TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY

Convenience Translation to English of
Consolidated Financial Statements
As at and For The Period Ended
31 December 2019
With Independent Auditors' Report
(Originally Issued in Turkish)

5 March 2020
This report includes 5 pages of Independent Auditor's Report and 61 pages of consolidated financial statements together with their explanatory notes.

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CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT ORIGINALLY PREPARED AND ISSUED IN TURKISH TO ENGLISH

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 ("the Company") and its subsidiary (together will be referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, 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 2019, 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 2.5.2 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. We identified revenue recognition as a key audit matter because that requires significantly management judgment to recognize accurately in the correct reporting period due to the nature and the size of the Group's operations.	We have performed the following audit procedures to be responsive to this area: - Review the Group's contracts made with the customers, evaluate the appropriateness of the revenue recognition policy applied by the Group in respect of the compliance with TFRS 15 and assess the adequacy of the disclosures related to revenue recognition. - Evaluate the current year journal entries of the Group regarding the revenue, - 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 invoices which have been selected by sampling method in order to evaluate the transfer of controls of the materials which the invoicing have been completed and revenue is recognized in financial statements in the correct reporting period. - 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. - Assess whether the disclosures regarding the revenue in the consolidated financial statements of the Group comply with the disclosures required in accordance with TFRS 15.

Related party transactions

Refer to Note 8 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. 80 % 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 reviewed 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. - Obtain confirmation letters from the related parties in order to test the accuracy of the balances in the financial statements, - We have assessed whether the pricing applied to transactions of related party of the Group is appropriate for the peer, - The adequacy of the disclosures in the notes regarding the purchase of goods and services with related parties of the Group has been evaluated.

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 2019 and 31 December 2019, 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
5 March 2020
İstanbul, Turkey

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	26.868.411	35.019.019
Trade Receivables		1.756.732.412	1.694.778.477
- Trade Receivables From Related Parties	*8*	*1.431.293.224*	*1.423.845.662*
- Trade Receivables From Non-Related Parties	*9*	*325.439.188*	*270.932.815*
Other Receivables		6.240.224	1.695.277
- Other Receivables From Related Parties	*8*	*158.916*	-
- Other Receivables From Non-Related Parties	*11*	*6.081.308*	*1.695.277*
Inventories	12	3.654.137.958	2.422.130.184
Prepaid Expenses	13	60.699.167	135.896.482
Current Tax Assets	28	48.054.181	103.056.134
Other Current Assets		1.374.338	180.665
TOTAL CURRENT ASSETS		**5.554.106.691**	**4.392.756.238**
Non-Current Assets			
Financial Investments	5	1.485.025	1.485.025
Equity Accounted Investees	3	382.388.198	343.671.970
Right of Use Assets	16	202.617.771	-
Property, Plant and Equipment	14	3.230.783.604	2.340.370.229
Intangible Assets		55.485.980	28.017.659
- Other Intangible Assets	*15*	*55.485.980*	*28.017.659*
Prepaid Expenses	13	13.731.051	14.436.959
TOTAL NON-CURRENT ASSETS		**3.886.491.629**	**2.727.981.842**
TOTAL ASSETS		**9.440.598.320**	**7.120.738.080**

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 2019	Audited 31 December 2018
LIABILITIES			
Short Term Liabilities			
Other Financial Liabilities	7	28.108.455	25.052.709
Short-term Borrowings	6	332.844.321	-
Short-term Portion of Long Term Lease Liabilities	6	20.330.277	-
Trade Payables		699.857.333	529.284.510
- Trade Payables to Related Parties	*8*	*103.827.738*	*82.239.240*
- Trade Payables to Non-Related Parties	*9*	*596.029.595*	*447.045.270*
Payables Related to Employee Benefits	10	142.559.404	188.346.214
Other Payables		177.343.819	209.912.451
- Other Payables to Related Parties	*8*	*3.440.889*	*73.321.784*
- Other Payables to Non-Related Parties	*11*	*173.902.930*	*136.590.667*
Deferred Income	13	898.692.573	743.635.681
Short-term Provisions		67.127.476	55.377.965
- Provisions for Employee Benefits	*18*	*28.931.845*	*25.264.433*
- Other Short-term Provisions	*18*	*38.195.631*	*30.113.532*
Other Current Liabilities		4.263.949	2.158.017
TOTAL CURRENT LIABILITIES		**2.371.127.607**	**1.753.767.547**
Long- Term Liabilities			
Long-term Lease Liabilities	6	169.112.961	-
Long-term Provisions		175.606.949	142.257.378
- Provisions for Employee Benefits	*19*	*175.606.949*	*142.257.378*
Deferred Tax Liabilities	28	325.893.018	265.749.367
TOTAL NON-CURRENT LIABILITIES		**670.612.928**	**408.006.745**
EQUITY			
Share Capital	20	960.850.000	960.850.000
Adjustments to Share Capital	20	84.081	84.081
Accumulated Other Comprehensive Income or Expenses Not To Be Reclassified to Profit or Loss		(8.558.450)	(525.242)
- Actuarial Gain and Losses from Defined Pension Plans	*20*	*(8.558.450)*	*(525.242)*
Accumulated Other Comprehensive Income or Expenses To Be Reclassified to Profit or Loss		3.295.789.222	2.620.459.102
- Foreign Currency Translations	*20*	*3.295.789.222*	*2.620.459.102*
Restricted Profit Reserves	*20*	124.906.830	64.258.023
Retained Earnings	20	1.250.652.850	649.444.524
Profit for the period	20	772.084.691	661.857.133
Equity Attributable to Equity Holders of the Parent		**6.395.809.224**	**4.956.427.621**
Non-Controlling Interest	20	**3.048.561**	**2.536.167**
TOTAL EQUITY		**6.398.857.785**	**4.958.963.788**
TOTAL LIABILITIES AND EQUITY		**9.440.598.320**	**7.120.738.080**

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 2019**	**Audited 1 January- 31 December 2018**
Revenue	21	7.335.299.247	5.930.090.806
Cost of Sales (-)	21	(5.899.580.247)	(4.699.790.524)
GROSS PROFIT		**1.435.719.000**	**1.230.300.282**
General Administrative Expenses (-)	22	(544.969.178)	(396.140.373)
Marketing and Sales Expenses (-)	22	(39.350.836)	(41.311.418)
Research and Development Expenses (-)	22	(30.792.173)	(17.604.918)
Losses From the Impairment of Trade and Other Receivables	33	(42.089.112)	(4.306.828)
Other Operating Income	23	92.276.081	31.497.315
Other Operating Expenses (-)	23	(54.662.380)	(39.483.220)
OPERATING PROFIT		**816.131.402**	**762.950.840**
Gains/ (Losses) From Investment Activities	24	1.724.464	(33.765)
Share of Investments' (Loss)/ Profit Accounted by Using the Equity Method	3	(10.623.366)	55.115.241
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		**807.232.500**	**818.032.316**
Finance Income	26	7.334.382	117.660.359
Finance Expenses (-)	26	(28.818.347)	(21.348.449)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**785.748.535**	**914.344.226**
Tax Expense from Continuing Operations		**(14.257.250)**	**(252.379.326)**
- Current Tax Income/ (Expense)	28	9.368.995	(181.245.875)
- Deferred Tax Expense	28	(23.626.245)	(71.133.451)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**771.491.285**	**661.964.900**
Profit Attributable to			
Non-Controlling Interest	20	(593.406)	107.767
Parent Company		772.084.691	661.857.133
		771.491.285	**661.964.900**
OTHER COMPREHENSIVE INCOME			
Not To Be Reclassified to Profit or Loss		**(8.033.208)**	**(15.669.126)**
Actuarial Gain From Defined Pension Plans	19	(10.298.984)	(20.088.643)
Tax Effect of Actuarial Losses From Defined Pension Plans	28	2.265.776	4.419.517
To Be Reclassified To Profit or Loss		**675.330.120**	**1.270.229.039**
Currency Translation Differences		549.457.183	1.071.954.667
Currency Translation Differences of Equity Accounted Investees		125.872.937	198.274.372
OTHER COMPHERENSIVE INCOME		**667.296.912**	**1.254.559.913**
TOTAL COMPHERENSIVE INCOME		**1.438.788.197**	**1.916.524.813**
Total Comprehensive Income Attributable to:			
Non-controlling interest	20	(593.406)	107.767
Parent company		1.439.381.603	1.916.417.046
		1.438.788.197	**1.916.524.813**

