet lease expenses	284	259
Rents	66	36
Insurance expenses	52	45
Transportation expenses	44	37
Service expenses	33	30
Operating lease expenses	27	336
Taxes and duties	18	15
Other expenses	41	40
	<u>10,928</u>	<u>10,136</u>

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

Breakdown of general administrative expenses is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Personnel expenses	134	95
Depreciation and amortisation charges	52	43
Service expenses	35	30
IT & communication expenses	32	35
Consultancy expenses	13	19
Systems use and associateship expenses	9	11
Insurance expenses	2	2
Taxes and duties	2	2
Rents	1	10
Other general administrative expenses	19	13
	<u>299</u>	<u>260</u>



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Commissions and incentives	504	401
Personnel expenses	309	298
Reservation systems expenses	267	255
Advertisement and promotion expenses	175	189
Taxes and duties	32	24
Rents	18	22
Service expenses	15	13
IT & communication expenses	9	7
Consultancy expenses	8	8
Depreciation and amortisation charges	7	6
Other marketing and sales expenses	73	67
	<u>1,417</u>	<u>1,290</u>

**29. OTHER OPERATING INCOME / EXPENSES**

Breakdown of other operating income is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Insurance, indemnities, penalties income	184	34
Manufacturers' credits	86	79
Foreign exchange gains from operational activities, net	14	-
Provisions released	13	10
Non- interest income from banks	11	10
Rent income	10	3
Turnover premium from suppliers	5	11
Rediscount interest income	2	5
Delay interest income	2	1
Other operating income	28	8
	<u>355</u>	<u>161</u>

Breakdown of other operating expenses is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Provisions	27	9
Indemnity and penalty expenses	8	6
IFRS 9 Adjustment	5	(4)
Foreign exchange losses from operational activities, net	-	109
Other operating expenses	24	19
	<u>64</u>	<u>139</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2019**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

**30. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES**

Breakdown of income from investment activities is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Income from investment incentives	110	62
Interest income from financial investment	39	30
Gain on sale of financial investments	14	2
Gain on sale of fixed assets	6	7
	<u>169</u>	<u>101</u>

Breakdown of expense from investment activities is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Loss on sale of fixed assets	80	1
Fair value losses	-	1
	<u>80</u>	<u>2</u>

**31. FINANCIAL INCOME/ EXPENSES**

Breakdown of financial income is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Foreign exchange gains from financial activities, net	79	-
Interest income	45	93
Rediscount interest income from repayments of aircrafts	13	-
Fair value gains on derivative financial instruments, net	-	36
Other financial incomes	2	-
	<u>139</u>	<u>129</u>

Breakdown of financial expenses is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Interest expense from financial activities	184	235
Interest expense from leasing liabilities	57	-
Aircraft financing expenses	23	21
Fair value losses on derivative financial instruments, net	23	-
Interest expenses on employee benefits	16	11
Foreign exchange losses on financial activities, net	-	282
Rediscount interest expense from repayments of aircrafts	-	19
Other financial expenses	7	20
	<u>310</u>	<u>588</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**32. TAX ASSETS AND LIABILITIES**

Breakdown of assets related to current tax is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Prepaid taxes	43	61

Tax expense is as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Current year tax expense	-	40
Deferred tax expense	88	161
Tax expense	88	201

Tax effect related to other comprehensive income is as follows:

	<b>1 January - 31 December 2019</b>			<b>1 January - 31 December 2018</b>		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Change in cash flow hedge reserve	218	( 47)	171	( 83)	22	( 61)
Gains on Remeasuring FVOCI	7	( 2)	5	( 9)	2	( 7)
Change in actuarial losses from retirement pay obligation	( 4)	1	( 3)	( 25)	5	( 20)
Changes in foreign currency translation difference	( 24)	-	( 24)	( 52)	-	( 52)
Other comprehensive income	197	( 48)	149	( 169)	29	( 140)

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 2019 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The tax legislation provides for a temporary tax of 22% (2018: 22%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2019. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, tax rate for temporary tax is set to 22% for the years 2018, 2019 and 2020.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

### 32. TAX ASSETS AND LIABILITIES (cont'd)

#### Corporate Tax (cont'd)

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

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

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

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

#### Income Withholding Tax

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

#### Deferred Tax

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

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**32. TAX ASSETS AND LIABILITIES (cont'd)**

