CONVENIENCE TRANSLATION OF
THE REPORT AND FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

PEGASUS HAVA TAŞIMACILIĞI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pegasus Hava Taşımacılığı Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Pegasus Hava Taşımacılığı Anonim Şirketi ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of 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 December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards ("TFRS").

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) 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.

Key audit matter	How the matter was addressed in the audit
Redelivery maintenance provision	
As explained in Note 15, as of December 31, 2019, the Group has recognized a provision of TL 1.874.357 thousand for the delivery maintenance provision costs at the delivery date of the aircraft that are subject to operating lease. Regarding the aircraft held under operating lease agreements, during the hand-over of these aircrafts, the Group is contractually committed to either comply with the conditions set forth in the contract or to compensate the lessor for the difference between the contractual hand-over conditions and the actual hand-over conditions of the airframe, engines and life-limited parts. A maintenance provision is made for this contractual obligation over the lease term, based on the present value of the estimated future cost calculated by reference to the number of hours flown and cycles operated during the year. In line with the accounting policies applied for airplanes that are obtained through operating lease agreements, the Group management calculates a maintenance provision over the present value of the estimated future cost. In line with adoption of TFRS 16 Leases standard as of 1 January 2019, the accounting policy of the Group has changed and the aforementioned provision has been capitalized on the right of use asset as part of its initial cost. . Redelivery maintenance provision amounts are at significant levels in the consolidated financial statements and they are based on certain assumptions, such as; likely utilization rates of the aircraft, the expected cost and the time of the heavy maintenance, the condition of the aircraft and the lifespan of life-limited parts. The changes in the assumptions may affect the consolidated financial statements significantly, hence, the matter is considered a key audit matter.	The following audit procedures are applied in order to be able to test the reasonable calculation of the redelivery maintenance provision: The design and implementation of controls have been examined to ensure the appropriateness of the calculation designed by the management. The assumptions used in the calculation of the redelivery maintenance provision are evaluated with the technical maintenance supports team performing the calculation, and the data used in these assumptions are compared with the costs used in the maintenance contracts made by the Group. The actual maintenance amounts for the delivered aircraft are compared with the amounts calculated in the previous periods for these aircrafts and an assessment is made to see if there is a significant difference. Furthermore, substantive procedures are applied to the maintenance payments made by the Group for the aircraft held under operating lease. The records of the maintenance costs incurred during the year are compared with the corresponding invoices. In addition, we have evaluated the adequacy of the disclosures in Note 2.6 and Note 15 in accordance with TAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

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Transition to TFRS 16 Leases standard	
The Group has adopted TFRS 16 Leases standard first time as of 1 January 2019. Leases that were classified as operational and financial lease under TMS 17, have been recognized as a right of use asset on the balance sheet as of 1 January 2019. Within this scope, right of use assets of TL 11.906.754 thousand and lease liabilities of TL 9.997.382 thousand and redelivery maintenance provision of TL 1.874.357 thousand have been recognized as of 31 December 2019 consolidated financial statements, with net income effect of TL 59.205 thousand. The right of use assets comprises %57 of total assets. We have focused on this matter because of the reasons below: - The new standard has significant impact on the consolidated financial statements of the Group, - This standard that significantly impacts the consolidated financial statements is first-time adopted in 2019, - Transition to TFRS 16 has not been performed through use of a comprehensive and technological tool, - Changes in judgements and assumptions could lead to significant changes on the consolidated financial statements. The accounting policy and information for TFRS 16 are disclosed in Note 2 and Note 12.	During our audit work, we had performed following procedures; - Lease contracts that are signed between the Group and the lessors were evaluated and assessed within the scope of TFRS 16 and the criteria to account the contract under the standard has been assessed. - Contracts are classified as fixed payment, minimum guarantee payment and variable payment according to contract conditions. The net present value calculations of future fixed and minimum guaranteed lease payments have been controlled by considering contract conditions. - Rent increase rates were evaluated and compared with the payment schedule used in the calculation. - The discount rates that are used in calculations are re-evaluated based on the terms and foreign currency denomination of the contracts and interest expense has been recalculated. - Depreciation calculations of right of use assets are controlled. The compliance of the disclosures in the consolidated financial statements are evaluated under the framework TFRS.

