TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY

Convenience Translation to English of
Consolidated Financial Statements
As at and For The Year Ended
31 December 2018
With Independent Auditors' Report
(Originally Issued in Turkish)

4 March 2019
This report includes 5 pages of Independent Auditor's Report and 60 pages of consolidated financial statements together with their explanatory notes.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Türk Hava Yolları Teknik Anonim Şirketi

A) Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Türk Hava Yolları Teknik Anonim Şirketi and its subsidiary (together will be referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under Standards on Auditing issued by POA are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We declare that we are independent of the Group in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. 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.

Revenue recognition

Refer to Note 2.3, 2.5.1 and Note 20 to the consolidated financial statements for summary of significant accounting policies and significant accounting estimates and assumptions for revenue recognition.

The key audit matter	How the matter was addressed in our audit
The Group mainly generates its revenue from aircraft maintenance services and recognizes revenue in the consolidated financial statements over a period of time when the performance obligation is satisfied. The Group also generates revenue from the sale of materials. The Group recognizes revenue at the point in time at when it transfers control of the materials to the customer. There is a risk that the revenue may not be recognized in the correct reporting period depending on the transfer of the control of the materials to customer even the sales completed and the services given, the invoice is issued. We identified revenue recognition as a key audit matter because that requires significantly management judgment to recognize in the consolidated financial statements.	We have performed the following audit procedures to be responsive to this area: - Evaluate the appropriateness of the revenue recognition policy applied by the management of the Group in respect of the compliance with TFRS. - The Group's sales contracts made with the customers have been reviewed and checked. - By understanding the revenue process of the Group, we have tested the design, implementation and operating effectiveness of the controls of revenue process. - Testing the transfer of controls of the materials which the invoicing have been completed through substantive procedures. - Sending confirmation letters to the counter parties, which have been selected by sampling method, in order to test the existence and accuracy of the outstanding balances of customers.

Related party transactions

Refer to Note 7 to the consolidated financial statements for details of accounting of related party transactions.

The key audit matter	How the matter was addressed in our audit
The Group mainly generates its revenue in the consolidated financial statements from aircraft maintenance services and sale of materials from related parties. 85 % of sales of these materials and services rendered are realized with the related parties. We identified related party transactions as a key audit matter because the Group's revenue from related parties is significant and the number of transactions is large.	We have performed the following audit procedures to be responsive to this area: -The transactions of the Group with related parties are examined and explanations on the nature of these transactions are obtained. -We have examined the relevant documents and other supporting documents of the revenue from related parties, which have been selected by sampling method, by performing test of details during the period. Also we have assessed whether the pricing applied to transactions of the Group is appropriate for the peer. -The adequacy of the explanations in the notes regarding the purchase of goods and services with related parties of the Group has been evaluated. -Sending confirmation letters to the related parties, in order to test the accuracy of the balances.

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

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

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

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

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

Responsibilities of auditors in an audit are as follows:

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

As part of an audit in accordance with Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 402 of Turkish Commercial Code ("TCC") numbered 6102; no significant matter has come to our attention that causes us to believe that for the period between 1 January 2018 and 31 December 2018, the Company's bookkeeping activities and consolidated financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

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

Gökhan Atılgan, SMMM
Partner
4 March 2019
İstanbul, Türkiye

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(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

	Notes	Audited 31 December 2018	Audited 31 December 2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	35.019.019	11.410.411
Trade Receivables		1.694.778.477	1.282.615.818
- Trade Receivables From Related Parties	*7*	*1.423.845.662*	*1.143.125.609*
- Trade Receivables From Non-Related Parties	*8*	*270.932.815*	*139.490.209*
Other Receivables		1.695.277	1.802.756
- Other Receivables From Related Parties	*7*	-	*1.341.909*
- Other Receivables From Non-Related Parties	*10*	*1.695.277*	*460.847*
Inventories	11	2.422.130.184	1.689.692.781
Prepaid Expenses	12	135.896.482	44.733.022
Current Tax Assets	27	103.056.134	-
Other Current Assets		180.665	35.400
TOTAL CURRENT ASSETS		**4.392.756.238**	**3.030.290.188**
Non-Current Assets			
Financial Investments	5	1.485.025	1.485.025
Equity Accounted Investees	3	343.671.970	220.562.603
Property and Equipment	13	2.340.370.229	1.499.185.819
Intangible Assets		28.017.659	14.409.324
-Other Intangible Assets	*14*	*28.017.659*	*14.409.324*
Prepaid Expenses	12	14.436.959	12.904.891
TOTAL NON-CURRENT ASSETS		**2.727.981.842**	**1.748.547.662**
TOTAL ASSETS		**7.120.738.080**	**4.778.837.850**

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

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 31 December 2018	Audited 31 December 2017
LIABILITIES			
Current Liabilities			
Other Financial Liabilities	6	25.052.709	240.946
Trade Payables		529.284.510	367.807.757
- Trade Payables to Related Parties	*7*	*82.239.240*	*58.781.800*
- Trade Payables to Non-Related Parties	*8*	*447.045.270*	*309.025.957*
Payables Related to Employee Benefits	9	188.346.214	151.894.550
Other Payables		209.912.451	258.076.242
- Other Payables to Related Parties	*7*	*73.321.784*	*94.400.926*
- Other Payables to Non-Related Parties	*10*	*136.590.667*	*163.675.316*
Deferred Income	12	743.635.681	445.256.585
Current Tax Liabilities	27	-	46.757.729
Short-term Provisions		55.377.965	48.066.614
- Provisions for Employee Benefits	*15*	*25.264.433*	*19.816.701*
- Other Short-term Provisions	*15*	*30.113.532*	*28.249.913*
Other Current Liabilities		2.158.017	2.117.553
TOTAL SHORT TERM LIABILITIES		**1.753.767.547**	**1.320.217.976**
Non-Current Liabilities			
Other Payables		-	174.087.689
- Other Payables to Related Parties	*7*	-	*174.087.689*
Long-term Provisions		142.257.378	107.328.996
- Long-term Provisions for Employee Benefits	*17*	*142.257.378*	*107.328.996*
Deferred Tax Liabilities	27	265.749.367	130.212.045
TOTAL LONG TERM LIABILITIES		**408.006.745**	**411.628.730**
EQUITY			
Share Capital	19	960.850.000	960.850.000
Adjustments to Share Capital	19	84.081	84.081
Accumulated Other Comprehensive Income or Expenses Not To Be Reclassified to Profit or Loss		(525.242)	15.143.884
- Actuarial Gain and Losses from Defined Pension Plans	*19*	*(525.242)*	*15.143.884*
Accumulated Other Comprehensive Income or Expenses To Be Reclassified to Profit or Loss		2.620.459.102	1.350.230.063
- Foreign Currency Translation Differences	*19*	*2.620.459.102*	*1.350.230.063*
Restricted Profit Reserves	*19*	64.258.023	27.152.358
Retained Earnings	19	649.444.524	390.002.053
Profit for the period	19	661.857.133	303.528.705
Equity Attributable to Equity Holders of the Parent		**4.956.427.621**	**3.046.991.144**
Non – Controlling Interest	19	**2.536.167**	**-**
TOTAL EQUITY		**4.958.963.788**	**3.046.991.144**
TOTAL LIABILITIES AND EQUITY		**7.120.738.080**	**4.778.837.850**

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Consolidated Statement of Profit or Loss and Other Comprehensive Income For The Period Ended 31 December 2018
(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 1 January- 31 December 2018	Audited 1 January- 31 December 2017
Revenue	20	5.930.090.806	4.040.510.743
Cost of Sales (-)	20	(4.699.790.524)	(3.338.358.776)
GROSS PROFIT		**1.230.300.282**	**702.151.967**
General Administrative Expenses (-)	21	(396.140.373)	(314.016.203)
Marketing and Sales Expenses (-)	21	(41.311.418)	(19.764.960)
Research and Development Expenses (-)	21	(17.604.918)	(12.851.307)
Gain From the Impairment of Trade and Other Receivables		(4.306.828)	16.962.983
Other Operating Income	22	31.497.315	29.705.340
Other Operating Expenses (-)	22	(39.483.220)	(34.308.626)
OPERATING PROFIT		**762.950.840**	**367.879.194**
Loss of Investment Activities	23	(33.765)	(236.743)
Share of Investments' Profit Accounted by Using the Equity Method	3	55.115.241	45.370.888
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		**818.032.316**	**413.013.339**
Financial Income	25	117.660.359	22.237.769
Financial Expenses (-)	25	(21.348.449)	(39.915.165)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**914.344.226**	**395.335.943**
Tax Expense from Continuing Operations		**(252.379.326)**	**(91.807.238)**
- Current Tax Expense	27	(181.245.875)	(178.584.404)
- Deferred Tax Benefit/ (Expense)	27	(71.133.451)	86.777.166
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**661.964.900**	**303.528.705**
Profit Attributable to			
Non-Controlling Interest		107.767	-
Parent Company		661.857.133	303.528.705
		661.964.900	**303.528.705**
OTHER COMPREHENSIVE INCOME			
Not To Be Reclassified to Profit or Loss	26	**(15.669.126)**	**9.762.848**
Actuarial Gain From Defined Pension Plans	17	(20.088.643)	12.516.471
Tax Effect of Actuarial Losses From Defined Pension Plans	27	4.419.517	(2.753.623)
To Be Reclassified To Profit or Loss	26	**1.270.229.039**	**201.251.203**
Currency Translation Differences		1.071.954.667	172.045.866
Currency Translation Differences of Equity Accounted Investees		198.274.372	29.205.337
OTHER COMPHERENSIVE INCOME		**1.254.559.913**	**211.014.051**
TOTAL COMPHERENSIVE INCOME		**1.916.524.813**	**514.542.756**
Total Comprehensive Income Attributable to:			
Non-controlling interest		**107.767**	**-**
Parent company		**1.916.417.046**	**514.542.756**
		1.916.524.813	**514.542.756**

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Consolidated Statement of Changes in Shareholders' Equity For The Period Ended 31 December 2018
(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