*Deferred Tax (cont'd)*

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Fixed assets	(1,910)	(1,910)
Right of use asset	(310)	-
Adjustments for passenger flight liabilities	(171)	(150)
Tax loss carried forward	528	674
Lease obligations	311	-
Income and expense for future years	104	92
Accruals for expenses	69	48
Miles accruals	30	35
Provisions for employee benefits	28	27
Incentives	17	-
Provisions for unused vacation	9	8
Change in fair value of derivative instruments	4	31
Other	(2)	7
Deferred tax liabilities	<u>(1,293)</u>	<u>(1,138)</u>

The changes of deferred tax liability for the period ended 1 January – 31 December 2019 and 2018 are as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Opening balance at 1 January	1,138	962
Adjustments for changes in accounting policies	(5)	(4)
Restated deferred tax liability at the beginning of the year	1,133	958
Deferred tax expense	88	161
Tax expense / (income) from hedging reserves	45	(22)
Foreign currency translation difference	25	48
Tax expense / (income) from FVOCI	2	(1)
Tax income of actuarial losses on retirement pay obligation	-	(6)
Deferred tax liability at the end of the period	<u>1,293</u>	<u>1,138</u>

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Expired as of 2020	-	75
Expired as of 2021	881	1,225
Expired as of 2022	513	579
Expired as of 2023	1,247	1,488
	<u>2,641</u>	<u>3,367</u>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**32. TAX ASSETS AND LIABILITIES (cont'd)**

*Deferred Tax (cont'd)*

Reconciliation with current tax charge for the period 1 January – 31 December 2019 and 2018 are as follows:

<u>Reconciliation of effective tax charge</u>	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Profit from operations before tax	876	954
Domestic expense tax rate of 22%	(193)	(210)
Taxation effects on:		
- foreign currency translation difference	59	(15)
- investment incentive	29	4
- expense from investment certificates	22	12
- investments accounted by using the equity method	16	25
- deduction	-	26
- exception	-	(10)
- others	-	(21)
- non deductible expenses	(7)	(15)
- adjustment for prior year loss	(14)	3
Tax charge in statement of loss	<u>(88)</u>	<u>(201)</u>

**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 2019 and 2018:

	<u>1 January - 31 December 2019</u>	<u>1 January - 31 December 2018</u>
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
Number of shares outstanding at 31 December (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net profit for the year	788	753
Basic profit per share (Full US Cents) (*)	0.57	0.55
Diluted profit per share (Full US Cents) (*)	0.57	0.55

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**34. DERIVATIVE FINANCIAL INSTRUMENTS**

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2019 and 2018 are as follows:

<u>Derivative financial assets</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Derivative instruments for fuel prices cash flow hedge	31	34
Derivative instruments not subject to hedge accounting	17	17
Derivative instruments for cross currency rate cash flow hedge	4	6
	<u>52</u>	<u>57</u>
<u>Derivative financial liabilities</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Derivative instruments for interest rate cash flow hedge	35	34
Derivative instruments not subject to hedge accounting	18	8
Derivative instruments for fuel prices cash flow hedge	14	118
Derivative instruments for cross currency rate cash flow hedge	3	36
	<u>70</u>	<u>196</u>

**35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

(a) Capital risk management

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

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

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt. The overall strategy of the Group has not changed compared to 2018.

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total debts	11,864	10,614
Lease liabilities	1,527	-
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(2,565)	(2,241)
Net debt (A)	10,826	8,373
Total shareholders' equity (B)	6,864	5,945
Total capital stock (A+B)	17,690	14,318
Net debt/total capital stock ratio	0.61	0.58

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors

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

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



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management*

31 December 2019	Receivables				Deposits in Banks (***)	Derivative Instruments	Government Debt Securities	Corporate Debt Securities	Equity Securities
	Trade receivables		Other receivables						
	Related Party	Third Party	Related Party	Third Party					
Maximum credit risk as of balance sheet date (*)	-	423	28	2,329	2,450	52	49	49	15
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	(117)	-	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	236	28	2,329	2,450	52	49	49	15
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	102	-	-	-	-	-	-	-
-The part under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets	-	85	-	-	-	-	-	-	-
-Past due (gross carrying amount)	-	85	-	-	-	-	-	-	-
-Impairment(-)	-	(85)	-	-	-	-	-	-	-
-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.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors (cont'd)