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Revenue recognition – complete and accurate recording of revenue and determination of passenger flight liability	
The Group generates its revenues from international and domestic flight operations. In order to perform the aforementioned operations, the Group uses information systems in which large volumes of data are processed. Due to the nature of operations, the ticket sales processes take place before the process of revenue recognition. The Group also earns ancillary income apart from the passenger transportation income and monitors this side income separately. Revenue recognition has been identified as key audit matter since the amount of revenue is significant in the accompanying consolidated financial statements, the information systems, through processing large-volume of data, affects the period in which the revenue will be recorded and revenue recognition includes risks specific to the sector. The accounting policy for the recognition of revenue of the Group is given in Note 2.5 and details of the revenue amount is presented in Note 21.	The following procedures have been applied to ensure the accurate and complete recording of the revenue and to determine the passenger flight liability: The Group's revenue recognition process and the design and implementation of controls designed by management in the process have been examined and tested. Audit activities were conducted for the general controls of both operational and financial information system applications. Information Technology ("IT") experts of another entity that is a part of the same audit network have been included in the audit process for the audit of the revenue. The suitability and effectiveness of automated controls and IT systems established to record passenger revenues have been tested through the help of our IT specialists. In addition, the suitability and effectiveness of non-automated key controls have been also tested. Completion and accuracy check of data exchanges between the systems and verification of detection of data errors for ticketing and collection process are within the controls selected for testing. Substantive analytical tests have been applied for revenue. The data obtained from the accounting systems, traffic data and passenger flight reports were compared in order to test the accuracy of the revenue amount and accuracy of the data used in these tests. In addition, the conformity of the disclosures in the consolidated financial statements as to TFRS has been also evaluated.

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4) 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 financial reporting process.

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

In an independent audit, our responsibilities as the auditors are:

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 as issued by the Capital Markets Board of Turkey and InAS 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 as issued by the Capital Markets Board of Turkey and InAS, 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.

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- 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

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B) Report on Other Legal and Regulatory Requirements

1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 3, 2020.

2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2019 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.

3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Sinem Arı Öz.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Sinem Arı Öz, SMMM
Partner