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 2019

(All amount 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 Earning**	**Net Profit fort he Period**	**Equity Attributable to Equity Holders of the Parent**	**Non-controling Interests**	**Total Equity**
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**
Capital Increase	-	-	-	-	-	-	-	-	2.428.400	2.428.400
Transfers	-	-	-	-	37.105.665	266.423.040	(303.528.705)	-	-	-
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**
Balances as at 1 January 2019	**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**
Capital Increase	-	-	-	-	-	-	-	-	1.105.800	1.105.800
Transfers	-	-	-	-	60.648.807	601.208.326	(661.857.133)	-	-	-
Total Comprehensive Income	-	-	(8.033.208)	675.330.120	-	-	772.084.691	1.439.381.603	(593.406)	1.438.788.197
Balances as at 31 December 2019	**960.850.000**	**84.081**	**(8.558.450)**	**3.295.789.222**	**124.906.830**	**1.250.652.850**	**772.084.691**	**6.395.809.224**	**3.048.561**	**6.398.857.785**

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

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

	Notes	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
Profit for the period		**771.491.285**	**661.964.900**
Adjustments to reconcile cash flow generated from operating activities:			
Adjustments for depreciation and amortization	12,14,15,16	621.245.099	513.610.485
Adjustments for provisions, net	18	8.796.146	5.267.823
Adjustments for inventory provisions	12	(60.882.042)	(13.884.591)
Adjustments for provisions for employee benefits indemnity	19	17.178.588	12.766.438
Adjustments for provisions for doubtful receivables	33	42.374.875	(4.351.063)
Adjustments for changes in expected credit loss	33	(285.763)	8.657.891
Adjustments for interest income and expenses		23.419.681	19.878.505
Adjustments for discount for receivables and payables		238.808	519.190
Adjustments for unrealized foreign exchange loss and translation differences		470.532.874	725.143.340
Adjustments for loss from sale of fixed asset	24	(1.724.464)	33.765
Adjustments for share of investment's profit accounted by using the equity method	3	10.623.366	(55.115.241)
Adjustments for deferred tax expense	28	23.626.245	71.133.451
Adjustments for tax (income)/ expense	28	(9.368.995)	181.245.875
Operating Profit Before Working Capital Changes		**1.917.265.703**	**2.126.870.768**
Adjustments for increase in inventories		(1.432.780.742)	(1.004.574.471)
Adjustments for decrease in trade receivables		(104.567.618)	(408.330.786)
Adjustments for increase in other receivables		(4.544.947)	107.479
Adjustments for increase in other current assets		(1.193.673)	(145.265)
Adjustments for increase/ (decrease) in trade payables and due to related parties		170.572.823	161.476.753
Adjustments for decrease in other payables to non-related parties		37.312.263	(27.084.649)
Adjustments for increase in prepaid expenses		75.903.222	(92.695.528)
Adjustments for increase in deferred income		155.056.892	298.379.096
Adjustments in payables related to employee benefits		(45.786.810)	36.451.664
Adjustments for increase in other current liabilities		2.105.932	40.464
Cash Flows Generated From Operating Activities		**769.343.045**	**1.090.495.525**
Interest received	26	5.084.345	1.469.944
Taxes paid		(48.054.181)	(359.832.341)
Employee benefits indemnity paid	19	(10.706.725)	(10.806.231)
Net Cash Generated From Operating Activities		**715.666.484**	**721.326.897**
Cash Flows Generated From Investing Activities			
Proceeds from sale of property,plant and equipment		5.978.634	553.246
Purchase of property, plant and equipment	14	(924.619.799)	(517.192.476)
Purchase of intangible assets	15	(45.416.589)	(18.517.633)
Capital increase of subsidiaries	3	(5.200.000)	-
Cash Flows Used in Investing Activities		**(969.257.754)**	**(535.156.863)**
Cash Flows Generated From Financing Activities			
Cash flows generated from obtaining bank loans	6	318.152.500	-
Cash flows from purchasing of shares in associates and/or joint ventures or increase of capital		(5.529.000)	(12.142.000)
Interest payment		(357.689)	(8.329.956)
Adjustments for decrease in other payables to related parties		(69.880.895)	(195.166.831)
Repayment of borrowings		3.055.746	24.811.763
Cash Inflows from dividend profit share	3	-	28.265.598
Net Cash Used in/ (Generated from) Financing Activities		**245.440.662**	**(162.561.426)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(8.150.608)**	**23.608.608**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**35.019.019**	**11.410.411**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**26.868.411**	**35.019.019**

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

(All amount 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 2019 is 8.818 (31 December 2018: 7.844). Total number of employees working for the Group as at 31 December 2019 is 9.292 (31 December 2018: 8.466).

	31 December 2019	**31 December 2018**
Administrative staff	2.540	2.262
Production staff	6.752	6.204
Total	**9.292**	**8.466**

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

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

(a) Subsidiary

As at 31 December 2019 and 31 December 2018, the details of the Group's subsidiary is as follows:

		Participation Rate		
Name of the company	**Principal Activity**	**31 December 2019**	**31 December 2018**	**Country of Registration**
Cornea	Cabin Interior Entertainment Systems	80%	80%	Turkey

Cornea designs, manufactures, repairs, maintains, markets, sells and performs 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 2019 and 31 December 2018, associates accounted 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 2019**	**31 December 2018**	**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 for Preparation

Preparation of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group have been prepared in accordance with TFRS. TFRS's are composed of standards and interpretations issued by Public Oversight Authority ("POA") which are Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards, TAS interpretations and TFRS interpretations.

The accompanying consolidated financial statements have been prepared in accordance with the formats specified in the Financial Statement Samples and User Guide published in the Official Gazette dated 7 June 2019 and numbered 30794, and the Electronic Financial Reporting formats published by POA. In accordance with Turkish Commercial Code numbered 6102, the companies, which are subject to independent audit and do not have to apply TFRS in accordance with the Board Decision regarding the TAS Implementation Scope of POA, may also prepare their financial statements in accordance with the TFRS. Within this scope, the Group Management preferred to prepare the consolidated financial statements as at 31 December 2019 in accordance with TFRS, as in the prior year consolidated financial statements.

The consolidated financial statements were approved by the Group's Board of Directors on 5 March 2020. The Group's General Assembly has the right to amend, regulatory authorities have right to request amendment the consolidated financial statements.

The consolidated financial statements are the first consolidated financial statements in which TFRS 16 has been applied. Changes to significant accounting policies are described in Note 2.3.

Basis of Measurements

Consolidated financial statements have been prepared on cost basis principal. Historical cost is generally based on the fair value of the price given for goods and services.

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 ("USD"). USD 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 USD 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 USD have been premeasured in USD 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 USD 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 USD 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 USD exchange rates; and;
c. All differences are recognized as a separate equity item under exchange differences.

2.2 Basis of 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.

2.

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

2.2 Basis of consolidation *(continued)*

(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.

2.3 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 period ended 31 December 2018.

The Group has initially adopted TFRS 16 Leases from 1 January 2019. There are other standards which are effective from 1 January 2019, but there are no significant effects on Group's financial statements.

TFRS 16 Leases

As at 1 January 2019, the Group has applied the TFRS 16 "Leases" standard, which replaces TAS 17 "Leasing Transactions".

TFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group applied TFRS 16 using the modified retrospective approach, under which the amount of right of use asset and rent liabilities are equal in the initial application.

i. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under TFRS 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under TFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to TFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied TFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under TAS 17 and TFRSI 4 were not reassessed. Therefore, the definition of a lease under TFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

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

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

2.3 Changes in significant accounting policies *(continued)*

TFRS 16 Leases *(continued)*

i. Definition of a lease *(continued)*

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non- lease components as a single lease component.

ii. As a lessee

The Group rents assets, including property, infrastructure equipment and transport vehicles.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under TFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group has chosen not to reflect the right to use assets and lease liabilities in its consolidated financial statements for lease of low-value assets, including short-term information technology equipment with a lease term of 12 months or less. The Group reflects the lease payments associated with these leases in the consolidated financial statements as linear expense during the lease period.

The carrying amounts of right-of-use assets are as below:

	Right of Use Assets		
TL	**Property**	**Vehicles**	**Total**
Balance at 1 January 2019	151.445.255	6.285.712	157.730.967
Balance at 31 December 2019	198.200.396	4.417.375	202.617.771

The Group presents rent liabilities in 'loans and borrowings' in the statement of financial position.