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

31 December 2018	Receivables				Deposits in Banks (***)	Derivative Instruments	Government Debt Securities	Corporate Debt Securities	Equity Securities
	Trade receivables		Other receivables						
	Related Party	Third Party	Related Party	Third Party					
Maximum credit risk as of balance sheet date (*)	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	-	70	-	-	-	-	-	-	-
-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.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2019**

(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 2019 are as follows:

<b>31 December 2019</b>	<b><u>Receivables</u></b>					<b><u>Total</u></b>
	<b><u>Trade Receivables</u></b>	<b><u>Other Receivables</u></b>	<b><u>Deposits in Banks</u></b>	<b><u>Derivative Instruments</u></b>	<b><u>Other</u></b>	
Past due 1-30 days	74	-	-	-	-	74
Past due 1-3 months	12	-	-	-	-	12
Past due 3-12 months	18	-	-	-	-	18
Past due 1-5 years	88	-	-	-	-	88
Total past due receivables	192	-	-	-	-	192
The part under guarantee with collateral etc.	117	-	-	-	-	117

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2019**  
(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 2018 are as follows:

<b>31 December 2018</b>	<b><u>Receivables</u></b>					<b><u>Total</u></b>
	<b><u>Trade Receivables</u></b>	<b><u>Other Receivables</u></b>	<b><u>Deposits in Banks</u></b>	<b><u>Derivative Instruments</u></b>	<b><u>Other</u></b>	
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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

  

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

The aging of financial assets as of 31 December 2018 are as follows:

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

  

<u>Maturity Ranges As of 31.12.2018</u>	<u>Weighted Average Lost Rate</u>	<u>Gross Carrying Amount</u>	<u>Impairment Loss Allowance</u>
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
		<u>593</u>	<u>2</u>

As of balance sheet date, total amount of cash collateral and letter of guarantee received by Group for past due and not impaired receivable is 117 USD (31 December 2018: 25 USD).

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

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

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

##### (b) Financial Risk Factors (cont'd)

###### *b.2) Impairment*

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

Changes in provisions for doubtful receivables for the years ended 31 December 2019 and 2018 are as follows:

	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
Opening Balance	70	75
Charge for the year	23	5
Collections during the year	(7)	(8)
Ifrs 9 adjustment	4	(4)
Currency translation adjustment	(5)	2
Closing Balance	<u>85</u>	<u>70</u>

###### *b.3) Liquidity risk management*

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(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 2019**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	3,453	(3,675)	(399)	(1,408)	(1,868)	-
Finance lease obligations	8,392	(8,986)	(338)	(916)	(4,739)	(2,993)
Lease liabilities	1,527	(1,796)	(82)	(226)	(892)	(596)
Trade payables	1,130	(1,130)	(1,130)			
Other payables	20	(20)	(3)	(7)	(10)	
Other financial liabilities	19	(19)	(19)	-	-	-
<b>Total</b>	<b>14,541</b>	<b>(15,626)</b>	<b>(1,971)</b>	<b>(2,557)</b>	<b>(7,509)</b>	<b>(3,589)</b>

**31 December 2018**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	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)	-	-	-
<b>Total</b>	<b>11,666</b>	<b>(12,403)</b>	<b>(1,619)</b>	<b>(1,980)</b>	<b>(5,071)</b>	<b>(3,733)</b>

**31 December 2019**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial (liabilities) / assets, net</b>						
Derivative cash inflows	52	53	14	36	3	-
Derivative cash outflows	(70)	(70)	(18)	(17)	(13)	(22)
<b>Derivative cash inflows/outflows,net</b>	<b>(18)</b>	<b>(17)</b>	<b>(4)</b>	<b>19</b>	<b>(10)</b>	<b>(22)</b>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(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**

<u>Due date on the contract</u>	<u>Book value</u>	<u>total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial (liabilities) / assets, net</b>						
Derivative cash inflows	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)

*b.4) Market risk management*

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



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

(\*) Net foreign exchange position of Group is mainly due to long term foreign currency borrowings denominated in Euro, Japanese Yen, Swiss Frank to funds its investments. Group uses these long term foreign currency borrowings to manage the risk of exchange differences with highly probable future foreign currency revenues. The USD equivalent of these borrowings amount to 7,385 USD as of 31 December 2019 (31 December 2018: USD 6,853).