			Accumulated Other Comprehensive Income or Expenses Not to be Reclassified to Profit or Loss	Accumulated Other Comprehensive Income or Expenses to be Reclassified to Profit or Loss		Retained Earnings				
	Share Capital	Adjustment to Share Capital	Actuarial Gain/ (Loss) From Defined Pension Plans	Currency Translation Differences	Restricted Profit Reserves	Retained Earnings	Net Profit for the Period	Equity Attributable to Equity Holders of The Parent	Non-controlling interests	Total Equity
Balances as at 1 January 2017	**960.850.000**	**84.081**	**5.381.036**	**1.148.978.860**	**13.084.833**	**119.764.698**	**284.304.880**	**2.532.448.388**	**-**	**2.532.448.388**
Transfers	-	-	-	-	14.067.525	270.237.355	(284.304.880)	-	-	-
Total Comprehensive Income	-	-	9.762.848	201.251.203	-	-	303.528.705	514.542.756	-	514.542.756
Balances as at 31 December 2017	**960.850.000**	**84.081**	**15.143.884**	**1.350.230.063**	**27.152.358**	**390.002.053**	**303.528.705**	**3.046.991.144**	**-**	**3.046.991.144**
Balances as at 1 January 2018	**960.850.000**	**84.081**	**15.143.884**	**1.350.230.063**	**27.152.358**	**390.002.053**	**303.528.705**	**3.046.991.144**		**3.046.991.144**
Adjustment on initial application of TFRS 9	-	-	-	-	-	(6.980.569)	-	(6.980.569)	-	(6.980.569)
Adjusted balance as at 1 January 2018	**960.850.000**	**84.081**	**15.143.884**	**1.350.230.063**	**27.152.358**	**383.021.484**	**303.528.705**	**3.040.010.575**	**-**	**3.040.010.575**
Transfers	-	-	-	-	37.105.665	266.423.040	(303.528.705)	-	2.428.400	2.428.400
Total Comprehensive Income	-	-	(15.669.126)	1.270.229.039	-	-	661.857.133	1.916.417.046	107.767	1.916.524.813
Balances as at 31 December 2018	**960.850.000**	**84.081**	**(525.242)**	**2.620.459.102**	**64.258.023**	**649.444.524**	**661.857.133**	**4.956.427.621**	**2.536.167**	**4.958.963.788**

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

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 1 January- 31 December 2018	Audited 1 January- 31 December 2017
Profit for the period		661.964.900	303.528.705
Adjustments to reconcile cash flow generated from operating activities:			
Adjustments for depreciation and amortization	11, 13, 14	513.610.485	546.015.420
Adjustments for provisions, net	15	5.267.823	20.404.652
Adjustments for inventory provisions	11	(13.884.591)	22.006.001
Adjustments for provisions for employee benefits indemnity	17	25.645.970	34.326.836
Adjustments for provisions for doubtful receivables	10, 31	(4.351.063)	(17.000.098)
Adjustments for changes in expected credit loss	31	8.657.891	-
Adjustments for interest income and expenses	25	19.878.505	39.789.520
Adjustments for discount for receivables and payables		519.190	(48.622)
Adjustments for unrealized foreign exchange loss and translation differences		712.263.808	95.102.703
Adjustments for loss from sale of fixed asset	23	33.765	236.743
Adjustments for share of investment's profit accounted by using the equity method	3	(55.115.241)	(45.370.888)
Adjustments for deferred tax expense / (benefit)	27	71.133.451	(86.777.166)
Adjustments for tax expense	27	181.245.875	178.584.404
Operating Profit Before Working Capital Changes		**2.126.870.768**	**1.090.798.210**
Adjustments for increase in inventories		(1.004.574.471)	(189.901.622)
Adjustments for increase in trade receivables		(408.330.786)	(332.739.234)
Adjustments for decrease in other receivables		107.479	825.007
Adjustments for increase/(decrease) in other current assets		(145.265)	54.872
Adjustments for increase in trade payables and due to related parties		161.476.753	80.395.889
Adjustments for increase in other payables to non-related parties		(27.084.649)	72.547.286
Adjustments for increase/ (decrease) in prepaid expenses		(92.695.528)	(26.886.737)
Adjustments for increase in deferred income		298.379.096	44.427.339
Adjustments in payables related to employee benefits		36.451.664	67.766.766
Adjustments for increase/ (decrease) in other current liabilities		40.464	156.519
Cash Flows Generated From Operating Activities		**1.090.495.525**	**807.444.295**
Interest received	25	1.469.944	125.645
Taxes paid		(359.832.341)	(146.855.172)
Employee benefits indemnity paid	17	(10.806.231)	(12.598.680)
Net Cash Generated From Operating Activities		**721.326.897**	**648.116.088**
Cash Flows Generated From Investing Activities			
Proceeds from sale of property and equipment		553.246	82.183
Purchase of property and equipment	13	(517.192.476)	(173.838.214)
Purchase of intangible assets	14	(18.517.633)	(8.562.239)
Cash Flows Used in Investing Activities		**(535.156.863)**	**(182.318.270)**
Cash Flows Generated From Financing Activities			
Cash flows from purchasing of shares in associates and/or joint ventures or increase of capital		(12.142.000)	-
Interest payment	25	(8.329.956)	(28.527.585)
Adjustments for decrease in other payables to related parties		(195.166.831)	(431.755.236)
Repayment of borrowings		24.811.763	138.693
Cash Inflows from dividend profit share		28.265.598	-
Net Cash Used in/ (Generated from) Financing Activities		**(162.561.426)**	**(460.144.128)**
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**23.608.608**	**5.653.690**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**11.410.411**	**5.756.721**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**35.019.019**	**11.410.411**

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

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Türk Hava Yolları Teknik Anonim Şirketi ("the Company") was incorporated on 23 May 2006 with the purpose to bring the Company to an important technical maintenance base in the area in air transport sector and to provide maintenance and repair services to civil aviation sector and every kind of technical and infrastructural assistance related with the airlines sector.

For the purpose of the consolidated financial statements, the Company and its consolidated subsidiary Cornea Havacılık Sistemleri Sanayi ve Ticaret A.Ş. ("Cornea ") are collectively referred as a "Group".

Total average number of employees working for the Group as at 31 December 2018 is 7.844 (31 December 2017: 6.799). Total number of employees working for the Group as at 31 December 2018 is 8.466 (31 December 2017: 7.435).

	31 December 2018	31 December 2017
Administrative staff	2.262	1.928
Production staff	6.204	5.507
Total	**8.466**	**7.435**

The company is registered in Turkey and its head office address is as follows:

Sanayi Mh.Havaalanı İçyolu Cd. Sabiha Gökçen Havalimanı E Kapısı No:3 Pendik/İSTANBUL

(a) Subsidiary

As at 31 December 2018 and 2017, the details of the Group's subsidiary is as follows:

		Participation Rate		
Name of the company	**Principal Activity**	**31 December 2018**	**31 December 2017**	**Country of Registration**
Cornea	Cabin Interior Entertainment Systems	80%	-	Turkey

Cornea was founded on 11 October 2018 in order to design, manufacture, repair, maintain, market, sell and perform after-sales services, including in-cabin entertainment and internet service provider systems in land, sea, rail systems and air platforms, and spare parts of other software systems in civil aviation.

(b) Associates

As at 31 December 2018 and 31 December 2017, associates accounted for by using equity method and participation rate of the Company in these associates are as below:

		Participation Rate		
Name of the Company	**Principal Activity**	**31 December 2018**	**31 December 2017**	**Country of Registration**
P&W T.T. Uçak Bakım Merkezi Limited Şirketi ("TEC")	Technical Maintenance	49%	49%	Turkey
Goodrich THY Teknik Servis Merkezi Limited Şirketi ("Goodrich")	Technical Maintenance	40%	40%	Turkey
TCI Kabiniçi Sistemleri Sanayi ve Ticaret Anonim Şirketi ("TCI")	Cabin Interior	20%	20%	Turkey

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation

Preparation of the Consolidated Financial Statements

The accompanying financial statements have been prepared in accordance with Turkish Financial Reporting Standards ("TFRS's") which is issued by Public Oversight, Accounting and Auditing Standards Authority ("POA"). TFRS's are composed of standards and interpretations issued by POA which are Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards, TAS interpretations and TFRS interpretations. The consolidated financial statements are presented in accordance with the TAS Taxonomy issued by POA and announcement regarding with formats of financial statements and notes issued by CMB.

The consolidated financial statements were approved by the Group's Board of Directors on 4 March 2019. The Group's General Assembly have the right to amend the financial statements.

The consolidated financial statements are the first consolidated financial statements in which TFRS 15 and TFRS 9 have been applied. Changes to significant accounting policies are described in Note 2.3.

Adjustment of Consolidated Financial Statements in Hyperinflationary Periods

As per the resolution dated 17 March 2005, 11/367 numbered decree of CMB, companies engaged in Turkey and those of which prepare their consolidated financial statements in accordance with the CMB Accounting Standards (including IAS/IFRS exercisers), use of inflationary accounting standards have been discontinued effective from 1 January 2005. Accordingly, "Financial Reporting Standards in Hyperinflationary Economies", ("IAS 29") was no longer applied henceforward.

Basis of Measurements

Consolidated financial statements have been prepared on cost basis principal. Methods used for fair value measurement are given in Note: 2.5.7.

Functional and Reporting Currency

Functional Currency

Although the currency of the country in which the Group is domiciled is Turkish Lira (TL), for the purpose of this report 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 consolidated financial statements and as the reporting 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 premeasured in US Dollar in accordance with the relevant provisions of TAS 21 (the Effects of Changes in Foreign Exchange Rates).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.1 Basis of Preparation *(continued)*

Functional and Reporting Currency *(continued)*

Translation to the presentation currency

The Group's presentation currency is TL. The US Dollar financial statements of the Group are translated into TL as the following methods under TAS 21 ("The Effects of Foreign Exchange Rates"):

a. Assets and liabilities in the balance sheet are translated into TL at the prevailing US Dollar buying exchange rates of the Central Bank of Turkish Republic;

b. The statement of profit or loss and other comprehensive income is translated into TL by using the monthly average US Dollar exchange rates; and;

c. All differences are recognized as a separate equity item under exchange differences.

Basis of the Consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(b) Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(d) Interests in equity accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(e) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2017.

The Group has initially adopted TFRS 9 Financial Instruments and TFRS 15 Revenue from Contracts with Customers from 1 January 2018. Although there are other standards which are effective from 1 January 2018, these standards do not have any significant effect on the Group's consolidated financial statements.