	Lease Liabilities		
TL	**Property**	**Vehicles**	**Total**
Balance at 1 January 2019	151.445.255	6.285.712	157.730.967
Balance at 31 December 2019	185.132.111	4.311.127	189.443.238

Significant accounting policies

The Group includes the existence of the right to use and the lease obligation in its consolidated financial statements at the date when the lease actually begins. The right to use asset is initially measured at its cost, and subsequently accumulated depreciation and accumulated impairment losses are deducted at the cost adjusted for reassessment of the lease liability.

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

2.3 Changes in significant accounting policies *(continued)*

TFRS 16 Leases *(continued)*

Significant accounting policies *(continued)*

The right of use asset was initially measured at its cost value and was taken into account at its fair value in accordance with the Group's accounting policies after the lease actually started.

The lease obligation is measured at the current value of the lease payments that were not paid at that date, at the time the lease actually started. If the lease payments can be determined easily with the implicit interest rate in the lease, this rate is discounted by using the Group's alternative borrowing interest rate if it cannot be determined easily. In general, the Group used the alternative borrowing interest rate as its discount rate.

After the lease actually starts, the lessee increases the book value of the lease obligation to reflect the interest on the lease obligation and reduces the book value to reflect the lease payments made. If there is a change in the evaluation of the lease duration and the option to purchase the asset, and in case of a change in the amount expected to be paid within the scope of the residual value commitment and a change in the index or rate, it is re-measured.

The Group used its own judgment to determine the lease term for some lease agreements that include renewal options. Assessing whether the Group is reasonably sure to implement such options will affect the rental period; therefore, this significantly affects the amounts of the lease payables and right of use assets that are recognized.

Transition

Previously, the Group has classified its properties as operating lease pursuant to TAS 17. These include building, IT equipment, warehouses and transport vehicles. Leases usually take between 1-10 years. Some leases include the option to renew the lease after the expiration of the period. Some leases include additional lease payments based on changes in local price indices.

During the transition, for leases classified as operating leases under TAS 17, the lease liability was measured at the present value of the remaining lease payments discounted using the alternative borrowing interest rate on the first application date of the tenant. The right to use assets measured each lease according to the following explanation:

The Group used the following facilitating practices when applying TFRS 16 for its lease, which was previously classified as operating lease under TAS 17.

- As at 1 January 2019, the lease has a short-term lease exemption to account for the right of use assets and liabilities for leases with less than 12 months of lease termination.

- When measuring the existence right of use at the initial implementation date, initial direct costs are not included.

- If the contract includes options to extend or terminate the contract, new assessments of the Group management are used to determine the rental period.

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

2.3 Changes in significant accounting policies *(continued)*

TFRS 16 Leases *(continued)*

iii. Impacts on financial statements

(a) Impacts on transiton

During the transition to TFRS 16, the transition effect of additional right of use assets including the Group additional lease liabilities is summarized below.

	1 January 2019
Right of use assets	157.730.967
Lease liabilities	157.730.967

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rates are applied as follows; 20,75 percent in TL and 3,68 percent in USD.

	1 January 2019
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	214.873.483
Lease liabilities recognised at 1 January 2019	157.730.967

(b) Impacts for the period

As a result of initially applying TFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised TL 202.617.771 of right-of-use assets and TL 189.443.238 of lease liabilities as at 31 December 2019. The alternative interest rates are applied for the rent agreements which are 13,67 % and 20,75 % in Turkish Lira, 3,68 % in USD and 2,34 % in Euro.

Also in relation to those leases under TFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the period ended 31 December 2019, the Group recognised TL 21.785.572 of depreciation expenses and TL 11.349.295 of interest expenses from these leases.

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 retrospectively and the financial statements of the previous periods were adjusted.

In 2019, the Group has revised the useful life of the components which are depreciated and determined the useful lives of componets between 3-18 years which were 7 years in prior year.

While preparing the consolidated financial statements as at and foe the period ended 31 December 2019, the same estimates and assumptions applied in the consolidated financial statements for the period ended 31 December 2018 were applied, except the changes of the usefull lifes components and initial application of TFRS 16 as explained in Note 2.3.

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

2.5 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

2.5.1 Leases

The Group has applied TFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under TAS 17 and IFRIC 4. The details of accounting policies under TAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in TFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

2.5 Significant accounting policies *(continued)*

2.5.1 Leases (continued)

Policy applicable from 1 January 2019 (continued)

***As a lessee** (continued)*

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments ;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including machinery equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

2.5 Significant accounting policies *(continued)*

2.5.1 Leases (continued)

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of consolidated financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

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

2.5 Significant accounting policies *(continued)*

2.5.2 Revenue

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.

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.

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

2.5 Significant accounting policies *(continued)*

2.5.2 Revenue *(continued)*

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

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.

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.

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

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

2.5 Significant accounting policies *(continued)*

2.5.3 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 depreciated over their useful lives are as follows:

	Useful Life (Years)
Components	3-18

2.5.4 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.

The useful lives of tangible assets are as follows:

	Useful Life (Years)
Buildings	10-25
Machinery and equipments	3-20
Furniture and fixtures	2-15
Vehicles	4-7
Other tangible assets	4-15
Leasehold improvements	4-16

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

2.5 Significant Accounting Policies *(continued)*

2.5.6 Impairment of Assets

Non-derivative financial assets

Financial instruments and contract assets

The Group recognizes loss allowances for expected credit loss on:

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

The Group measures loss allowances at an amount equal to lifetime expected credit losses ("ECL")'s, except for the following, which are measured at 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.

Loss allowances for trade receivables and contract assets are always measured 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. The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is more than 360 days past due.

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

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The cash shortfalls is the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive. As the amount and timing of payments are considered in anticipated credit losses, a credit loss occurs even if the entity expects to receive the full payment in the contract with the maturity specified in the contract.

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

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

2.5 Significant accounting policies *(continued)*

2.5.6 Impairment of Assets *(continued)*

Non-derivative financial assets *(continued)*

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 reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

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. Write-off is the reason for derecognition.

For customers, the Group makes an assessment of the timing and the amount to be deducted, based on whether there is a reasonable expectation of individual recovery. The Group does not expect a significant recovery regarding the amount deducted from the record.

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.

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.

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

2.5 Significant Accounting Policies *(continued)*

2.5.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. 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 at 31 December 2019 and 2018, the Group does not have any capitalized borrowing costs.

2.5.8 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

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets are not reclassified after the initial recognition unless the Group changes the business model to manage financial assets. In this case, all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

All financial assets not classified as measured at amortized cost or 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 cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

2.5 Significant Accounting Policies *(continued)*

2.5.8 Financial Instruments (continued)

Classification and subsequent measurement *(continued)*

Financial assets- Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

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

2.5 Significant accounting policies *(continued)*

2.5.8 Financial Instruments (continued)

Classification and subsequent measurement *(continued)*

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest *(continued)*

In addition, (i) if the financial asset is bought at a premium or discounted at the contractual nominal value, (ii) in cases where the contract is terminated before the due date, the prepaid amounts that include a reasonable additional payment reflect the contractual nominal value and the accrued (but not paid) interest. and (iii) in the initial recognition, if the fair value of the early payment feature is insignificant, it is considered to comply with this criterion.

Financial assets – Subsequent measurement and gains and losses

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

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. See Note (v) for financial liabilities designated as hedging instruments.

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

2.5 Significant accounting policies *(continued)*

2.5.8 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.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates.

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

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

2.5 Significant Accounting Policies *(continued)*

2.5.9 The Effect of Foreign Currency Transaction

Transactions in foreign currencies are translated into USD 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:

USD	Closing Rate	Average Rate
31 December 2019	5.9402	5.6712
31 December 2018	5,2609	4,8301

Euro	Closing Rate	Average Rate
31 December 2019	6,6506	6,3481
31 December 2018	6,0280	5,6789

2.5.10 Earning 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.

2.5.11 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.

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

2.5 Significnt Accounting Policies *(continued)*

2.5.13 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.

2.5.14 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.

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.

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

2.5 Significant Accounting Policies *(continued)*

2.5.14 Taxation and Deferred Tax *(continued)*

Deferred tax (continued)

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.

2.5.15 Employee Benefit / Retirement Pay Provision

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

2.5.16 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.

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

2.6 Significant Accounting Estimates and Assumptions

2.6.1 Useful Lives of Inventories

Components are subject to depreciation and their useful lives are explained in Note 2.5.3.

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 215.272.390 as at 31 December 2019 (31 December 2018: TL 136.583.078).