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 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
<b>4.Current Assets (1+2+3)</b>	<b>2,955</b>	<b>835</b>	<b>1,593</b>	<b>16</b>	<b>17</b>	<b>494</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	302	302	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	461	238	212	-	-	11
<b>8.Non Current Assets (5+6+7)</b>	<b>763</b>	<b>540</b>	<b>212</b>	<b>-</b>	<b>-</b>	<b>11</b>
<b>9.Total Assets (4+8)</b>	<b>3,718</b>	<b>1,375</b>	<b>1,805</b>	<b>16</b>	<b>17</b>	<b>505</b>
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	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>3,085</b>	<b>615</b>	<b>2,159</b>	<b>233</b>	<b>22</b>	<b>56</b>
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	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>7,108</b>	<b>136</b>	<b>4,886</b>	<b>1,926</b>	<b>158</b>	<b>2</b>
<b>18.Total Liabilities (13+17)</b>	<b>10,193</b>	<b>751</b>	<b>7,045</b>	<b>2,159</b>	<b>180</b>	<b>58</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(6,475)</b>	<b>624</b>	<b>(5,240)</b>	<b>(2,143)</b>	<b>(163)</b>	<b>447</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(7,284)</b>	<b>380</b>	<b>(5,610)</b>	<b>(2,153)</b>	<b>(169)</b>	<b>268</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>168</b>	<b>-</b>	<b>168</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

*b.4.2) Interest rate risk management*

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

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

(b) Financial Risk Factors (cont'd)

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

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

Interest Rate Position Table

	<u><b>31 December 2019</b></u>	<u><b>31 December 2018</b></u>
<u>Instruments with fixed interest rate</u>		
Financial Liabilities	2,998	2,966
<u>Financial Instruments with Variable Interest Rate</u>		
Financial Liabilities	5,394	5,020
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(2)	(5)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(35)	(34)

As indicated in Note 36, the Group fixed the interest rate for 2,556 USD of floating–interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2019.

Interest rate sensitivity

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

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

Current profit before tax of the Group for the year will decrease by USD 38 (For the year ended 31 December 2018 profit before tax will decrease by USD 33). 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 25, excluding the deferred tax effect. (For the year ended 31 December 2018 the shareholders' equity of the Group will increase by USD 34, 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 76, excluding the deferred tax effect. (For the year ended 31 December 2018, the shareholders' equity of the Group will increase by USD 60 excluding deferred tax effect.)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by USD 72, excluding the deferred tax effect. (For the year ended 31 December 2018, the shareholders' equity of the Group will decrease by USD 56, excluding deferred tax effect.)

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2019

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

## 36. FINANCIAL INSTRUMENTS

### Fair Values of Financial Instruments

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

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**36. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

31 December 2019 Balance Sheet	Financial assets at amortized cost	Financial instruments at FVOCI	Financial instruments at FVTPL	Financial instruments FVOCI at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	2,075	-	-	-	-	2,075	5
Financial investments and derivative financial instruments	376	133	32	1	-	542	6 and 34
Trade receivables	540	-	-	-	-	540	9 and 10
Other receivables	2,357	-	-	-	-	2,357	9 and 12
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	4,694	4,694	7 and 18
Finance lease obligations	-	-	-	-	8,392	8,392	7 and 18
Lease liabilities	-	-	-	-	1,527	1,527	7 and 18
Other financial liabilities and derivative financial instruments	-	52	18	-	19	89	8 and 34
Trade payables	-	-	-	-	1,130	1,130	9 and 10

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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
<u>Financial Assets</u>							
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
<u>Financial liabilities</u>							
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



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**36. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

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

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

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

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**36. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