TFRS 15 Revenue From Contracts With Customers

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced TAS 18 Revenue, TAS 11 Construction Contracts and related interpretations.

General model for revenue recognition

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

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 Group accounts the contracts as a single contract.

Step 2: Identifying the performance obligations

The Group defines 'performance obligation' as a unit of account for revenue recognition. The Group assesses the goods or services promised in a contract with a customer and identifies as:

(a) a performance obligation either a good or service that is distinct;

(b) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies a good or service contained in the contract as a different good or service if it is able to identify the goods or services separately from other commitments in the contract and allows the customer to make use of that good or service alone or in combination with other available resources. 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 15 Revenue From Contracts With Customers *(continued)*

General model for revenue recognition *(continued)*

Step 3: Determining the transaction price

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

Significant financing component

The Group 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 Group 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 Group's performance throughout the period, the Group concludes that the period between performance and payment is never more than 12 months, therefore the expedient is applied.

Variable consideration

The Group identifies items such as price concessions, incentives, performance bonuses, completion 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.

Step 5: Recognition of revenue

The Group recognizes 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
- Group's performance does not create an asset for which the entity has an 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 Group uses a method that measures the work performed reliably. The Group 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 Group recognize revenue at the point in time at which it transfers control of the good or service to the customer.

(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 15 Revenue From Contracts With Customers *(continued)*

General model for revenue recognition *(continued)*

The Group recognizes a provision in accordance with TAS 37 “Provisions, Contingent Liabilities and Contingent Assets” when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits.

Contract modifications

The Group recognizes a contract modification as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract. If the goods or services are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various goods and services are set out below:

Type of product /service	Nature, timing of satisfaction of performance obligations, significant payment terms	Revenue recognition under TFRS 15 (effective from 1 January 2018)	Revenue recognition under TAS 18 (effective before 1 January 2018)
Revenue from sales of product	The Group generates its revenue from the sale of materials. Revenue is recognized when the significant risk of and reward ownership has been transferred to the counter party. The collection is carried out in less than one year after delivery of the goods.	There has been no significant impact in the consolidated financial statements resulting from the sale of products due to the application of TFRS 15 accounting policies.	Under TAS 18, revenue for these contracts or orders was recognized when a reasonable estimate of the returns could be made, provided that all other criteria for revenue recognition were met.
Revenue From Aircraft Maintenance Services	The Group provides maintenance, technical and infrastructure support services to airlines operating in the air transport sector. Revenue is recognized over a period of time when the service is rendered.	There has been no significant impact in the financial statements resulting from the sale of products due to the application of TFRS 15 accounting policies.	Under TAS 18, revenue from aircraft maintenance is recognized over a period of time when these services are provided.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 9 Financial Instruments

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

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

	Impact on adopting TFRS 9 on opening balance
Retained Earnings	
Recognition of expected credit losses under TFRS 9	8.949.448
Related tax	(1.968.879)
Impact at 1 January 2018	**6.980.569**

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

Classification and measurement of financial assets and financial liabilities

TFRS 9 largely retains the existing requirements in TAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous TAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of TFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of TFRS 9 on the classification and measurement of financial assets is set out below.

Under TFRS 9, on initial recognition, a financial asset is classified as measured at amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under TFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 9 Financial Instruments *(continued)*

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

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

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

All financial assets not classified as measured at amortized for the FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized for the at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. The following accounting policies apply to subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised 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 recognised in OCI and are never reclassified to profit or loss.

The effect of adopting TFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 9 Financial Instruments *(continued)*

The following table and the accompanying notes below explain the original measurement categories under TAS 39 and the new measurement categories under TFRS 9 for each class of the Group’s financial assets as at 1 January 2018.

Financial assets	Original classification under TAS 39	New classification under TFRS 9	Original carrying amount under TAS 39	New carrying amount under TFRS 9
Trade and other receivables	Loans and receivables	Amortised cost	152.798.416	143.848.968
Cash and cash equivalents	Loans and receivables	Amortised cost	11.410.411	11.410.411
Total financial assets			**164.208.827**	**155.259.379**

Trade receivables those were classified as loans and receivables under TAS 39 are now classified at amortized cost. An increase of TL 8.949.448 in the allowance for impairment over these receivables was recognized in opening retained earnings at 1 January 2018 on transition to TFRS 9.

Impairment of financial assets

TFRS 9 replaces the ‘incurred loss’ model in TAS 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 TFRS 9, credit losses are recognized earlier than under TAS 39. The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

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

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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 360 days past due.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 9 Financial Instruments *(continued)*

Impairment of financial assets *(continued)*

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 bythe Group to actions such as realising 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 Company 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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider, otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss and OCI. As a result, the Group reclassified impairment income amounting to TL 16.962.983, recognised under TAS 39, from 'other operating expenses and other operating income' to 'impairment loss on trade and other receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.3 Changes in Accounting Policies *(continued)*

TFRS 9 Financial Instruments *(continued)*

Presentation of impairment *(continued)*

Impact of the new impairment model

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

Loss allowance as at 31 December 2017 under TAS 39	103.820.029
Additional impairment recognised at 1 January 2018 on;	
- Trade and other receivables as at 31 December 2017	8.949.448
Loss allowance as at 1 January 2018 under TFRS 9	**112.769.477**

Trade receivables and contract assets

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

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

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry – for wholesale customers; and delinquency status, geographic region, age of relationship and type of product purchased – for other customers.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for other customers as at 1 January 2018.

	Weighted average loss rate%	Gross carrying amount	Loss allowance
Current (not past due)	2,85	78.339.480	2.234.387
1-30 days past due	4,88	36.943.901	1.804.323
31-90 days past due	7,78	22.695.371	1.764.585
91-180 days past due	16,25	10.612.783	1.725.031
+180 days past due	33,78	4.206.881	1.421.122
		152.798.416	**8.949.448**

Transition

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

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.4 Changes and Errors in Accounting Estimates

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively.

Changes in accounting policies or accounting errors applied retroactively and the financial statements of the previous periods were adjusted.

The significant estimates and assumptions used in preparation of these consolidated financial statements as at 31 December 2018 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2017, except for the implementations of TFRS 15 and TFRS 9 explained in Note 2.3.

2.5 Summary of Significant Accounting Policies

2.5.1 TFRS 15 Revenue from contracts with customers

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. See note in 2.3.

2.5.2 Inventories

Inventories are stated at the lower of cost or 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 estimated selling price at regular business operation less all estimated costs of completion and estimated costs which is necessary to make sales.

Components and repairable spare parts depreciated over their useful lives are as follows:

	Useful Life (Years)
Components	7
Repairable spare parts (R Material)	7
Repairable spare parts (V Material)	7

2.5.3 Tangible Assets

Tangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses. 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. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant 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.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.3 Tangible Assets (continued)

The useful lives of tangible assets are as follows:

	Useful Life (Years)
Plant, property and equipment	3-15
Furniture and fixtures	3-15
Vehicles	4-7
Other tangible assets	4-15
Leasehold improvements	4-16

2.5.4 Intangible Assets

Intangible assets include information systems and other intangible assets. These intangible assets are recorded in the purchase cost. Other intangible assets are depreciated over their useful life, on a straight-line basis.

2.5.5 Impairment on Assets

Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost
- debt investments measured at FVOCI.

See Note 2.3 for the Group's accounting policies related to impairment on assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.5 Impairment on Assets *(continued)*

Policy applicable before 1 January 2018

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortized cost

The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognized in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss was reversed through profit or loss.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.5 Impairment on Assets (continued)

Policy applicable before 1 January 2018 *(continued)*

Non-financial assets *(continued)*

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

2.5.6 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All of the other borrowing costs are recognized in the statement of income in the period in which they occur. As of 31 December 2018 and 2017, the Group does not have any capitalized borrowing costs.

2.5.7 Financial Instruments

Recognition and initial measurement

Trade receivables and liabilities are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

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

Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

See Note 2.3. for the Group's accounting policies for financial instruments classification and subsequent measurement, effective from 1 January 2018.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- designated as at FVTPL.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.7 Financial Instruments (continued)

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognized in profit or loss. However, see Note (v) for derivatives designated as hedging instruments.
Held-to-maturity financial assets	Measured at amortized cost using the effective interest method.
Loans and receivables	Measured at amortized cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognized in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.7 Financial Instruments (continued)

Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

2.5.8 The Effect of Foreign Currency Transaction

Transactions in foreign currencies are translated into US Dollar at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in profit or loss.

The closing and average USD-TL exchange rates for the period are as follows:

	Closing Rate	**Average Rate**
31 December 2018	5.2609	4.8301
31 December 2017	3.7719	3.6445

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.9 Earnings Per Share

Earnings per share is calculated by dividing net profit/ (loss) 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.

2.5.10 Events Subsequent to Balance Sheet Date

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Group (should any evidence come about events that were prior to the balance sheet date or should new events come about) they will be explained in the relevant footnote.

If such an event were to arise, the Group restates its consolidated financial statements accordingly.

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

2.5.12 Related Parties

Related parties in the consolidated financial statements refer to partners, top level management, members of the Board of Directors, and close family members in charge of the Group, as well as the companies, affiliates and partnerships controlled by these individuals or associated with them. Transactions with related parties are performed based on prices at arm's length.

2.5.13 Taxation and Deferred Tax

Income tax expense represents the sum of the tax currently payable and deferred tax expense (or benefit).

Current tax

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.13 Taxation and Deferred Tax (continued)

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date. The carrying amount at deferred tax assets 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 period

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, in which case 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 acquired subsidiary's identifiable assets, liabilities and contingent liabilities over cost. Taxes on financial statements contain changes in current period taxes and deferred tax. The Group calculates current period tax and deferred tax based on period results.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.14 Employee Benefit / Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. 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 have been measured as the net current value of the liabilities that are expected to emerge from the retirements of all employees and disclosed as such on the financial statements. Any actuarial gains and losses calculated are carried on the income statement.

2.5.15 Statement of Cash Flow

Cash flows from operating activities reflect cash flows generated from sales of the Group.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.5.16 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.

2.6 Significant Accounting Estimates and Assumptions

2.6.1 Useful Lives of Inventories

Components and repairable spare parts are subject to depreciation and their useful lives are explained in Note 2.5.2.