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.

2.7 New and Revised Standards and Interpretation

Standards issued but not yet effective and not early adopted as at 31 December 2019

Standards issued but not yet effective and not early adopted

Some of the new standards, comments and amendments that have been published as of the reporting date but have not been put into effect yet and are allowed to be implemented early but are not implemented early by the Group are as follows.

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 TFRSs. 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 as at 31 December 2019 *(continued)*

Amendments to TAS 1 and TAS 8 - Definition of Material

In June 2019 POA issued Definition of Material (Amendments to TAS 1 and TAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended "definition of material "was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Group does not expect that application of these amendments to TAS 1 and TAS 8 will have significant impact on its financial statements.

Amendments to TFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. In May 2019, POA has also published the Definition of Business (Amendments to TFRS 3). With this amendments confirmed that a business shall include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs.. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The Group does not expect that application of these amendments to TFRS 3 will have significant impact on its financial statements.

(All amount 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)*

Standards issued but not yet effective and not early adopted as at 31 December 2019 *(continued)*

Interest Rate Benchmark Reform (Amendments to TFRS 9, TAS 39 and TFRS 7)

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7, published by IASB in September 2019, was also published by UPS on 14 December 2019. In 2018, the IASB determined the issues to be dealt with before and after the amendment of international benchmark interest rates and classified them as changes before and after the change.

As a result of these changes, exemptions were made in four basic issues in the hedge accounting provisions in TFRS 9 and TAS 39. These issues are:

- The highly probable requirement,
- Prospective assessments,
- Retrospective assessment, and
- Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. The Group shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

Although the effective dates of these changes are the reporting periods beginning on or after 1 January 2020, early implementation is permitted.

3. SHARES IN OTHER SUBSIDIARIES

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

	31 December 2019	31 December 2018
TEC	350.500.157	327.101.170
Goodrich	18.226.125	10.292.560
TCI	13.661.916	6.278.240
	382.388.198	**343.671.970**

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

	31 December 2019	31 December 2018
Current assets	937.573.155	831.847.805
Non-current assets	364.899.922	162.739.208
Short-term liabilities	257.127.759	196.696.517
Long-term liabilities	330.038.876	130.337.088
Equity	715.306.442	667.553.408
Group's share in equity (49%)	**350.500.157**	**327.101.170**

The dividend amounting to TL 28.265.598, which is the TL equivalent of USD 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 current and the prior year profit of TEC's in accordance with the relevant legislation and the articles of association.. There is no dividend payment for the period ended 31 December 2019.

	1 January - 31 December 2019	1 January - 31 December 2018
Revenue	2.261.743.786	2.617.386.309
Profit for the period	(36.704.116)	107.633.776
Group's share in profit for the period (49%)	**(17.985.017)**	**52.740.550**

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

3. SHARES IN OTHER SUBSIDIARIES *(continued)*

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

	31 December 2019	**31 December 2018**
Current assets	62.743.129	50.407.321
Non-current assets	7.656.362	4.569.352
Short-term liabilities	23.889.146	28.323.805
Long-term liabilities	945.033	921.467
Equity	45.565.312	25.731.401
Group’s share in equity (40%)	**18.226.125**	**10.292.560**

	1 January - 31 December 2019	**1 January - 31 December 2018**
Revenue	134.797.274	85.475.439
Profit for the period	16.271.659	5.593.974
Group’s share in profit for the period (40%)	**6.508.664**	**2.237.588**

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

	31 December 2019	**31 December 2018**
Current assets	78.474.955	68.849.493
Non-current assets	34.498.852	19.213.254
Short-term liabilities	35.027.631	55.794.044
Long-term liabilities	9.636.598	877.502
Equity	68.309.578	31.391.201
Group’s share in equity (20%)	**13.661.916**	**6.278.240**

	1 January - 31 December 2019	**1 January - 31 December 2018**
Revenue	72.101.181	42.040.886
Profit for the period	4.264.935	685.522
Group’s share in profit for the period (20%)	**852.987**	**137.103**

In line with the capital increase amounting to TL 26.000.000, which was decided by TCI in 2019 and stated in the Group's articles of association, the Group participated in the capital for TL 5.200.000, which corresponded to 20% of the increase in proportion to the share rates.

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

	1 January - 31 December 2019	**1 January - 31 December 2018**
TEC	(17.985.017)	52.740.550
TCI	852.987	137.103
Goodrich	6.508.664	2.237.588
	(10.623.366)	**55.115.241**

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

4. CASH AND CASH EQUIVALENTS

As at 31 December 2019 and 2018, details of cash and cash equivalents are as follows:

	31 December 2019	31 December 2018
Banks (demand deposits)	4.428.291	184.615
Banks (time deposits)	22.440.120	34.834.404
	26.868.411	**35.019.019**

As at 31 December 2019 and 31 December 2018, details of time deposits at the bank are as follows:

Capital	Currency	Opening Date	Interest Rate	Maturity	31 December 2019
3.808.000	TL	31 December 2019	% 13,67	2 January 2020	3.808.000
610.000	USD	31 December 2019	% 1,50	2 January 2020	3.623.522
15.008.598	TL	31 December 2019	% 10,00	2 January 2020	15.008.598
					22.440.120

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	Euro	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

5. FINANCIAL INVESMENTS

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

	31 December 2019	Share %	31 December 2018	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**	

6. BORROWINGS

As at 31 December 2019 and 31 December 2018, details of borrowings are as follows:

	31 December 2019	31 December 2018
Short-term bank loans	332.844.321	-
Total	**332.844.321**	**-**

As at 31 December, details of borrowings are as follows:

Principal	Currency	Interest Type	Interest Rate	Maturity	31 December 2019
50.000.000	Euro	Fixed	% 0,75	20 October 2020	332.844.321

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

6. BORROWINGS *(continued)*

The reconciliation regarding the liabilities arising from financial transactions is as follows:

	31 December 2018	Cash Inflows	Non-cash changes (*)	31 December 2019
Bank Loans	-	318.152.500	14.691.821	332.844.321
	-	**318.152.500**	**14.691.821**	**332.844.321**

(*) Non-cash changes amounting TL 14.691.821 comprised foreing currency translation differences and amounting to TL 314.321 comprise interest expense.

As at 31 December 2019 and 31 December 2018, the details of financial lease of Group are as follows:

	Minimum lease payments	Interest	Principal
Less than one year	33.627.144	(13.296.868)	20.330.276
More than 2 years	204.148.696	(35.035.734)	169.112.962
Total	**237.775.840**	**(48.332.602)**	**189.443.238**

7. OTHER FINANCIAL LIABILITIES

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

	31 December 2019	31 December 2018
Payables to banks	28.108.455	25.052.709
Total	**28.108.455**	**25.052.709**

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

31 December 2019

Name of Bank	Maturity	Original Amount	Currency	Amount
Türkiye Vakıflar Bankası T.A.O. ("Vakıfbank")	3 January 2020	28.038.687	TL	28.038.687
QNB Finansbank A.Ş. ("Finansbank")	3 January 2020	69.768	TL	69.768
				28.108.455

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
Finansbank	2 January 2019	12.190	TL	12.190
				25.052.709

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

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

8. RELATED PARTY TRANSACTIONS

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

	31 December 2019	31 December 2018
Türk Hava Yolları Anonim Ortaklığı ("THY A.O.")	1.371.299.487	1.379.659.622
Güneş Express Havacılık A.Ş. ("Sun Ekspress")	30.396.352	26.709.936
TEC	15.075.876	7.987.309
Air Albenia SHPK	5.605.998	492.190
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş. ("THY Uçuş Eğitim")	4.536.606	4.954.240
TCI	1.306.754	2.366.714
Uçak Koltuk	1.299.569	36.471
TGS Yer Hizmetleri A.Ş. ("TGS")	1.097.225	446.699
Goodrich	670.738	1.184.352
Other	4.619	8.129
	1.431.293.224	**1.423.845.662**

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

	31 December 2019	31 December 2018
THY A.O.	158.916	-
	158.916	**-**

The details of demand deposits at related banks as at 31 December are as follows:

	31 December 2019	31 December 2018
Ziraat Bank	2.979.305	-
Türkiye Halk Bankası A.Ş. ("Halkbank")	8.794	-
	2.988.099	**-**

The details of time deposits at related banks as at 31 December are as follows:

	31 December 2019	31 December 2018
Ziraat Bankası	18.632.120	-
	18.632.120	**-**

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

	31 December 2019	31 December 2018
THY A.O.	82.754.662	64.488.125
Goodrich	13.503.527	11.908.315
TGS	1.394.588	2.503.219
Uçak Koltuk	5.151.143	2.495.749
THY Opet	136.644	200.809
Other	887.174	643.023
	103.827.738	**82.239.240**

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

	31 December 2019	31 December 2018
THY A.O.	3.440.889	73.321.784
	3.440.889	**73.321.784**

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

	31 December 2019	31 December 2018
THY A.O. (Note 13)	759.533.908	591.248.041
	759.533.908	**591.248.041**

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

8. RELATED PARTY TRANSACTIONS *(continued)*

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

Sales	1 January - 31 December 2019	1 January - 31 December 2018
THY A.O.	5.661.714.157	4.816.842.163
Sun Express	143.960.357	133.406.097
TEC	55.544.193	58.041.219
THY Uçuş Eğitim	20.168.293	14.505.977
Goodrich	9.411.121	3.177.996
Air Albenia SHPK	5.098.017	451.885
TCI	3.103.738	2.799.784
Uçak Koltuk	2.675.216	1.660.082
TGS	1.527.958	234.962
Other	8.501	50.785
	5.903.211.551	**5.031.170.950**

Purchases	1 January - 31 December 2019	1 January - 31 December 2018
THY A.O.	423.652.479	221.890.802
Goodrich	125.988.283	82.203.324
Uçak Koltuk	31.695.259	23.331.524
TGS	14.686.598	20.279.849
TCI	4.665.937	16.906.363
THY Opet	2.212.958	2.537.606
THY Uçuş Eğitim	888.273	432.033
Sun Express	1.187.993	654.345
Havaalanları Yer Hizmetleri A.Ş.	535.208	216.108
Other	551.478	361.082
	606.064.466	**368.813.036**

Interest income	31 December 2019	31 December 2018
Ziraat Bank	2.272.660	-
	2.272.660	**-**

Interest expenses	31 December 2019	31 December 2018
THY A.O.	-	8.319.362
	-	**8.319.362**

For the period ended 31 December 2019, total amount of salaries and other benefits provided to key management personnel is TL 5.264.237 (31 December 2018: TL 4.929.134).

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

9. TRADE RECEIVABLES AND PAYABLES

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

	31 December 2019	31 December 2018
Trade receivables	524.955.138	377.528.763
Notes receivables	15.756.440	29.987.130
Provision for doubtful receivables (*)	(215.272.390)	(136.583.078)
	325.439.188	**270.932.815**

(*) 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 33.

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

	31 December 2019	31 December 2018
Trade payables	531.175.353	358.233.603
Accrued expenses	64.854.242	88.811.667
	596.029.595	**447.045.270**

10. PAYABLES RELATED TO EMPLOYEE BENEFITS

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

	31 December 2019	31 December 2018
Salary accruals (*)	103.482.253	89.166.907
Premiums (**)	-	62.071.424
Social security premiums payable	38.991.536	37.067.337
Personnel credit card payables	85.615	40.546
	142.559.404	**188.346.214**

(*) 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.

11. OTHER RECEIVABLES AND PAYABLES

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

	31 December 2019	31 December 2018
Deposits and guarantees given	295.261	622.512
Other receivables	5.382.434	962.700
Receivables from personnel	403.613	110.065
Doubtful receivables	374.681	51.766
Provision for doubtful receivables (-)	(374.681)	(51.766)
	6.081.308	**1.695.277**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Provision at the beginning of the period	51.766	37.115
Current period charge	316.231	-
Foreign currency translation difference	6.684	14.651
Provision at the end of the period	**374.681**	**51.766**

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

11. OTHER RECEIVABLES AND PAYABLES *(continued)*

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

	31 December 2019	31 December 2018
Taxes and funds payable and other deductions	160.865.663	129.006.894
Other payables	2.357.943	6.281.288
Deposits and guaranteed received	10.679.324	1.302.485
	173.902.930	**136.590.667**

12. INVENTORIES

As at 31 December, inventories are as follows:

	31 December 2019	31 December 2018
Components and repairable spare parts	3.749.264.608	2.988.145.641
Technical equipment inventories	1.755.245.617	999.877.454
Scrap equipment inventories	68.737.363	117.644.622
Technical equipment inventories in transit	29.221.749	70.102.854
Accumulated depreciation of components and repairable spare parts (-)	(1.879.646.400)	(1.635.995.765)
Provision for impairment of inventories (-)	(68.684.979)	(117.644.622)
	3.654.137.958	**2.422.130.184**

As at 31 December 2019, inventories were insured to the extent of TL 2.295.909.941 (31 December 2018: TL 1.561.263.318).

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

	1 January - 31 December 2019	1 January - 31 December 2018
Provision at the beginning of the period	117.644.622	94.234.469
Foreign currency translation difference	11.922.399	37.294.744
Reversal of current period provision (*)	(60.882.042)	(13.884.591)
Provision at the end of the period	**68.684.979**	**117.644.622**

(*) For the period ended 31 December 2019, reversal of current period provision amount of inventories are presented in cost of sales.

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

12. INVENTORIES *(continued)*

For the period ended 31 December 2019, the movement of components and repairable spare parts are as follows:

Cost	Components and repairable spare parts
Opening balance as at 1 January 2019	2.988.145.641
Foreign currency translation difference	385.836.518
Additions	847.485.355
Disposals	(472.202.906)
Closing balance as at 31 December 2019	**3.749.264.608**
Accumulated depreciation	
Opening balance as at 1 January 2019	1.635.995.765
Foreign currency translation difference	212.711.229
Current charge for the period	261.655.009
Disposals	(230.715.603)
Closing balance as at 31 December 2019	**1.879.646.400**
Net book value as at 31 December 2019	**1.869.618.208**

For the period 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**

13. PREPAID EXPENSES AND DEFERRED INCOME

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

	31 December 2019	31 December 2018
Advances given for orders (*)	36.623.174	95.086.474
Short-term prepaid expenses (**)	24.075.993	40.810.008
	60.699.167	**135.896.482**

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

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

13. PREPAID EXPENSES AND DEFERRED INCOME *(continued)*

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

	31 December 2019	**31 December 2018**
Advances given for fixed assets (***)	13.218.888	-
Long-term prepaid expenses (**)	512.163	14.436.959
	13.731.051	**14.436.959**

(**) As at 31 December 2018, 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"). As at 31 December 2019, the amount related to KEGM is accounted as right of use asset in accordance with TFRS 16.

(***) The fixed asset advances given consist of the advances given for the tangible fixed asset purchases.

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

	31 December 2019	**31 December 2018**
Advances received (*)	776.969.138	607.250.552
Short-term deferred income	121.723.435	136.385.129
	898.692.573	**743.635.681**

(*) Advances received consist of order advances received from THY A.O. amounting to TL 759.533.908 (31 December 2018: TL 591.248.041) (Note 8).

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

14. PROPERTY, PLANT AND EQUIPMENT

For the period ended 31 December 2019, the movement of property,plant and equipment is as follows:

	Buildings	Machinery and Equipments	Vehicles	Furniture and Fixtures	Other Tangible Assets	Contrcution in Progress (*)	Leasehold Improvements	Total
Cost								
Opening balance as at 1 January 2019	-	956.415.691	61.661.089	187.440.184	22.955.492	254.584.740	2.350.549.292	3.833.606.488
Foreign currency translation difference	-	123.494.682	7.961.828	24.202.727	2.964.066	32.872.593	303.508.562	495.004.458
Additions	43.677.982	177.796.180	9.393.434	44.802.687	6.286.852	627.535.903	15.126.761	924.619.799
Disposals	-	(5.397.016)	(440.597)	(1.201.500)	(247.825)	-	(14.209)	(7.301.147)
Transfers	2.549.871.326	15.487.598	-	1.748.254	36.217	(287.429.996)	(2.279.722.293)	(8.894)
Closing balance as at 31 December 2019	**2.593.549.308**	**1.267.797.135**	**78.575.754**	**256.992.352**	**31.994.802**	**627.563.240**	**389.448.113**	**5.245.920.704**
Accumulated depreciation								
Opening balance as at 1 January 2019	-	549.768.211	36.236.527	127.743.057	11.851.647	-	767.636.817	1.493.236.259
Foreign currency translation difference	35.167.041	75.873.284	5.071.576	17.793.671	1.689.860	-	72.117.594	207.713.026
Current charge for the period	144.563.986	104.850.144	8.698.135	27.925.460	3.598.201	-	27.598.866	317.234.792
Disposals	-	(1.843.089)	(420.383)	(535.458)	(234.481)	-	(13.566)	(3.046.977)
Transfers	596.846.128	-	-	-	-	-	(596.846.128)	-
Closing balance as at 31 December 2019	**776.577.155**	**728.648.550**	**49.585.855**	**172.926.730**	**16.905.227**	**-**	**270.493.583**	**2.015.137.100**
Net book value as at 1 January 2019	**-**	**406.647.480**	**25.424.562**	**59.697.127**	**11.103.845**	**254.584.740**	**1.582.912.475**	**2.340.370.229**
Net book value as at 31 December 2019	**1.816.972.153**	**539.148.585**	**28.989.899**	**84.065.622**	**15.089.575**	**627.563.240**	**118.954.530**	**3.230.783.604**

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

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	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, construction in progress comprised buildings and machinery and equipments which are still under construction in Istanbul Airport.