March 3, 2020
İstanbul, Turkey

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PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 31 December 2019	Prior period (Audited) 31 December 2018	(*) EUR 31 December 2019	(*) EUR 31 December 2018
ASSETS					
Current assets		**6.088.952.277**	**4.412.080.391**	**915.555.092**	**732.045.818**
Cash and cash equivalents	35	4.187.316.581	2.741.044.971	629.614.859	454.718.807
Trade receivables	6	446.978.360	235.514.142	67.208.727	39.070.030
Trade receivables from third parties	6	*446.978.360*	*235.514.142*	*67.208.727*	*39.070.030*
Other receivables	7	88.182.569	479.758.270	13.265.117	79.703.065
Other receivables from related parties	*5*	*102.852*	*1.580.011*	*21.242*	*262.112*
Other receivables from third parties		*88.079.717*	*478.178.259*	*13.243.875*	*79.440.953*
Derivative financial instruments	30	61.239	3.134.337	9.208	519.963
Inventories	8	75.453.026	58.182.322	11.345.296	9.652.011
Prepaid expenses	9	1.276.409.834	847.933.762	191.924.012	140.665.853
Current income tax assets	27	13.721.092	5.954.024	2.063.136	987.728
Other current assets	19	829.576	40.558.563	124.737	6.728.361
Non-Current assets		**14.970.368.921**	**9.252.807.145**	**2.249.923.653**	**1.534.975.920**
Financial assets	31	150.906.344	-	22.690.636	-
Other receivables	7	144.500.892	72.613.409	21.727.512	12.046.020
Other receivables from third parties	7	*144.500.892*	*72.613.409*	*21.727.512*	*12.046.020*
Investments accounted by using the equity method	3	57.154.173	39.797.114	8.593.837	6.606.638
Property and equipment	10	1.675.901.667	8.248.203.635	250.935.990	1.368.315.135
Intangible assets	11	79.791.006	46.859.897	11.997.565	7.773.706
Right of use assets	12	11.906.754.965	-	1.790.327.935	-
Prepaid expenses	9	955.359.874	845.333.090	143.650.178	140.234.421
TOTAL ASSETS		**21.059.321.198**	**13.664.887.536**	**3.165.478.745**	**2.267.021.738**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 31 December 2019	Prior period (Audited) 31 December 2018	(*) EUR 31 December 2019	(*) EUR 31 December 2018
LIABILITIES					
Current liabilities		**4.765.226.708**	**3.554.371.119**	**716.510.797**	**589.758.282**
Short term financial liabilities	31	758.293.604	797.815.861	114.018.826	132.466.435
Short term portion of long term financial liabilities	31	1.536.570.246	659.409.925	231.042.349	109.391.162
Trade payables	6	789.729.487	583.526.242	118.745.600	96.802.628
Trade payables to related parties	*5*	*1.543.950*	*1.158.564*	*232.152*	*192.197*
Trade payables to third parties		*788.185.537*	*582.367.678*	*118.513.448*	*96.610.431*
Employee benefit obligations	*17*	38.411.053	25.641.632	5.775.577	4.253.755
Other payables	*7*	33.397.989	24.170.136	5.021.801	4.009.644
Other payables to third parties		*33.397.989*	*24.170.136*	*5.021.801*	*4.009.644*
Passenger flight liabilities	*9*	963.908.296	677.753.986	144.935.539	112.434.304
Derivative financial instruments	*30*	53.134.363	189.722.017	7.989.409	31.473.460
Deferred income	*9*	129.581.075	62.772.691	19.484.118	10.413.519
Short term provisions		460.143.908	508.251.575	69.188.329	84.315.125
Short term provisions for employee benefits	*17*	*182.949.999*	*79.419.630*	*27.508.796*	*13.175.121*
Other short term provisions	*15*	*277.193.909*	*428.831.945*	*41.679.533*	*71.140.004*
Other current liabilities	*19*	2.056.687	25.307.054	309.249	4.198.250
Non-Current liabilities		**10.951.925.283**	**6.395.068.769**	**1.646.757.480**	**1.060.893.957**
Long term financial liabilities	31	8.460.811.498	5.064.858.596	1.272.187.697	840.222.063
Derivative financial instruments	30	1.505.350	104.993.760	226.348	17.417.678
Deferred income	*9*	318.913.475	121.994.007	47.952.587	20.237.891
Long term provisions		1.675.179.511	624.090.226	251.883.969	103.531.889
Long term provisions for employee benefits	*17*	*69.675.789*	*25.019.690*	*10.476.617*	*4.150.579*
Other long term provisions	*15*	*1.605.503.722*	*599.070.536*	*241.407.352*	*99.381.310*
Deferred tax liabilities	27	495.515.449	479.132.180	74.506.879	79.484.436
SHAREHOLDERS' EQUITY		**5.342.169.207**	**3.715.447.648**	**802.210.468**	**616.369.499**
Equity attributable to shareholders' of the parent		**5.342.169.207**	**3.753.058.255**	**802.210.468**	**622.239.863**
Paid-in share capital	20	102.299.707	102.299.707	60.544.134	60.539.574
Share premiums on capital stock		455.687.025	455.687.025	194.089.305	194.089.305
Effects of business acquisition		-	31.729.006	-	-
Other comprehensive income/expense not to be reclassified to profit or loss					
Actuarial losses on defined benefit plans	*26*	(3.904.009)	(2.132.417)	(587.016)	(353.752)
Currency translation differences	*26*	2.574.427.009	2.131.817.567	(6.884.734)	(5.619.702)
Other comprehensive income/expense to be reclassified to profit or loss					
Currency translation differences		-	(89.760.549)	-	-
Hedge fund	*26*	(42.163.181)	(221.159.956)	(6.339.756)	(36.688.778)
Restricted profit reserves		18.542.287	5.016.306	4.399.540	1.593.374
Retained earnings		903.911.251	832.182.941	345.593.677	295.865.351
Net profit for the period		1.333.369.118	507.378.625	211.395.318	112.814.491
Non-controlling interest		**-**	**(37.610.607)**	**-**	**(5.870.364)**
TOTAL LIABILITIES AND EQUITY		**21.059.321.198**	**13.664.887.536**	**3.165.478.745**	**2.267.021.738**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

(Convenience Translation of The Report and Financial Statements Originally Issued in Turkish)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in TL unless otherwise stated.)