2.6.2 Provision for Doubtful Receivables

The Group makes a provision for trade receivables which are overdue and whose ability to be collected is assessed to be lower based on the past collectability experience, by taking letters of guarantees received into consideration. As explained in Note 8, the provision for doubtful trade receivables amounts to TL 136.583.078 as at 31 December 2018 (31 December 2017: TL 103.820.029).

2.6.3 Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its consolidated financial statements as reported for TFRS purposes and its statutory tax financial statements. The partial or complete recoverable amount of deferred tax assets are estimated under current circumstances. Future profit projections, losses in current period, the final dates for utilizing unused losses and other tax assets and tax planning strategies are taken into consideration for such evaluation. Based on the information obtained, a provision is set aside for a portion of or for the total of deferred tax asset if future taxable profit is not sufficient against deferred tax assets.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.7 New and Revised Standards and Interpretation

Standards issued but not yet effective and not early adopted

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

TFRS 16 Leases

On 16 April 2018, POA issued the new leasing standard which will replace TAS 17 *Leases*, TFRS Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, TAS Interpretation 15 *Operating Leases – Incentives*, and TAS Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and consequently changes to TAS 40 *Investment Properties*. TFRS 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. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts TFRS 15 *Revenue from Contracts with Customers*.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 16.

TFRS Interpretation 23 –Uncertainty Over Income Tax Treatments

On 24 May 2018, POA issued TFRS Interpretation 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. TAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. TFRS Interpretation 23 provides requirements that add to the requirements in TAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS Interpretation 23.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.7 New and Revised Standards and Interpretation *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

Amendments to TFRS 9 - Prepayment features with negative compensation

On December 2017, POA has issued amendments to TFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of TFRS 9. Under TFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract.

The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 9.

Amendments to TAS 28- Long-term **Interests in Associates and Joint Ventures**

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 28.

The Revised Conceptual Framework

The revised Conceptual Framework issued on 27 October 2018 by the POA. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the POA in developing TFRS 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 TFRS 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 POA 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 TFRS 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.7 New and Revised Standards and Interpretation *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

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

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

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

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

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.7 New and Revised Standards and Interpretation *(continued)*

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8

3. SHARES IN OTHER SUBSIDARIES

As at 31 December the shares in other subsidiaries are as follows:

	31 December 2018	31 December 2017
TEC	327.101.170	210.445.886
Goodrich	10.292.560	5.722.120
TCI	6.278.240	4.394.597
	343.671.970	**220.562.603**

As at 31 December financial informations for TEC are as follows:

	31 December 2018	31 December 2017
Current assets	831.847.805	488.370.193
Non-current assets	162.739.208	125.120.121
Short-term liabilities	196.696.517	98.490.888
Long-term liabilities	130.337.088	85.518.026
Equity	667.553.408	429.481.400
Group's share in equity (49%)	**327.101.170**	**210.445.886**

The dividend amounting to TL 28.265.598, which is the TL equivalent of US Dollars converted from the Central Bank of the Republic of Turkey ("CBRT") buying rate on a payment date up to the Group's share, has paid in November 2018, after the amounts allocated from 2017 fiscal and the prior year profit of TEC's in accordance with the relevant legislation and the articles of association.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

3. SHARES IN OTHER SUBSIDARIES *(continued)*

	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	2.617.386.309	1.917.544.276
Profit for the period	107.633.776	89.876.777
Group's share in profit for the period (49%)	**52.740.550**	**44.039.621**

As at 31 December financial informations for Goodrich are as follows:

	31 December 2018	**31 December 2017**
Current assets	50.407.321	25.063.720
Non-current assets	4.569.352	3.002.449
Short-term liabilities	28.323.805	13.267.029
Long-term liabilities	921.467	493.840
Equity	25.731.401	14.305.300
Group's share in equity (40%)	**10.292.560**	**5.722.120**

	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	85.475.439	54.582.444
Profit for the period	5.593.974	2.972.542
Group's share in profit for the period (40%)	**2.237.589**	**1.189.017**

As at 31 December financial informations for TCI are as follows:

	31 December 2018	**31 December 2017**
Current assets	68.849.493	27.541.207
Non-current assets	19.213.254	8.885.272
Short-term liabilities	55.794.044	14.453.495
Long-term liabilities	877.502	-
Equity	31.391.201	21.972.985
Group's share in equity (20%)	**6.278.240**	**4.394.597**

	1 January - 31 December 2018	**1 January - 31 December 2017**
Revenue	42.040.886	25.250.475
Profit for the period	685.522	711.251
Group's share in profit/ (loss) for the period (20%)	**137.103**	**142.250**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

3. SHARES IN OTHER SUBSIDARIES *(continued)*

Shares of investment's profit accounted by using equity method are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
TEC	52.740.550	44.039.621
TCI	137.103	142.250
Goodrich	2.237.588	1.189.017
	55.115.241	**45.370.888**

4. CASH AND CASH EQUIVALENTS

As at 31 December details of cash and cash equivalents are as follows:

	31 December 2018	31 December 2017
Banks (demand deposits)	184.615	1.604.137
Banks (time deposits)	34.834.404	9.806.274
	35.019.019	**11.410.411**

As at 31 December 2018 and 2017, details of the time deposits are as follows:

Capital	Currency	Opening date	Interest rate	Maturity	31 December 2018
1.292.000	TL	31 December 2018	25,17%	2 January 2019	1.292.000
1.084.000	EUR	31 December 2018	0,10%	2 January 2019	6.534.352
2.737.000	USD	31 December 2018	0,50%	2 January 2019	14.399.083
12.608.969	TL	28 December 2018	22,00%	2 January 2019	12.608.969
					34.834.404

Capital	Currency	Opening date	Interest rate	Maturity	31 December 2017
4.232.000	TL	29 December 2017	13,42%	2 January 2018	4.232.000
405.000	EUR	29 December 2017	0,25%	2 January 2018	1.828.778
993.000	USD	29 December 2017	0,50%	2 January 2018	3.745.496
					9.806.274

5. FINANCIAL INVESTMENTS

As at 31 December details of financial investments are as follows:

	31 December 2018	Share %	31 December 2017	Share %
Uçak Koltuk Üretimi Sanayi Ticaret Anonim Şirketi ("Uçak Koltuk")	1.485.005	10	1.485.005	10
Türk Hava Yolları Opet Havacılık Yakıtları Anonim Şirketi ("THY Opet")	20	<1	20	<1
	1.485.025		**1.485.025**	

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

6. OTHER FINANCIAL LIABILITIES

As at 31 December details of other financial liabilities are as follows:

	31 December 2018	31 December 2017
Payables to banks	25.052.709	240.946
	25.052.709	**240.946**

As at 31 December details of other financial liabilities are as follows:

31 December 2018

Name of Bank	Maturity	Original amount	Currency	Amount
T.C. Ziraat Bankası A.Ş. ("Ziraat Bank")	3 January 2019	25.040.519	TL	25.040.519
QNB Finansbank A.Ş. ("Finansbank")	2 January 2019	12.190	TL	12.190
				25.052.709

31 December 2017

Name of Bank	Maturity	Original amount	Currency	Amount
Finansbank	2 January 2018	218.330	TL	218.330
Finansbank	3 January 2018	22.616	TL	22.616
				240.946

Short term financial borrowings consist of overnight borrowings obtained for the payment of social security premiums.

7. RELATED PARTY TRANSACTIONS

Since transactions between the Company and its subsidiary, which is a related party of the Company, are eliminated during consolidation, they are not disclosed in this note.

As at 31 December short term trade receivables from related parties are as follows:

	31 December 2018	31 December 2017
Türk Hava Yolları Anonim Ortaklığı ("THY A.O.")	1.379.659.622	1.125.361.065
Güneş Express Havacılık A.Ş. ("Sun Ekspress")	26.709.936	10.086.667
TEC	7.987.309	6.367.710
THY Aydın Çıldır	4.954.240	10.448
TCI	2.366.714	76.949
Goodrich	1.184.352	115.717
Air Albenia SHPK	492.190	-
TGS Yer Hizmetleri A.Ş. ("TGS")	446.699	1.099.134
Other	44.600	7.919
	1.423.845.662	**1.143.125.609**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

7. RELATED PARTY TRANSACTIONS *(continued)*

As at 31 December short term other receivables from related parties are as follows:

	31 December 2018	**31 December 2017**
THY A.O.	-	1.341.909
	-	**1.341.909**

As at 31 December short term trade payables to related parties are as follows:

	31 December 2018	**31 December 2017**
THY A.O.	64.488.125	42.840.034
Goodrich	11.908.315	3.936.939
TGS	2.503.219	1.584.531
Uçak Koltuk	2.495.749	4.528.206
THY Aydın Çıldır	443.116	4.662
THY Opet	200.809	114.557
TEC	188.590	26.268
Other	11.317	10.627
TCI	-	5.735.976
	82.239.240	**58.781.800**

As at 31 December short term other payables to related parties are as follows:

	31 December 2018	**31 December 2017**
THY A.O.	73.321.784	94.400.926
	73.321.784	**94.400.926**

As at 31 December long term other payables to related parties are as follows:

	31 December 2018	**31 December 2017**
THY A.O.	-	174.087.689
	-	**174.087.689**

As at 31 December advances received from related parties are as follows:

	31 December 2018	**31 December 2017**
THY A.O. (Note 12)	591.248.041	396.199.062
	591.248.041	**396.199.062**

For the years ended 31 December, transactions with related parties are as follows:

Sales	**1 January - 31 December 2018**	**1 January - 31 December 2017**
THY A.O.	4.816.842.163	3.405.375.559
Sun Express	133.406.097	97.546.805
TEC	58.041.219	36.275.565
Aydın Çıldır	14.505.977	149.301
Goodrich	3.177.996	1.568.922
TCI	2.799.784	1.131.700
Uçak Koltuk	1.660.082	1.089.548
Air Albenia SHPK	451.885	-
TGS	234.962	988.393
Other	50.785	43.376
	5.031.170.950	**3.544.169.169**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

7. RELATED PARTY TRANSACTIONS *(continued)*

Purchases	**1 January - 31 December 2018**	**1 January - 31 December 2017**
THY A.O.	221.890.802	188.367.861
Goodrich	82.203.324	41.890.995
Uçak Koltuk	23.331.524	36.430.793
TGS	20.279.849	19.198.691
TCI	16.906.363	17.226.609
THY Opet	2.537.606	1.475.766
THY Aydın Çıldır	432.033	773.803
TEC	361.082	200.482
Sun Express	654.345	140.290
Havaalanları Yer Hizmetleri A.Ş.	216.108	138.479
	368.813.036	**305.843.769**

Interest expenses	**31 December 2018**	**31 December 2017**
THY A.O.	8.319.362	28.375.080
	8.319.362	**28.375.080**

For the year ended 31 December 2018, total amount of salaries and other benefits provided to key management personnel is TL 4.929.134 (31 December 2017: TL 4.134.486).