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

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The negotiations between İGA Havalimanı İşletmesi A.Ş. which is the operator of Istanbul Airport, THY A.O. and THY Teknik are continuing on lease agreements at Istanbul Airport, the rental price, the lease terms and the rental period and the lease agreement has not signed yet. The management of THY A.O. has not decided regarding the issues above. Even though there is a tariff (Public Private Cooperation-PPC Tariff) published by Devlet Hava Meydanları İşletmesi (DHMİ), it is not possible to make a proper calculation under TFRS 16 without clarifying the issues such as the lease, the rental price, the lease terms and the rental period, which are the main conditions of the agreement. Due to these uncertainties, the amount of right of use assets and lease liabilities regarding the leases at Istanbul Airport could not calculated in the consolidated financial statements in 2019. Despite this, certain areas are used at Istanbul Airport, payments are made through the PPC Tariff published by DHMI (with appeal registration) and these payments are followed up in related expense accounts.

15. INTANGIBLE ASSETS

For the period ended 31 December 2019, the movement of intangible assets is as follows:

	Rights
Cost	
Opening balance as at 1 January	152.496.030
Foreign currency translation difference	19.655.216
Additions	45.416.589
Transfer	8.894
Closing balance as at 31 December	**217.576.729**
Accumulated amortisation	
Opening balance as at 1 January	124.478.371
Foreign currency translation difference	17.042.652
Current charge for the period	20.569.726
Closing balance as at 31 December	**162.090.749**
Net book value as at 1 January 2019	**28.017.659**
Net book value as at 31 December 2019	**55.485.980**

For the period ended 31 December 2018, the movement of 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 amortisation	
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**

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

16. RIGHT OF USE ASSETS

For the period ended 31 December 2019, the movement of right of use assets comprised the following:

	Real Estate	Vehicles	Total
Opening balance at 1 January 2019	-	-	-
TFRS 16 transition effect	151.445.255	6.285.712	157.730.967
Additions	47.993.129	23.847	48.016.976
Depreciation charge	(19.229.992)	(2.555.580)	(21.785.572)
Foreign currency translation difference	17.992.004	663.396	18.655.400
31 December 2019 closing balance	**198.200.396**	**4.417.375**	**202.617.771**

17. COMMITMENTS

As at 31 December 2019 and 31 December 2018 the guarantees given are as follows:

	31 December 2019		31 December 2018	
	Original Amount	TL Equivalent	Original Amount	TL Equivalent
A. Total amounts of GPM given on the behalf of its own legal entity				
-Guarantees	76.415.369	405.834.155	17.123.658	37.672.074
TL	17.391.446	17.391.446	12.301.105	12.301.105
Euro	53.250.000	354.144.450	-	-
USD	5.773.923	34.298.259	4.822.553	25.370.969
Other	-	-	-	-
-Pledges	-	-	-	-
-Mortgages	-	-	-	-
Total TRİ	**76.415.369**	**405.834.155**	**17.123.658**	**37.672.074**

18. PROVISIONS, CONTINGENCIES AND LIABILITIES

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

(a) Short-term provisions for employee benefit

	31 December 2019	31 December 2018
Provisions for unused vacation	28.931.845	25.264.433
	28.931.845	**25.264.433**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Provision at the beginning of the period	25.264.433	19.816.701
Current period charge	3.632.310	5.895.454
Provision no longer required	(2.534.989)	(1.525.165)
Foreign currency translation difference	2.570.091	1.077.443
Provision at the end of the period	**28.931.845**	**25.264.433**

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

18. PROVISIONS, CONTINGENCIES AND LIABILITIES *(continued)*

(b) Other short-term provisions

	31 December 2019	31 December 2018
Provision for legal claims (*)	26.523.138	29.403.310
Other provisions (**)	11.672.493	710.222
	38.195.631	**30.113.532**

(*) As at 31 December 2019, TL 16.204.185 of litigation reserves comprised reemployment lawsuits (31 December 2018: TL 21.589.490).

(**) 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 2019.

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

	1 January - 31 December 2019	1 January - 31 December 2018
Provision at the beginning of the period	29.403.310	28.249.913
Current period charge	12.272.057	4.168.327
Provision no longer required	(14.951.528)	(3.985.888)
Foreing currency translation difference	(200.701)	970.958
Provision at the end of the period	**26.523.138**	**29.403.310**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Provision at the beginning of the period	710.222	-
Current period charge	10.378.296	715.095
Foreing currency translation difference	583.975	(4.873)
Provision at the beginning of the period	**11.672.493**	**710.222**

19. EMPLOYEE BENEFITS

As at 31 December 2019 and 31 December 2018, long-term provisions related to employee benefits are as follows:

	31 December 2019	31 December 2018
Retirement pay liability	175.606.949	142.257.378
	175.606.949	**142.257.378**

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

19. EMPLOYEE BENEFITS *(continued)*

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 6.730 as at 1 January 2020 (1 January 2019: 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. TAS 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 2019 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 7,65% annual inflation rate (31 December 2018: 7,00%) and 12,00% interest rate (31 December 2018: 12,00%) is also taken into consideration as 4,04% (31 December 2018: 4,67%). 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 6.730 which is in effect since 1 January 2020 is used in the calculation of Group's provision for retirement pay liability.

The movements of provision for employee benefits are as follows:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Provisions at the beginning of the period	142.257.378	107.328.996
Service charge for the period	17.178.588	12.766.438
Interest charges	16.578.724	12.879.532
Payments	(10.706.725)	(10.806.231)
Actuarial gain	10.298.984	20.088.643
Provisions at the end of the period	**175.606.949**	**142.257.378**

20. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

(a) Issued share capital and share capital adjustments

As at 31 December 2019, the paid-in capital of the Group comprises of 960.850.000 shares issued (31 December 2018: 960.850.000 shares) of TL 1 each.

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

		31 December 2019		**31 December 2018**	
	Class	**Ownership Interest**	**%**	**Ownership Interest**	**%**
THY A.O.	A grubu	960.850.000	100	960.850.000	100
Total		**960.850.000**	**100**	**960.850.000**	**100**
Adjusted Capital		84.081		84.081	

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

As at 31 December 2019, capital adjustment differences amounting to TL 84.081 comprise 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 2018: TL 84.081).

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

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

(a) Issued share capital and share capital adjustments *(continued)*

As at 31 December 2019 and 31 December 2018, the Group has no unpaid capital amount which is committed by its shareholders.

(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 2019	31 December 2018
The first legal reserve	124.906.830	64.258.023
Total	**124.906.830**	**64.258.023**

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 % of the Group's paid-in share capital. The second legal reserve is appropriated at the rate of 10 % per annum of all cash distributions in excess of 5 % of the paid-in share capital.

As at 31 December 2019, the first legal reserve amount is 12,99 % 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 2019, the Group does not have any reacquired shares (31 December 2018: 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 2019, the account comprise actuarial gains and losses recognized in other comprehensive income amounting to TL 8.558.450) (31 December 2018: TL 552.242).

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

Translation reserves

As at 31 December 2019, the Group has foreign currency translation differences amounting to TL 3.295.789.222 (31 December 2018: TL 2.620.459.102) in the consolidated financial statements.

(e) 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 2019	31 December 2018
Retained earnings	1.250.652.850	649.444.524
Total	**1.250.652.850**	**649.444.524**

(f) Net profit or loss for the period

For the period ended 31 December 2019, the net income is amounting to TL 772.084.691 (2018: TL 661.857.133).