Profit or loss	Notes	Current period (Audited) 1 January- 31 December 2019	Prior period (Audited) 1 January- 31 December 2018	(*) EUR 1 January - 31 December 2019	(*) EUR 1 January - 31 December 2018
Sales	21	11.025.224.523	8.276.743.365	1.739.457.710	1.470.490.102
Cost of sales (-)	21	(8.326.180.393)	(7.013.565.209)	(1.306.460.827)	(1.218.600.020)
Gross profit		**2.699.044.130**	**1.263.178.156**	**432.996.883**	**251.890.082**
General administrative expenses (-)	22	(302.553.091)	(220.112.714)	(47.784.170)	(40.186.683)
Marketing expenses (-)	22	(311.965.775)	(225.652.168)	(49.012.888)	(39.597.194)
Other operating income	23	5.080.503	39.751.010	806.367	7.304.389
Other operating expenses (-)	23	(27.622.759)	(65.442.710)	(4.584.887)	(11.986.407)
Operating profit		**2.061.983.008**	**791.721.574**	**332.421.305**	**167.424.187**
Income from investing activities	24	925.185	23.047.488	145.900	3.866.671
Expenses from investing activities (-)	24	(29.314.778)	-	(4.633.346)	-
Share of investments income accounted for using the equity method	3	16.241.182	8.445.804	2.558.661	1.486.207
Operating profit before financial expense		**2.049.834.597**	**823.214.866**	**330.492.520**	**172.777.065**
Financial income	25	99.535.989	123.684.898	15.594.079	20.685.566
Financial expense (-)	25	(755.105.856)	(404.633.918)	(125.098.598)	(74.871.194)
Profit before tax		**1.394.264.730**	**542.265.846**	**220.988.001**	**118.591.437**
Tax income expense		**(59.696.815)**	**(40.148.831)**	**(9.404.825)**	**(6.817.284)**
Current tax expense	27	(60.501.004)	(24.579.806)	(9.531.424)	(4.077.606)
Deferred tax expense	27	804.189	(15.569.025)	126.599	(2.739.678)
Profit for the period		**1.334.567.915**	**502.117.015**	**211.583.176**	**111.774.153**
Net profit / (loss) attributable to:					
Non-controlling interest		1.198.797	(5.261.610)	187.858	(1.040.338)
Shareholders' of the parent		1.333.369.118	507.378.625	211.395.318	112.814.491
		1.334.567.915	**502.117.015**	**211.583.176**	**111.774.153**
Profit per share (TL) / (EUR)	28	13,03	4,96	2,07	1,10
Other comprehensive income					
Items not to be reclassified to profit or loss					
Actuarial (losses) / gains on defined benefit plans	26	(2.214.490)	1.466.019	(291.580)	472.798
Deferred tax effect	26	442.898	(293.204)	58.316	(94.560)
Currency translation differences		457.503.847	1.052.766.584	(1.265.032)	3.040.323
Items to be reclassified to profit or loss					
Currency translation differences		(29.024.747)	(54.726.766)	(1.300.691)	(841.046)
Cash flow hedge	26	231.942.068	(315.699.027)	36.540.519	(55.553.515)
Deferred tax effect	26	(52.945.293)	70.777.792	(8.038.914)	12.221.773
Other comprehensive income		**605.704.283**	**754.291.398**	**25.702.618**	**(40.754.227)**
Total comprehensive income		**1.940.272.198**	**1.256.408.413**	**237.285.794**	**71.019.926**
Total comprehensive income attributable to:					
Non-controlling interest		(1.609.113)	(14.155.050)	187.858	(940.692)
Shareholders' of the parent		1.941.881.311	1.270.563.463	237.097.936	71.960.618
		1.940.272.198	**1.256.408.413**	**237.285.794**	**71.019.926**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

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

(Convenience Translation of The Report and Financial Statements Originally Issued in Turkish)

PEGASUS HAVA TAŞIMACILIĞI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in TL unless otherwise stated.)