8. TRADE RECEIVABLES AND PAYABLES

As at 31 December trade receivables from non-related parties are as follows:

	31 December 2018	**31 December 2017**
Trade receivables	379.353.436	221.228.422
Notes receivables	29.987.130	22.204.014
Discount on receivables	(1.824.673)	(122.198)
Provision for doubtful receivables (*)	(136.583.078)	(103.820.029)
	270.932.815	**139.490.209**

(*) Provision for doubtful receivables has been determined based on experiences for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables of the Group are explained in Note 31.

As at 31 December trade payables to non-related parties are as follows:

	31 December 2018	**31 December 2017**
Trade payables	358.233.603	277.696.690
Accrued expenses	88.811.667	31.329.267
	447.045.270	**309.025.957**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

9. PAYABLES RELATED TO EMPLOYEE BENEFITS

As at 31 December payables related to employee benefits are as follows:

	31 December 2018	31 December 2017
Salary accruals (*)	89.166.907	62.505.007
Premiums (**)	62.071.424	43.617.919
Social security premiums payable	37.067.337	45.713.067
Personnel credit card payables	40.546	58.557
	188.346.214	**151.894.550**

(*) Salary accruals are comprised of salary expenses of December.

(**) Premiums comprise of annual premium payment to the employees. The premium amount of the year 2018 is paid in February 2019.

10. OTHER RECEIVABLES AND PAYABLES

As at 31 December other receivables from non-related parties are as follows:

	31 December 2018	31 December 2017
Deposits and guarantees given	622.512	230.045
Other receivables	962.700	142.244
Receivables from personnel	110.065	88.558
Doubtful receivables	51.766	37.115
Provision for doubtful receivables (-)	(51.766)	(37.115)
	1.695.277	**460.847**

For the years ended 31 December the movements of provision for doubtful receivables are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Provision at the beginning of the period	37.115	-
Current period charge	-	37.115
Foreign currency translation difference	14.651	-
Provision at the end of the period	**51.766**	**37.115**

As at 31 December other payables to non-related parties are as follows:

	31 December 2018	31 December 2017
Taxes and funds payable and other deductions	129.006.894	94.412.729
Other payables	6.281.288	58.300.082
Deposits and guaranteed received	1.302.485	10.962.505
	136.590.667	**163.675.316**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

11. INVENTORIES

As at 31 December inventories are as follows:

	31 December 2018	31 December 2017
Components and repairable spare parts	2.988.145.641	1.975.288.095
Technical equipment inventories	999.877.454	689.446.523
Scrap equipment inventories	117.644.622	94.234.469
Technical equipment inventories in transit	70.102.854	100.895.629
Accumulated depreciation of components and repairable spare parts (-)	(1.635.995.765)	(1.075.937.466)
Provision for impairment of inventories (-)	(117.644.622)	(94.234.469)
	2.422.130.184	**1.689.692.781**

As at 31 December 2018, inventories were insured to the extent of TL 1.561.263.318 (31 December 2017: TL 942.975.000).

For the years ended 31 December, the movements of provision for impairment of inventories are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Provision at the beginning of the period	94.234.469	67.790.879
Foreign currency translation difference	37.294.744	4.437.589
Current period provision	(13.884.591)	22.006.001
Provision at the end of the period	**117.644.622**	**94.234.469**

For the year ended 31 December 2018, the movement of components and repairable spare parts are as follows:

Cost	Components and repairable spare parts
Opening balance as at 1 January 2018	1.975.288.095
Foreign currency translation difference	779.767.218
Additions	531.937.678
Disposals	(298.847.350)
Closing balance as at 31 December 2018	**2.988.145.641**
Accumulated depreciation	
Opening balance as at 1 January 2018	1.075.937.466
Foreign currency translation difference	435.818.615
Current charge for the period	258.252.477
Disposals	(134.012.793)
Closing balance as at 31 December 2018	**1.635.995.765**
Net book value as at 31 December 2018	**1.352.149.876**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

11. INVENTORIES *(continued)*

For the year ended 31 December 2017 the movement of components and repairable spare parts are as follows:

Cost	**Components and repairable spare parts**
Opening balance as at 1 January 2017	1.764.194.845
Foreign currency translation difference	126.679.935
Additions	270.365.318
Disposals	(185.952.003)
Closing balance as at 31 December 2017	**1.975.288.095**
Accumulated depreciation	
Opening balance as at 1 January 2017	714.430.667
Foreign currency translation difference	61.781.249
Current charge for the period	364.901.825
Disposals	(65.176.275)
Closing balance as at 31 December 2017	**1.075.937.466**
Net book value as at 31 December 2017	**899.350.629**

12. PREPAID EXPENSES AND DEFERRED INCOME

As at 31 December short-term pre-paid expenses are as follows:

	31 December 2018	**31 December 2017**
Advances given for orders (*)	95.086.474	29.833.497
Short-term prepaid expenses (**)	40.810.008	14.899.525
	135.896.482	**44.733.022**

(*) Advances given for orders comprise advances given for purchasing of trading goods, components and consumables.

As at 31 December long-term pre-paid expenses are as follows:

	31 December 2018	**31 December 2017**
Long-term prepaid expenses (**)	14.436.959	12.904.891
	14.436.959	**12.904.891**

(**) Prepaid expenses comprise of costs TL 17.501.390 related with Kıyı Emniyeti Genel Müdürlüğü ("KEGM") in order to hire the land of Devlet Hava Meydanları İşletmesi Genel Müdürlüğü ("DHMİ") (31 December 2017: TL 14.910.481).

As at 31 December short-term deferred income are as follows:

	31 December 2018	**31 December 2017**
Advances received (*)	607.250.552	406.871.440
Short-term deferred income	136.385.129	38.385.145
	743.635.681	**445.256.585**

(*) Advances received consist of order advances received from THY A.O. amounting to TL 591.248.041 (31 December 2017: TL 396.199.062) (Note 7).

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

13. PROPERTY AND EQUIPMENT

For the year ended 31 December 2018, the movement of property and equipment is as follows:

	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
Cost							
Opening balance as at 1 January 2018	539.523.714	30.512.552	115.621.323	12.576.336	56.874.146	1.625.894.573	2.381.002.644
Foreign currency translation difference	212.983.062	12.045.174	45.642.819	4.964.650	22.451.709	641.840.182	939.927.596
Additions	202.276.814	20.478.726	27.289.060	5.380.153	254.052.533	7.715.190	517.192.476
Disposals	(1.390.620)	(1.375.363)	(1.114.292)	(3.319)	-	-	(3.883.594)
Transfers	3.022.721	-	1.274	37.672	(78.793.648)	75.099.347	(632.634)
Closing balance as at 31 December 2018	**956.415.691**	**61.661.089**	**187.440.184**	**22.955.492**	**254.584.740**	**2.350.549.292**	**3.833.606.488**
Accumulated depreciation							
Opening balance as at 1 January 2018	330.609.586	23.233.630	77.655.640	7.078.371	-	443.239.598	881.816.825
Foreign currency translation difference	137.770.884	9.485.460	32.246.667	2.956.322	-	187.209.675	369.669.008
Current charge for the period	82.740.042	4.705.484	18.707.192	1.819.686	-	137.187.544	245.159.948
Disposals	(1.239.362)	(1.188.047)	(866.442)	(2.732)	-	-	(3.296.583)
Transfers	(112.939)	-	-	-	-	-	(112.939)
Closing balance as at 31 December 2018	**549.768.211**	**36.236.527**	**127.743.057**	**11.851.647**	-	**767.636.817**	**1.493.236.259**
Net book value as at 1 January 2018	**208.914.128**	**7.278.922**	**37.965.683**	**5.497.965**	**56.874.146**	**1.182.654.975**	**1.499.185.819**
Net book value as at 31 December 2018	**406.647.480**	**25.424.562**	**59.697.127**	**11.103.845**	**254.584.740**	**1.582.912.475**	**2.340.370.229**

(*) As at 31 December 2018, construction in progress amounting to TL 632.634 is transferred to intangible assets.

As at 31 December 2018, property and equipment were insured amounting to TL 363.005.309 against earthquake, fire, flood and similar disasters (31 December 2017: TL 330.568.430).

(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

13. PROPERTY AND EQUIPMENT (*continued*)

For the year 31 December 2017, the movement of property and equipment is as follows:

	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
Cost							
Opening balance as at 1 January 2017	464.924.415	26.500.898	99.815.353	10.380.743	8.141.031	1.452.128.089	2.061.890.529
Foreign currency translation difference	33.384.406	1.902.927	7.167.351	745.400	584.576	104.271.644	148.056.304
Additions	38.921.534	2.225.945	10.094.727	1.651.363	51.504.156	69.440.489	173.838.214
Disposals	(315.467)	(418.110)	(1.461.168)	-	-	-	(2.194.745)
Transfers (*)	2.608.826	300.892	5.060	(201.170)	(3.355.617)	54.351	(587.658)
Closing balance as at 31 December 2017	**539.523.714**	**30.512.552**	**115.621.323**	**12.576.336**	**56.874.146**	**1.625.894.573**	**2.381.002.644**
Accumulated depreciation							
Opening balance as at 1 January 2017	262.245.979	18.746.923	61.839.277	5.101.138	-	320.196.763	668.130.080
Foreign currency translation difference	20.504.398	1.452.252	4.824.789	420.720	-	26.372.441	53.574.597
Current charge for the period	48.094.383	3.372.681	12.289.151	1.561.358	-	96.670.394	161.987.967
Disposals	(235.174)	(343.071)	(1.297.574)	-	-	-	(1.875.819)
Transfers	-	4.845	-	(4.845)	-	-	-
Closing balance as at 31 December 2017	**330.609.586**	**23.233.630**	**77.655.640**	**7.078.371**	**-**	**443.239.598**	**881.816.825**
Net book value as at 1 January 2017	**202.678.436**	**7.753.975**	**37.976.076**	**5.279.605**	**8.141.031**	**1.131.931.326**	**1.393.760.449**
Net book value as at 31 December 2017	**208.914.130**	**7.278.922**	**37.965.683**	**5.497.965**	**56.874.146**	**1.182.654.975**	**1.499.185.819**