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

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

(g) 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 periods ended 31 December are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Beginning of the period	2.536.167	-
Changes in non-controlling interests of the consolidated subsidiary	1.105.800	2.428.400
Part of period profit attributed to non-controlling interests	(593.406)	107.767
End of the period	**3.048.561**	**2.536.167**

21. REVENUE AND COST OF SALES

For the periods ended 31 December, revenue is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Aircraft maintenance income	2.913.366.933	2.433.733.422
Pool income	1.509.925.784	1.145.833.485
Component maintenance income	1.157.780.325	990.558.841
Line maintenance income	942.307.945	847.775.425
Equipment sales income	308.525.514	179.043.657
Engine maintenance income	292.344.379	197.720.372
Others	211.048.367	135.425.604
Revenue	**7.335.299.247**	**5.930.090.806**
Cost of sales (-)	(5.899.580.247)	(4.699.790.524)
Gross profit	**1.435.719.000**	**1.230.300.282**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Equipment expenses	1.916.413.492	1.624.257.338
Personnel expenses	1.516.967.201	1.269.421.892
Maintenance expenses	985.909.944	698.947.188
Service expenses	624.132.591	428.350.477
Depreciation and amortization expenses	493.142.948	426.925.754
Transportation expenses	219.780.080	151.977.458
Equipment rent expense	33.696.613	15.761.117
Utilization expenses	31.003.133	20.659.511
Rent expenses	25.443.196	24.774.177
Customs brokerage expense	24.577.653	21.656.212
Others	28.513.396	17.059.400
	5.899.580.247	**4.699.790.524**

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

22. 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 2019	1 January - 31 December 2018
Personnel expenses	226.377.788	175.302.973
Depreciation and amortization expenses	117.081.666	79.321.766
Service expenses	81.507.512	58.046.844
Equipment expenses	21.456.893	14.358.877
Utilization expenses	11.687.698	8.532.794
Rent expenses	1.437.782	8.757.190
Others	85.419.839	51.819.929
	544.969.178	**396.140.373**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses	16.251.706	14.486.847
Advertising and promotion expense	9.456.564	9.262.046
Depreciation and amortization expenses	8.130.419	6.888.310
Service expenses	1.233.628	4.195.137
Equipment expenses	230.676	1.579.844
Others	4.047.843	4.899.234
	39.350.836	**41.311.418**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses	24.349.418	14.755.973
Depreciation and amortization expenses	2.890.066	474.655
Service expenses	1.568.558	1.885.450
Others	1.984.131	488.840
	30.792.173	**17.604.918**

23. OTHER OPERATING INCOME AND EXPENSES

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

	1 January - 31 December 2019	1 January - 31 December 2018
Insurance, indemnities and penalties income	26.365.757	5.676.135
Foreign exchange gain from trade operations, net	22.769.038	4.480.843
Reversal of provision for law suits (Note 18)	14.951.528	3.985.888
Plant maintenance income	4.459.525	4.724.765
Late payment interest income of trade receivables	3.676.511	2.348.648
Others	20.053.722	10.281.036
	92.276.081	**31.497.315**

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

23. OTHER OPERATING INCOME AND EXPENSES *(continued)*

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

	1 January - 31 December 2019	1 January - 31 December 2018
Penalty expenses from the contract	27.465.764	26.945.923
Provision for law suits (Note 18)	12.272.057	4.168.327
Penalty expenses from the contract	9.591.444	5.573.141
Others	5.333.115	2.795.829
	54.662.380	**39.483.220**

24. 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 2019	1 January - 31 December 2018
Gain/ (loss) on sales of fixed assets	1.724.464	(33.765)
	1.724.464	**(33.765)**

25. EXPENSES BY NATURE

Expenses for the periods ended 31 December are presented in Note 21 and Note 22 according to their functions.

26. FINANCE INCOME AND EXPENSES

For the periods ended 31 December, finance income are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains	2.250.037	116.190.415
Interest income	5.084.345	1.469.944
	7.334.382	**117.660.359**

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

	1 January- 31 December 2019	1 January - 31 December 2018
Cost of employee termination benefits interest (Note 19)	16.578.724	12.879.532
Interest expenses on lease obligations	11.349.295	-
Interest expenses on loans	672.010	8.329.956
Bank expenses	218.318	138.961
	28.818.347	**21.348.449**

27. ANALYSIS OF ITEMS UNDER OTHER COMPHERENSIVE INCOME

For the period ended 31 December 2019, the Group's other comprehensive income which is not to be reclassified to profit or loss is TL (8.033.208) as expense (31 December 2018: TL (15.669.126) as expense), other comprehensive income to be reclassified to profit or loss is TL 675.330.120 as income (31 December 2018: TL 1.270.229.039 as income).

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

28. TAX ASSETS AND LIABILITIES

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

	31 December 2019	31 December 2018
Current corporate tax provision	-	210.018.478
Prepaid taxes and funds	(48.054.181)	(313.074.612)
Current tax assets	**(48.054.181)**	**(103.056.134)**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Current period tax income/(expense)	9.368.995	(181.245.875)
Current period tax expense	-	*(181.245.875)*
Adjustments on previous periods	*9.368.995*	-
Deferred tax expense	(23.626.245)	(71.133.451)
Tax expense from continuing operations	**(14.257.250)**	**(252.379.326)**

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.

For the period ended 31 December 2019, corporations are required to pay advance corporation tax quarterly at the rate of 22 percent on their corporate income (2018: 22 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, deferred tax assets and liabilities as at 31 December 2019 and 2018 are calculated with 22 percent tax rate for the temporary differences which will be realized in 2019 and 2020, and with 20 percent tax for those which will be realized after 2021 and onwards.

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

28. TAX ASSETS AND LIABILITIES *(continued)*

Deferred Tax Assets and Liabilities (continued)

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

	31 December 2019	31 December 2018
Government incentives	100.876.910	-
Provision for employment termination indemnity	38.633.529	31.296.623
Provision for doubtful receivables	12.710.768	12.253.712
Provision for vacation pay	6.365.006	5.558.175
Provision for legal claims	5.835.090	6.468.728
Inventories	(236.784.444)	(101.523.494)
Fixed assets	(268.078.918)	(232.863.942)
Others	14.549.041	13.060.831
	(325.893.018)	**(265.749.367)**

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

	1 January - 31 December 2019	1 January - 31 December 2018
Deferred tax liability at the beginning of the period	265.749.367	130.212.045
Deferred tax expense	23.626.245	71.133.451
Adjustment on initial application of TFRS 9 (*)	-	1.968.879
Tax benefit of actuarial losses from defined pension plans	(2.265.776)	(4.419.517)
Foreign currency translation difference	38.783.182	66.854.509
Deferred tax liability at the end of the period	**325.893.018**	**265.749.367**

(*) 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 Janaury - 31 December 2019	1 January - 31 December 2018
Reconciliation of current tax provision:		
Profit from operations before tax	785.748.535	914.344.226
22 % tax rate	(172.864.678)	(201.155.730)
Taxation effects on:		
- investment incevtive	150.994.952	107.354.363
- deductions	4.760.570	22.454.444
- equity accounted investees	(2.337.141)	12.125.353
- non-deductible expenses	(36.542.690)	(28.050.431)
- foreign exchange rate translation loss	41.731.737	(165.107.325)
	(14.257.250)	**(252.379.326)**

29. 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:

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

29. EARNINGS PER SHARE *(continued)*

	1 January – 31 December 2019	**1 January – 31 December 2018**
Number of total outstanding shares as at 1 January (in full)	960.850.000	960.850.000
Number of outstanding shares as at 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	772.084.691	661.857.133
Earnings per share (Kr)	**80,35**	**68,88**

30. GOVERNMENT INCENTIVES

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 June 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. The rates have been doubled until 31 December 2022 by the Presidential Decree and published in the Official Gazette. The tax reduction rate and the investment contribution rate was applied as 100% and 30%, respectively. In February 2019, the total investment amount of the incentive numbered 138160 was updated by increasing to TL 755.768.999. On 20 October 2019 the total investment amount of the incentive numbered 138160 was updated again and the total investment amount of the incentive numbered 138160 was increased to TL 1.033.520.000.

As at 31 December 2019, an investment amounting to TL 1.216.844.403 has been made within the scope of the investment incentive certificate, and the Group provided tax advantage amounting to TL 365.053.319. In 2018 and 2019, the Group provided tax advantage amounting to TL 264.176.409. As at 31 December 2019, deferred tax assets amounting to TL 100.876.910 (2018: None) booked regarding the investment incentive in the consolidated financial statements.