Financial assets	31 December 2018	Fair value level as of the reporting date		
		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	-
<b>Total</b>	<b>275</b>	<b>218</b>	<b>57</b>	<b>-</b>
<u>Financial liabilities</u>				
Derivative instruments at fair value through profit or loss	8	-	8	-
Derivative instruments accounted for hedge accounting	188	-	188	-
<b>Total</b>	<b>196</b>	<b>-</b>	<b>196</b>	<b>-</b>

Derivative Instruments and Hedging Transactions

The financial risk management strategy of the Group aims to ensure a healthy cash flow and liquidity in the future. For this purpose, derivative financial instruments such as currency forwards, currency options, interest rate swaps, interest rate options, oil options and oil swaps are used to protect against the financial risks arising from the fluctuation of exchange rates, interest rates and jet fuel price.

The floating-rate financial liabilities of the Group are explained in Note 35 b.4.2. In order to keep interest costs at an affordable level, the Group has hedged approximately 47% of floating rate USD, JPY and Euro denominated liabilities arising from financial leasing activities. Effective part of the change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

Within the scope of the financial risk management strategy, the Group started fuel price risk hedging in 2009, in order to manage the cash flow effect that may arise from the fluctuation of the fuel price. Fuel price risk management strategy was updated several times over the years with the experience gained. In accordance with the Group's latest BOD resolution issued on 14 July 2017, hedging transactions are executed for the tenor of at most 24 months and up to 60% of the forecasted fuel consumption of the following month. Also with this resolution, premium paid options have been included to the instrument list for the first time, in addition to formerly used swap and zero-cost option structures. The tenor, ratio and instrument to-be-used are chosen based on the current market conditions and future expectations. As a result of these changes, hedging strategy has become more flexible and accommodative to fuel market conditions. It is aimed to either fix the fuel price or keep it in a restrained range. The effective portion of fair value of fuel hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

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

**36. FINANCIAL INSTRUMENTS (cont'd)**

Derivative Instruments and Hedging Transactions (cont'd)

The mismatch between Group's income and expense currencies causes to the exchange rate risk. In order to manage this risk resulted from the fluctuations of the FX market, the Group started to implement exchange rate risk hedging in 2013. Exchange rate risk management strategy of the Group was updated in 2015 and 2018 as a result of the gained experience and the needs. Since the Group is long in EUR and short in USD and TRY, strategy mainly aims to decrease the amount of short position in USD and TRY with the long position in EUR via the derivative instruments. In this context, on EURUSD currency hedging, it is decided to execute the transactions in at most 24 months and up to 60% of the forecasted short position of the next month by using forward and zero-cost option structures. Likewise, on EURTRY maximum tenor and hedge ratio are 18 months and 50%, respectively. Only forwards are used for these transactions. In accordance with the strategy, current market conditions and future expectations are analyzed dynamically, and the hedge tenor, ratio and instrument to be used are determined accordingly. With these transactions, the Company aims to fix the exchange rate at a single level or to keep it within a certain range. The effective portion of fair value of currency hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

As of 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 %49 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 2019 and 2018 are as follows:

Derivative Instruments Stated in Assets and Liabilities

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 2019 and 2018 are as follows (cont'd):

Derivative Instruments Stated in Assets and Liabilities

<b>31 December 2018</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(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	<u>40</u>	<u>(188)</u>	<u>(148)</u>
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	<u>17</u>	<u>(8)</u>	<u>9</u>
Total	<u><u>57</u></u>	<u><u>(196)</u></u>	<u><u>(139)</u></u>

Derivative Instruments Stated in the Equity

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

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

(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 2019 and 2018 are as follows (cont'd):

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
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(20)	-	-	(20)
Inefficient 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 2018	(81)	(26)	107	-

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

- Within the scope of fuel activities carried out at Istanbul Airport, agreement was signed on February 2020 for IGA Istanbul Havalimanı Akaryakıt Hizmetleri A.Ş., which is responsible for the operation of fuel supply facilities, to become a 25% shareholder through capital increase.
- Due to the coronavirus (COVID-19) outbreak in Iran, Iraq, Italy and South Korea, flights to/from these countries are cancelled until 10 March 2020. Additionally flights to China's Xi'an, Guangzhou and Shanghai cities are cancelled until 29 March 2020. Flights to Beijing are cancelled until 9 March 2020 and further actions will be determined after talks with related authorities.