(*) As at 31 December 2017, construction in progress amounting to TL 587.658 is transferred to intangible assets.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

14. INTAGIBLE ASSETS

For the year ended 31 December 2018, the movement of other intangible assets is as follows:

	Rights
Cost	
Opening balance as at 1 January	95.604.723
Foreign currency translation difference	37.741.040
Additions	18.517.633
Transfer	632.634
Closing balance as at 31 December	**152.496.030**
Accumulated depreciation	
Opening balance as at 1 January	81.195.399
Foreign currency translation difference	32.971.973
Current charge for the period	10.198.060
Transfer	112.939
Closing balance as at 31 December	**124.478.371**
Net book value as at 1 January 2018	**14.409.324**
Net book value as at 31 December 2018	**28.017.659**

For the year ended 31 December 2017, the movement of other intangible assets is as follows:

	Rights
Cost	
Opening balance 1 January	80.662.749
Foreign currency translation difference	5.792.077
Additions	8.562.239
Transfers	587.658
Closing balance as at 31 December	**95.604.723**
Accumulated depreciation	
Opening balance 1 January	57.287.403
Foreign currency translation difference	4.782.368
Current charge for the period	19.125.628
Closing balance as at 31 December	**81.195.399**
Net book value as at 1 January 2017	**23.375.346**
Net book value as at 31 December 2017	**14.409.324**

15. PROVISIONS, CONTINGENTS AND LIABILITIES

As at 31 December short-term provisions are as follows:

(a) Short-term provisions for employee benefits

	31 December 2018	31 December 2017
Provisions for unused vacation	25.264.433	19.816.701
	25.264.433	**19.816.701**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

15. PROVISIONS, CONTINGENTS AND LIABILITIES (*continued*)

(a) Short-term provisions for employee benefits *(continued)*

For the periods ended 31 December the movements of provision for unused vacation are as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Provision at the beginning of the period	19.816.701	18.746.312
Foreign currency translation difference	1.077.443	2.288.996
Current period charge	5.895.454	1.080.920
Provision no longer required	(1.525.165)	(2.299.527)
Provision at the end of the period	**25.264.433**	**19.816.701**

(b) Other short-term provisions

	31 December 2018	31 December 2017
Provision for legal claims	29.403.310	28.249.913
Other provisions (*)	710.222	-
	30.113.532	**28.249.913**

(*) The Group has initially applied TFRS 15 in 2018. In accordance with TFRS 15, it consists of the calculated amount of penalty expenses and discounts arising from the contract to be paid in 2018.

For the periods ended 31 December the movements of other provisions are as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Provision at the beginning of the period	-	-
Current period charge	715.095	-
Foreing currency translation difference	(4.873)	-
Provision at the end of the period	**710.222**	**-**

For the periods ended 31 December the movements of provision for legal claims are as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Provision at the beginning of the period	28.249.913	12.479.422
Foreing currency translation difference	970.958	726.420
Current period charge (Note 22)	4.168.327	18.601.089
Provision no longer required	(3.985.888)	(3.557.018)
Provision at the end of the period (*)	**29.403.310**	**28.249.913**

(*) As at 31 December 2018, provision for legal claims amounting to TL 21.589.490 is related with reinstatement cases (31 December 2017: TL 17.735.274).

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

16. COMMITMENTS AND CONTINGENTIES

Group as lessee

Leasing Agreements:

Leasing period is 20 years and is related to the construction in progress of aircraft hangar land.

As at 31 December 2018 leasing payment amounting to TL 16.119.696 (31 December 2017: TL 13.521.757) is accounted as rent expense in income statement.

Commitments related to operating leasing that can not be cancelled	**31 December 2018**	**31 December 2017**
Within one year	21.541.602	16.697.583
One- five years	106.120.052	76.497.324
After five years	87.211.829	85.579.317
	214.873.483	**178.774.224**

17. EMPLOYEE BENEFITS

As at 31 December provisions for retirement pay liability are as follows:

	31 December 2018	**31 December 2017**
Provision for employee benefits	142.257.378	107.328.996
	142.257.378	**107.328.996**

Provision for employment termination benefits is made within the frame of following explanations:

Under labor laws effective in Turkey, it is a liability to make legal retirement pay to employees whose employment is terminated in such way to receive retirement pay. In addition, according to Article 60 of Social Security Law numbered 506 which was changed by the laws numbered 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is also a liability to make legal retirement pay to those who entitled to leave their work by receiving retirement pay. Some transfer provisions related to service conditions prior to retirement are removed from the Law by the changed made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly TL 6.017 as at 1 January 2019 (1 January 2018: TL 5.002).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 ("Employee Benefits") stipulates the development of group's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying financial statements as at 31 December 2018 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7, 00% annual inflation rate (31 December 2017: 7, 00%) and 12, 00% interest rate (31 December 2017: 11, 00%) is also taken into consideration as 4, 67% (31 December 2017: 3, 74%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Group. Ceiling for retirement pay is revised semi-annually, ceiling amount of TL 6.017 which is in effect since 1 January 2019 is used in the calculation of Group's provision for retirement pay liability.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

17. EMPLOYEE BENEFITS (*continued*)

The movements of provision for employee benefits are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Provisions at the beginning of the period	107.328.996	98.117.311
Service charge for the period	12.766.438	23.163.671
Interest charges	12.879.532	11.163.165
Payments	(10.806.231)	(12.598.680)
Actuarial gain	20.088.643	(12.516.471)
Provisions at the end of the period	**142.257.378**	**107.328.996**

18. GOVERNMENTS INCENTIVES GRANTS

The Ministry of Industry and Technology (Former ministry: Ministry of Commerce) General directorate of Incentive Practices and Foreign Capital approved the letter with the application numbered 51664236-401.01-E.66875 dated 28.06.2018 which was applied on 1 March 2018 by the Group and Istanbul Investment Incentive certificate dated 29.06.2018 and numbered 138160 amounting to TL 600.000.000 has been issued.

This incentive certificate is regional incentive, and VAT exemption, Customs Duty Deduction, Tax Deduction and Insurance Premium Employer Share Support has been entitled and in this investment incentive certificate, the tax deduction and the investment contribution rate is determined as is 50% and 15%, respectively. In 2018, the rates have been doubled by Ministry until 31 December 2018 and the tax reduction rate and the investment contribution rate was applied as 100% and 30%, respectively.

Since the former Istanbul Incentive Certificate of the Group was "General Incentive", no tax deductions was applied and in 2018 the investment incentive was amounting to TL 107.354.363.

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

(a) Issued share capital and ve share capital adjustments

As at 31 December 2018, the paid-in capital of the Group comprises of 960.850.000 shares issued (31 December 2017: 960.850.000 shares) of kr 1 each.

As at 31 December the ownership structure of the Group's share capital is as follows:

		31 December 2018		31 December 2017	
	Class	**Ownership Interest**	**%**	**Ownership Interest**	**%**
THY AO	A group	960.850.000	100	960.850.000	100
Total		**960.850.000**	**100**	**960.850.000**	**100**
Share Capital Adjustments		84.081		84.081	
Adjusted Capital		**960.934.081**		**960.934.081**	

960.850.000 (A) group shares with a nominal value of 960.850.000 TL have privilege in nominating the members of the board of directors and voting rights.

As of 31 December 2018, capital adjustment differences amounting to TL 84.081 consist of the capital adjustment differences arising from the restatement of the paid-in capital amount according to inflation and not deducted from previous years' loss or added to capital (31 December 2017: TL 84.081).

As of 31 December 2018 and 2017, the Group has no unpaid capital amount which is committed by its shareholders.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS *(continued)*

(b) Restricted Profit Reserves

Restricted reserves are reserves which are reserved for specific purposes from previous period profit other than due to law or contractual obligations or dividend payments. These reserves are presented as the same amount in Group's statutory books and differences arising preparing the financial statements in accordance with TFRS are associated with prior years' profit or losses.

As at 31 December, restricted reserves comprised the followings:

	31 December 2018	31 December 2017
The first legal reserve	64.258.023	27.152.358
Total	**64.258.023**	**27.152.358**

In accordance with the Turkish Commercial Code ("TCC") numbered 519, the first legal reserve is appropriated out of statutory profits at the rate of 5 percent per annum, until the total reserve reaches 20 percent of the Group's paid-in share capital. The second legal reserve is appropriated at the rate of 10 percent per annum of all cash distributions in excess of 5 percent of the paid-in share capital.

As at 31 December 2018, the first legal reserve amount is 6,69 percent of the paid-in share capital of the Group, there is no limit for the second legal reserve. Unless such reserves do not exceed half of the Group's paid-in capital, the reserves may only be used to cover the losses, to continue operations or to prevent unemployment and to mitigate the consequences when business is not doing well.

As at 31 December 2018, the Group does not have any reacquired shares (31 December 2017: None).

(c) Accumulated other comprehensive income or expenses not to be reclassified to profit or loss

Actuarial losses from defined pension plans

As at 31 December 2018, the account comprise actuarial gains and losses recognized in other comprehensive income amounting to TL (525.242) (31 December 2017: TL 15.143.884).

(d) Accumulated other comprehensive income or expenses to be reclassified to profit or loss

Translation reserves

As at 31 December 2018, the Group has foreign currency translation differences amounting to TL 2.620.459.102 (31 December 2017: TL 1.350.230.063) in the consolidated financial statements.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS *(continued)*

Retained earnings

The accumulated profits other than the net profit for the period is presented in retained earnings. The extraordinary reserves which are accumulated profits are also presented in retained earnings. The Group's retained earnings are detailed as below:

	31 December 2018	31 December 2017
Retained earnings	649.444.524	390.002.053
Total	**649.444.524**	**390.002.053**

Net profit or loss for the period

For the year ended 31 December 2018, the net income is amounting to TL 661.857.133 (2017: TL 303.528.705). According to the Tax Procedure Law, for the year ended 31 December 2018 the net profit in the Group's statutory record is amounting to TL 1.417.167.520 (31 December 2017: TL 927.684.203).