31. EFFECT OF EXHANGE RATE CHANGES

The analysis of effects of exchange rate changes as at 31 December 2019 and 2018 is presented in Note 33.

32. 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.

33. 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 amount are expressed in Turkish Lira ("TL") unless otherwise stated.)

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

(b) Financial risk factors (continued)

	Receivables				
	Trade Receivables		Other Receivables		
31 December 2019	**Related party**	**Third party**	**Related party**	**Third party**	**Deposits in banks**
Maximum Credit Risk as of balance sheet date (*)	1.431.293.224	325.439.188	158.916	6.081.308	26.868.411
- The part of maximum risk under guarantee with collateral etc.	-	*15.506.877*	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	1.431.293.224	136.770.378	158.916	6.081.308	26.868.411
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	-	188.668.810	-	-	-
- The part under guarantee with collateral etc.	-	*15.506.877*	-	-	-
D. Net book value of impaired assets					
- Past due (gross carrying amount)	-	215.272.390	-	374.681	-
- Impairment (-)	-	*(215.272.390)*	-	*(374.681)*	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-
E. Off balance sheet items with credit risk	-	-	-	-	-

(*) The factors that increase credit reliability such as guarantees received are not considered in the balance.

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

33. 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	-	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)	-	-	-	-	-
- 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 amount are expressed in Turkish Lira ("TL") unless otherwise stated.)

33. 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 15.506.877 (31 December 2018: TL 13.712.912). 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)	%1,61	85.965.614	1.384.046
1-30 days past due	%2,65	88.887.799	2.355.527
31-90 days past due	%4,38	139.442.124	6.107.565
91-180 days past due	%11,18	43.434.895	4.856.021
180+ days past due	%26,36	18.276.925	4.817.523
		376.007.357	**19.520.682**

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 periods ended 31 December 2019 and 2018 is as follows:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Provision at the beginning of the period	136.583.078	103.820.029
Adjustment on initial application of TFRS 9 (*)	-	8.949.448
Foreign currency translation difference	36.600.200	19.506.773
TFRS 9 current period expense/ (income)	(285.763)	8.657.891
Current period charge	50.689.613	4.534.981
Collections during period	(8.314.738)	(8.886.044)
Provision at the end of the period	**215.272.390**	**136.583.078**

(*) 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 amount are expressed in Turkish Lira (“TL”) unless otherwise stated.)

33. 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 2019

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	360.952.776	363.280.337	28.108.455	335.171.882	-5	-
Trade payables	699.857.333	701.348.056	701.348.056	-	-	-
Financial leasings	189.443.238	237.775.840	-	33.627.144	65.716.469	138.432.227
Other payables	177.343.819	177.343.819	177.343.819	-	-	-
Total	**1.427.597.166**	**1.479.748.052**	**906.800.330**	**368.799.026**	**65.716.469**	**138.432.227**

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**	**-**	**-**	**-**

33. 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 amount are expressed in Turkish Lira (“TL”) unless otherwise stated.)

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

(b) Financial risk factors (continued)

Foreign Currency Risk Management(continued)

As at 31 December 2019 and 2018 foreign currency positions of the group are as follows:

	31 December 2019					31 December 2018				
	TL Equivalent	**TL**	**Euro**	**GBP**	**Others**	**TL Equivalent**	**TL**	**Euro**	**GBP**	**Others**
1. Trade Receivables	62.803.957	17.271.992	44.418.333	580.111	533.521	128.368.522	40.354.558	86.204.553	6.919	1.802.492
2a. Monetary Financial Assets	22.372.071	19.889.052	2.462.178	20.841	-	20.616.157	14.065.393	6.539.874	10.891	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	73.113.872	64.556.261	7.585.907	775.022	196.682	24.591.610	8.634.291	15.827.623	129.696	-
4. Total Current Assets (1+2+3)	**158.289.900**	**101.717.305**	**54.466.419**	**1.375.974**	**730.203**	**173.576.290**	**63.054.242**	**108.572.050**	**147.506**	**1.802.492**
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
7. Other	6.182.580	2.287.157	3.895.423	-	-	-	-	-	-	-
8. Total Non-Current Assets (5)	**6.182.580**	**2.287.157**	**3.895.423**	-	-	-	-	-	-	-
9. Total Assets (4+6)	**164.472.480**	**104.004.462**	**58.361.841**	**1.375.974**	**730.203**	**173.576.290**	**63.054.242**	**108.572.050**	**147.506**	**1.802.492**
10. Trade Payables	280.595.272	212.612.719	62.078.742	3.940.430	1.963.381	166.123.457	103.580.635	52.971.882	4.764.143	4.806.797
11. Financial Borrowings	372.947.353	40.090.230	332.857.123	-	-	25.052.709	25.052.709	-	-	-
12a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
12b. Other Non-Monetary Liabilities	375.997.028	361.694.092	13.643.041	41.029	618.866	321.936.108	306.832.775	14.755.561	36.783	310.988
13. Total Short-Term Liabilities (10+11+12)	**1.029.539.653**	**614.397.041**	**408.578.906**	**3.981.459**	**2.582.247**	**513.112.273**	**435.466.119**	**67.727.443**	**4.800.927**	**5.117.785**
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	50.291.153	50.289.158	1.995	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	175.606.944	175.606.944	-	-	-	142.257.363	142.257.363	-	-	-
17. Total Long-Term Liabilities (14+15+16)	**225.898.097**	**225.896.102**	**1.995**	**-**	**-**	**142.257.363**	**142.257.363**	**-**	**-**	**-**
18. Total Liabilities (13+17)	**1.255.437.750**	**840.293.143**	**408.580.901**	**3.981.459**	**2.582.247**	**655.369.636**	**577.723.482**	**67.727.443**	**4.800.927**	**5.117.785**
19. Net Foreign Currency Asset/ (Liability) Position (9-18)	**(1.090.965.270)**	**(736.288.681)**	**(350.219.060)**	**(2.605.485)**	**(1.852.044)**	**(481.793.346)**	**(514.669.240)**	**40.844.607**	**(4.653.421)**	**(3.315.293)**
20. Net Foreign Currency Asset/ (Liability) Position of Monetary Items (1+2a+5+6a-10-11-12a-15-16a)	**(618.657.750)**	**(265.831.063)**	**(348.057.349)**	**(3.339.478)**	**(1.429.860)**	**(42.191.486)**	**(74.213.393)**	**39.772.545**	**(4.746.334)**	**(3.004.305)**

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

33. 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 (2018: 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 (2018: TL, Euro 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 2019	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(26.583.106)	26.583.106
2- Part of hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(26.583.106)	26.583.106
4- Euro net asset / liability	(34.805.735)	34.805.735
5- Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(34.805.735)	34.805.735
7- GBP net asset / liability	(333.948)	333.948
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7+8)	(333.948)	333.948
10- Other net asset / liability	(142.986)	142.986
11- Part of hedged from Other risk (-)	-	-
12- Other net effect (10+11)	(142.986)	142.986
TOTAL (3+6+9+12)	**(61.865.775)**	**61.865.775**

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

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

(b) Financial risk factors (continued)

Foreign Currency Risk Management (continued)

Foreign currency sensitivity

	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**

c) Interest rate risk management

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

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

34. FINANCIAL INSTRUMENTS

Fair value of financial instruments

31 December 2019	**Financial assets carried at amortized cost**	**Financial liabilities carried at amortized cost**	**Book value**
Financial assets			
Cash and cash equivalents	26.868.411	-	26.868.411
Trade receivables	1.756.732.412	-	1.756.732.412
Other receivables	6.240.224	-	6.240.224
Financial liabilities			
Financial borrowings	-	360.952.776	360.952.776
Financial leasings	-	189.443.238	189.443.238
Trade payables	-	699.857.333	699.857.333
Other payables	-	177.343.819	177.343.819

31 December 2018	**Financial assets carried at amortized cost**	**Financial liabilities carried at amortized cost**	**Book value**
Financial assets			
Cash and cash equivalents	35.019.019	-	35.019.019
Trade receivables	1.694.778.477	-	1.694.778.477
Other receivables	1.695.277	-	1.695.277
Financial liabilities			
Financial borrowings	-	25.052.709	25.052.709
Trade payables	-	529.284.510	529.284.510
Other payables	-	209.912.451	209.912.451

35. EVENTS AFTER THE BALANCE SHEET DATE

None.