Non-controlling interests

The parts of the subsidiary's net assets that are not subject to the direct and / or indirect control of the parent company are classified as non-controlling interests in the Group's consolidated financial statements.

The movements of the non-controlling interests in the years ended 31 December are as follows:

	2018	2017
Beginning of the period	-	-
Changes in non-controlling interests of the consolidated subsidiary	2.428.400	-
Part of period profit attributed to non-controlling interests	107.767	-
End of the period	**2.536.167**	**-**

20. REVENUE AND COST OF SALES

Due to the initial application of TFRS 15, the effect of the Group's revenue from customer contracts is explained in note 2.3.

For the periods ended 31 December revenue is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Aircraft maintenance income	2.433.733.422	1.466.339.056
Pool income	1.145.833.485	766.566.196
Component maintenance income	990.558.841	693.457.366
Line maintenance income	847.775.425	645.324.323
Engine maintenance income	197.720.372	156.627.239
Equipment sales income	179.043.657	202.856.511
Others	135.425.604	109.340.052
Revenue	**5.930.090.806**	**4.040.510.743**
Cost of sales (-)	(4.699.790.524)	(3.338.358.776)
Gross profit	**1.230.300.282**	**702.151.967**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

20. REVENUE AND COST OF SALES *(continued)*

For the periods ended 31 December cost of sales are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Equipment expenses	1.624.257.338	1.086.779.843
Personnel expenses	1.269.421.892	925.500.949
Maintenance expenses	698.947.188	411.545.660
Service expenses	428.350.477	316.707.333
Depreciation and amortization expenses	426.925.754	462.756.607
Transportation expenses	151.977.458	83.765.759
Rent expenses	24.774.177	17.606.649
Customs brokerage expense	21.656.212	12.706.754
Utilization expenses	20.659.511	10.410.692
Equipment rent expense	13.478.006	1.687.944
Others	19.342.511	8.890.586
	4.699.790.524	**3.338.358.776**

21. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTUION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

For the periods ended 31 December general administrative expenses are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	175.302.973	122.136.724
Depreciation and amortization expenses	79.321.766	82.336.115
Service expenses	58.046.844	38.981.667
Equipment expenses	14.358.877	12.829.827
Rent expenses	8.757.190	9.031.024
Utilization expenses	8.532.794	7.927.512
Others	51.819.929	40.773.334
	396.140.373	**314.016.203**

For the periods ended 31 December marketing, selling and distribution expenses are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	14.486.847	9.286.239
Advertising and promotion expense	9.262.046	3.840.700
Service expenses	4.195.137	3.224.412
Depreciation and amortization expenses	6.888.310	635.432
Equipment expenses	1.579.844	545.768
Others	4.899.234	2.232.409
	41.311.418	**19.764.960**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

21. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTUION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES *(continued)*

For the periods ended 31 December research and development expenses are as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Personnel expenses	14.755.973	9.693.647
Service expenses	1.885.450	1.889.134
Depreciation and amortization expenses	474.655	287.266
Others	488.840	981.260
	17.604.918	**12.851.307**

22. OTHER OPERATING INCOME AND EXPENSES

For the periods ended 31 December other operating income is as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Insurance, indemnities and penalties income	5.676.135	2.238.827
Plant maintenance income	4.724.765	3.377.708
Foreign exchange gain from trade operations, net	4.480.843	1.151.278
Reversal of provision for law suits (Note 15)	3.985.888	3.557.018
Late payment interest income of trade receivables	2.348.648	11.511.413
Others	10.281.036	7.869.096
	31.497.315	**29.705.340**

For the years ended 31 December other operating expenses are as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Penalty expenses from the contract (*)	26.945.923	8.151.874
Provision for law suits (Note 15)	4.168.327	18.601.089
Non-employment (job security) compensation costs	2.795.829	387.992
Others	5.573.141	7.167.671
	39.483.220	**34.308.626**

(*)The Group has initially applied TFRS 15 on 1 January 2018. In accordance with TFRS 15, it consists of the calculated amount related to penalty expenses arising from the contract to be paid in 2018.

23. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

For the periods ended 31 December income and expenses from investing activities are as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Loss on sales of fixed assets	33.765	236.743
	33.765	**236.743**

(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

24. EXPENSES BY NATURE

Expenses for the periods ended 31 December are presented in Note 20 and Note 21 according to their functions.

25. FINANCIAL INCOME AND EXPENSES

For the periods ended 31 December financial income are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange gains	116.190.415	22.112.124
Interest income	1.469.944	125.645
	117.660.359	**22.237.769**

For the periods ended 31 December financial expenses are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of employee termination benefits interest (Note 17)	12.879.532	11.163.165
Interest expenses on loans	8.329.956	28.527.585
Bank expenses	138.961	224.415
	21.348.449	**39.915.165**

26. ANALYSIS OF ITEMS UNDER OTHER COMPHERENSIVE INCOME

For the period ended 31 December 2018, the Group's other comprehensive income which is not to be reclassified to profit or loss is TL (15.669.126) as expense (31 December 2017: TL 9.762.848 as income), other comprehensive income to be reclassified to profit or loss is TL 1.270.229.039 as income (31 December 2017: TL 201.251.203 as income).

27. TAX ASSET AND LIABILITIES

As at 31 December assets related to current tax assets are as follows:

	31 December 2018	31 December 2017
Current corporate tax provision	210.018.478	185.570.906
Prepaid taxes and funds	(313.074.612)	(138.813.177)
Current tax assets/liabilities	**(103.056.134)**	**46.757.729**

For the periods ended 31 December, tax expenses are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Current period tax expense	(181.245.875)	(178.584.404)
Deferred tax (expense) / benefit	(71.133.451)	86.777.166
Tax expense from continuing operations	**(252.379.326)**	**(91.807.238)**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

27. TAX ASSET AND LIABILITIES (*continued*)

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the years and periods.

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

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017 "Law Amending Some Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20 percent to 22 percent.

Corporations are required to pay advance corporation tax quarterly at the rate of 22 percent on their corporate income (2017: 20 percent). Tax payments that are made in advance during the year are being deducted from the total final tax liability of the fiscal year. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

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

Deferred Tax Assets and Liabilities

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

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017 "Law Amending Some Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20 percent to 22 percent. Therefore, deferred tax assets and liabilities as of 31 December 2018 and 2017 are calculated with 22 percent tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20 percent tax for those which will be realized after 2021 and onwards.

As at 31 December, the deferred tax assets (liabilities) are as follows:

	31 December 2018	**31 December 2017**
Fixed assets	(232.863.942)	(132.849.183)
Inventories	(127.405.311)	(42.439.496)
Provision for employment termination indemnity	31.296.623	23.612.379
Provision for doubtful receivables	12.253.712	7.072.697
Provision for legal claims	6.468.728	6.214.981
Provision for vacation pay	5.558.175	4.359.674
Others	13.060.831	3.816.903
	(265.749.367)	**(130.212.045)**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

27. TAX ASSET AND LIABILITIES (*continued*)

Deferred Tax Assets and Liabilities (continued)

For the periods ended 31 December, the movements of deferred tax liability are as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Deferred tax liability at the beginning of the period	130.212.045	203.089.390
Foreign currency translation difference	66.854.509	11.146.198
Adjustment on initial application of TFRS 9 (*)	1.968.879	-
Deferred tax expense/ (benefit)	71.133.451	(86.777.166)
Tax (benefit)/ loss of actuarial losses from defined pension plans	(4.419.517)	2.753.623
Deferred tax liability at the end of the period	**265.749.367**	**130.212.045**

(*) The Group has initially applied TFRS 9 on 1 January 2018, under the transition methods chosen, comparative information has not been restated.

For the periods ended 31 December, the movements of tax expense are as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Reconciliation of current tax provision		
Profit from operations before tax	914.344.226	395.335.943
22% tax rate	(201.155.730)	(79.067.189)
Taxation effects on:		
- foreign exchange rate translation loss	(165.107.325)	(21.780.162)
- deductions	22.454.444	10.335.165
- investment incevtive	107.354.363	-
- non-deductible expenses	(28.050.431)	(10.369.230)
- equity accounted investees	12.125.353	9.074.178
	(252.379.326)	**(91.807.238)**

28. EARNINGS PER SHARE

There is not any equity items (dilutive equity instruments) that have reducing effects on the earnings per share. The calculation of weighted average of total shares and earnings per share is as follows:

	1 January – 31 December 2018	**1 January – 31 December 2017**
Number of total outstanding shares as of 1 January (in full)	960.850.000	960.850.000
Number of new shares issued (in full)	-	-
Number of outstanding shares as of 31 December (in full)	960.850.000	960.850.000
Weighted Average number of shares outstanding during the period (in full)	960.850.000	960.850.000
Net income for the period	661.857.133	303.528.705
Earnings per share (Kr)	**68,88**	**31,59**

29. EFFECT OF EXHANGE RATE CHANGES

Analysis of effects of exchange rate changes as at 31 December 2018 and 2017 is presented in Note 31.

30. REPORTING IN HYPERINFLATIONARY ECONOMIES

The Group has terminated the application of inflation accounting being effective from 1 January 2005 based on the decision of CMB on 17 March 2005.

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing its profit and market value through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt which includes the borrowings including financial loans and cash and cash equivalents, equity comprising issued capital, reserves and retained earnings.

b) Financial risk factors

The Group is exposed to the market risk (foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Risk management program of the Group generally focuses on the minimization of potential negative effects of uncertainty on the Group's financial market performance.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (*continued*)

(b) Financial risk factors (continued)

	Receivables				
	Trade Receivables		Other Receivables		
31 December 2018	**Related party**	**Third party**	**Related party**	**Third party**	**Deposits in banks**
Maximum Credit Risk as of balance sheet date (*)	1.423.845.662	270.932.815	-	1.695.277	35.019.019
- The part of maximum risk under guarantee with collateral etc.	-	*13.712.912*	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	1.423.845.662	106.796.867	-	1.695.277	35.019.019
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired					
- The part under guarantee with collateral etc.	-	164.135.948	-	-	-
D. Net book value of impaired assets	-	*13.712.912*	-	-	-
- Past due (gross carrying amount)					
- Impairment (-)	-	136.583.078	-	(51.766)	-
- The part of net value under guarantee with collateral etc.	-	*(136.583.078)*	-	*51.766*	-
- 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 factors that increase credit reliability such as guarantees received are not considered in the balance.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (*continued*)

(b) Financial risk factors (continued)

	Receivables				
	Trade Receivables		**Other Receivables**		
31 December 2017	**Related party**	**Third party**	**Related party**	**Third party**	**Deposits in banks**
Maximum Credit Risk as of balance sheet date (*)	1.143.125.609	139.490.209	1.341.909	460.847	11.410.411
- The part of maximum risk under guarantee with collateral etc.	-	*4.917.184*	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	1.143.125.609	46.528.472	1.341.909	460.847	11.410.411
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired					
- the part under guarantee with collateral etc.	-	92.961.737	-	-	-
D. Net book value of impaired assets	-	*4.917.184*	-	-	-
- Past due (gross carrying amount)					
- Impairment (-)	-	103.820.029	-	(37.115)	-
- The part of net value under guarantee with collateral etc.	-	*(103.820.029)*	-	*37.115*	-
- 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 factors that increase credit reliability such as guarantees received are not considered in the balance.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (*continued*)

(b) Financial risk factors (continued)

Credit risk management

The risk of financial loss of the Group due to one of the financial instrument parties not meeting the requirements of the agreement is defined as credit risk.

The Group's credit risk is basically related to its receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economic conditions. Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration.

As of the balance sheet date, the Group's cash collateral and letters of guarantee for overdue trade receivables amounting to TL 13.712.912 (31 December 2017: TL 4.917.184).

As of the balance sheet date, there are no collaterals received for overdue trade receivables.

	Weighted-average loss rate %	**Gross carrying amount**	**Loss allowance**
Current (not past due)	2,15	88.386.836	1.853.074
1-30 days past due	3,51	85.911.484	3.012.950
31-90 days past due	5,81	94.711.517	5.500.813
91-180 days past due	13,45	25.233.040	3.393.047
180+ days past due	29,70	12.953.168	3.847.455
		307.196.045	**17.607.339**

Impairment

Provisions for doubtful trade receivables consist of provisions for receivables in legal dispute and provisions calculated based on experiences on uncollectible receivables. Changes in provisions for doubtful receivables for the years ended 31 December 2018 and 2017 is as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Provision at the beginning of the period	103.820.029	112.855.047
Adjustment on initial application of TFRS 9 (*)	8.949.448	-
Foreign currency translation difference	19.506.773	7.927.965
TFRS 9 current period expense	8.657.891	-
Current period charge (Note 22)	4.534.981	8.556.117
Collections during period	(8.886.044)	(25.519.100)
Provision at the end of the period	**136.583.078**	**103.820.029**

(*) The Group has initially applied TFRS 9 on 1 January 2018, under the transition methods chosen, comparative information has not been restated.

Liquidity risk management

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management 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.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (*continued*)

(b) Financial risk factors (continued)

Liquidity risk management (continued)

The tables below demonstrate the maturity distribution of non-derivative 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.

The 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.

Liquidity risk tables

31 December 2018

Due date on contract	Book value	Total cash outflow according to the contract	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative financial liabilities						
Financial borrowings	25.052.709	25.052.709	25.052.709	-	-	-
Trade payables	529.284.510	530.482.980	530.482.980	-	-	-
Other payables	209.912.451	209.912.451	209.912.451	-	-	-
Total	**764.249.670**	**765.448.140**	**765.448.140**	**-**	**-**	**-**

31 December 2017

Due date on contract	Book value	Total cash outflow according to the contract	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative financial liabilities						
Financial borrowings	240.946	240.946	240.946	-	-	-
Trade payables	367.807.757	368.054.849	368.054.849	-	-	-
Other payables	432.163.931	432.163.931	171.032.393	87.043.849	174.087.689	-
Total	**800.212.634**	**539.328.188**	**539.328.188**	**87.043.849**	**174.087.689**	**-**

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (*continued*)

(b) Financial risk factors (continued)

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 to the Group’s exposure to market risks or the manner in which it manages and measures the risk.

Foreign Currency Risk Management

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

(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk factors (continued)

Foreign currency risk management (continued)

As at 31 December 2018 and 2017 foreign currency positions of the group are as follows:

	31 December 2018					**31 December 2017**				
	TL Equivalent	**TL**	**Euro**	**GBP**	**Others**	**TL Equivalent**	**TL**	**Euro**	**GBP**	**Others**
1. Trade Receivables	128.368.522	40.354.558	86.204.553	6.919	1.802.492	47.670.674	24.224.355	23.379.872	19.998	46.449
2. Monetary Financial Assets	20.616.157	14.065.393	6.539.874	10.891	-	6.409.878	4.450.585	1.841.074	118.220	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	24.591.610	8.634.291	15.827.623	129.696	-	16.899.489	2.833.407	12.891.611	1.174.472	-
4. Total Current Assets (1+2+3)	**173.576.290**	**63.054.242**	**108.572.050**	**147.506**	**1.802.492**	**70.980.041**	**31.508.347**	**38.112.557**	**1.312.690**	**46.449**
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-	-	-	-
8. Total Non-Current Assets (5)	-	-	-	-	-	-	-	-	-	-
9. Total Assets (4+6)	**173.576.290**	**63.054.242**	**108.572.050**	**147.506**	**1.802.492**	**70.980.041**	**31.508.347**	**38.112.557**	**1.312.690**	**46.449**
10. Trade Payables	166.123.457	103.580.635	52.971.882	4.764.143	4.806.797	79.957.822	50.273.923	25.092.318	3.366.439	1.225.142
11. Financial Borrowings	25.052.709	25.052.709	-	-	-	240.946	240.946	-	-	-
12a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
12b Other Non-Monetary Liabilities	321.936.108	306.832.775	14.755.561	36.783	310.988	336.789.408	333.155.571	3.347.986	7.866	277.985
13. Total Short-Term Liabilities (10+11+12)	**513.112.273**	**435.466.119**	**67.727.443**	**4.800.927**	**5.117.785**	**416.988.176**	**383.670.440**	**28.440.304**	**3.374.305**	**1.503.127**
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	142.257.363	142.257.363	-	-	-	107.328.996	107.328.996	-	-	-
17. Total Long-Term Liabilities (14+15+16)	**142.257.363**	**142.257.363**	**-**	**-**	**-**	**107.328.996**	**107.328.996**	**-**	**-**	**-**
18. Total Liabilities (3+17)	**655.369.636**	**577.723.482**	**67.727.443**	**4.800.927**	**5.117.785**	**524.317.172**	**490.999.436**	**28.440.304**	**3.374.305**	**1.503.127**
19. Net Foreign Currency Asset/ (Liability) Position (9-13-17)	**(481.793.346)**	**(514.669.240)**	**40.844.607**	**(4.653.421)**	**(3.315.293)**	**(453.337.131)**	**(459.491.089)**	**9.672.253**	**(2.061.616)**	**(1.456.678)**
20. Net Foreign Currency Asset/ (Liability) Position of Monetary Items (1+2-8-9-10)	**(42.191.486)**	**(74.213.393)**	**39.772.545**	**(4.746.334)**	**(3.004.305)**	**(26.118.216)**	**(21.839.929)**	**128.627**	**(3.228.221)**	**(1.178.693)**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (*continued)*

(b) Financial risk factors (continued)

Foreign currency risk management (continued)

Foreign currency sensitivity

The Group is exposed to foreign currency risk due to TL, Euro and GBP (2017: TL, Euro and GBP) exchange rate fluctuations. The following table details the Group's sensitivity to a 10% increase and decrease in TL, Euro and GBP (2017: TL, Avro ve GBP) exchange rates. 10% is used in, the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange currency fluctuations. Sensitivity analysis can only made on the year-end outstanding foreign currency denominated monetary items and it shows the year end effects of the 10% of exchange currency fluctuation on the related items. The analysis includes foreign loans as well as loans that are denominated other than the creditors' functional currency and used for the Group's foreign operations. Positive value represents an increase in profit/loss and other equity items.

	31 December 2018	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset / liability	(7.421.339)	7.421.339
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	(7.421.339)	7.421.339
4-Euro net asset / liability	3.977.255	(3.977.255)
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	3.977.255	(3.977.255)
7-GBP net asset / liability	(474.633)	474.633
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	(474.633)	474.633
10-Other net asset / liability	(300.430)	300.430
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	(300.430)	300.430
TOTAL (3+6+9+12)	**(4.219.149)**	**4.219.149**

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk factors (continued)

Foreing currency risk management (continued)

Foreign currency sensitivity (continued)

	31 December 2017 Profit / (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset / liability	(2.183.993)	2.183.993
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	(2.184.493)	2.184.493
4-Euro net asset / liability	12.863	(12.863)
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	12.863	(12.863)
7-GBP net asset / liability	(322.822)	322.822
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	(322.822)	322.822
10-Other net asset / liability	(117.869)	117.869
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	(117.869)	117.869
TOTAL (3+6+9+12)	**(2.611.822)**	**2.611.822**

c) Interest rate risk management

The Group is not exposed to interest risk since there are no financial instruments with floating interest rate.

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

32. FINANCIAL INSTRUMENTS

Fair value of financial instruments

31 December 2018	Financial assets carried at amortized cost	Financial liabilities carried at amortized cost	Book value	Note
Financial assets				
Cash and cash equivalents	35.019.019	-	35.019.019	4
Trade receivables	1.694.778.477	-	1.694.778.477	7, 8
Other receivables	1.695.277	-	1.695.277	7, 10
Financial liabilities				
Financial borrowings	-	25.052.709	25.052.709	6
Trade payables	-	529.284.510	529.284.510	7, 8
Other payables to related parties	-	209.912.451	209.912.451	7,10

31 December 2017	Loans and receivables	Financial liabilities at amortized costs	Book value	Note
Financial assets				
Cash and cash equivalents	11.410.411	-	11.410.411	4
Trade receivables	1.282.615.818	-	1.282.615.818	7, 8
Other receivables	1.802.756	-	1.802.756	7, 10
Financial liabilities				
Financial borrowings	-	240.946	240.946	6
Trade payables	-	367.807.757	367.807.757	7, 8
Other payables to related parties	-	432.163.931	432.163.931	7, 10

33. EVENTS AFTER THE BALANCE SHEET DATE

None.