				Other comprehensive income items not to be reclassified to profit or loss		**Other comprehensive income items to be reclassified to profit or loss**			**Retained earnings**				
	Paid in share capital	Share premiums on capital stock	Effects of business acquisition	Actuarial gains/(losses) on defined benefit plans	Currency translation differences	Currency translation differences	Hedge reserve	Restricted profit reserves	Retained earnings	Net profit/(loss) for the year	Equity attributable to shareholders' of the parent	Non-controlling interest	Shareholders' equity
As at 1 January 2018	**102.272.000**	**455.687.025**	**29.504.957**	**(3.305.232)**	**1.079.050.983**	**(43.927.223)**	**23.761.279**	**5.016.306**	**355.561.802**	**502.247.817**	**2.505.869.714**	**(21.231.508)**	**2.484.638.206**
Changes in accounting policy (Note 2)	-	-	-	-	-		-	-	(25.626.678)	-	(25.626.678)	-	(25.626.678)
Restated total equity as at 1 January 2018	**102.272.000**	**455.687.025**	**29.504.957**	**(3.305.232)**	**1.079.050.983**	**(43.927.223)**	**23.761.279**	**5.016.306**	**329.935.124**	**502.247.817**	**2.480.243.036**	**(21.231.508)**	**2.459.011.528**
Merger effect	27.707	-	2.224.049	-	-		-	-	-	-	2.251.756	(2.224.049)	27.707
Transfers	-	-	-	-	-	-	-	-	502.247.817	(502.247.817)	-	-	-
Total comprehensive income	-	-	-	1.172.815	1.052.766.584	(45.833.326)	(244.921.235)	-	-	507.378.625	1.270.563.463	(14.155.050)	1.256.408.413
As at 31 December 2018	**102.299.707**	**455.687.025**	**31.729.006**	**(2.132.417)**	**2.131.817.567**	**(89.760.549)**	**(221.159.956)**	**5.016.306**	**832.182.941**	**507.378.625**	**3.753.058.255**	**(37.610.607)**	**3.715.447.648**
As at 1 January 2019	**102.299.707**	**455.687.025**	**31.729.006**	**(2.132.417)**	**2.131.817.567**	**(89.760.549)**	**(221.159.956)**	**5.016.306**	**832.182.941**	**507.378.625**	**3.753.058.255**	**(37.610.607)**	**3.715.447.648**
Changes in accounting policy (Note 2)	-	-	-	-	-	-	-	-	(330.923.657)	-	(330.923.657)	-	(330.923.657)
Restated total equity as at 1 January 2019	**102.299.707**	**455.687.025**	**31.729.006**	**(2.132.417)**	**2.131.817.567**	**(89.760.549)**	**(221.159.956)**	**5.016.306**	**501.259.284**	**507.378.625**	**3.422.134.598**	**(37.610.607)**	**3.384.523.991**
Subsidiary sale	-	-	-	-	101.082.981	-	-	-	(122.929.683)	-	(21.846.702)	39.219.720	17.373.018
Transfers	-	-	(31.729.006)	-	(115.977.386)	115.977.386	-	13.525.981	525.581.650	(507.378.625)	-	-	-
Total comprehensive income	-	-	-	(1.771.592)	457.503.847	(26.216.837)	178.996.775	-	-	1.333.369.118	1.941.881.311	(1.609.113)	1.940.272.198
As at 31 December 2019	**102.299.707**	**455.687.025**	**-**	**(3.904.009)**	**2.574.427.009**	**-**	**(42.163.181)**	**18.542.287**	**903.911.251**	**1.333.369.118**	**5.342.169.207**	**-**	**5.342.169.207**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in TL unless otherwise stated.)

	Notes	Current period (Audited) 1 January- 31 December 2019	Prior period (Audited) 1 January- 31 December 2018	(*) EUR 1 January- 31 December 2019	(*) EUR 1 January- 31 December 2018
A. CASH FLOWS FROM OPERATING ACTIVITIES					
Profit for the period		**1.334.567.915**	**502.117.015**	**211.583.176**	**111.774.153**
Adjustments to reconcile the profit					
Depreciation and amortization	10-11-12	1.547.967.792	538.129.032	243.869.288	95.957.103
Adjustments related with impairments		12.094.780	988.606	1.818.600	173.965
Provision for doubtful receivable	6-7	*12.094.780*	*988.606*	*1.818.600*	*173.965*
Adjustments related with provisions		(59.419.903)	207.748.822	(11.144.706)	36.464.792
Provision for employee benefits	17	*206.807.707*	*78.069.745*	*30.893.846*	*14.951.185*
Legal provison	15	*(1.105.440)*	*81.410*	*(174.153)*	*14.326*
Change in redelivery provision	15	*(265.122.170)*	*129.597.667*	*(41.864.399)*	*21.499.281*
Interest and commission income	25	470.630.839	120.664.991	74.143.925	21.233.402
Gain on equity investments accounted for using the equity method	3	(16.241.182)	(8.445.804)	(2.558.661)	(1.486.207)
Current tax expense	27	59.696.815	40.148.831	9.404.825	7.064.984
Other provisions related with investing or financing activities	24-33	(5.060.898)	(14.473.197)	(774.519)	(2.846.319)
Gain on sales of subsidiary	24	29.045.073	-	4.633.346	-
Changes in working capital					
Increase in trade receivables		(278.275.883)	(54.276.197)	(47.485.701)	(10.737.113)
Increase in other receivables, prepaid expenses, other and financial assets		27.460.712	(723.433.149)	4.335.882	(147.226.280)
Increase in inventories		(16.655.430)	(27.379.069)	(2.600.771)	(4.830.341)
Increase in trade payables		220.884.682	202.152.829	34.942.972	39.611.807
Increase in deferred income, other payables and other current liabilities		378.281.830	330.990.848	54.566.736	58.517.868
Net cash generated from operating activities		**3.704.977.142**	**1.114.933.558**	**574.734.392**	**203.671.814**
Payment for the employee benefits provisions	17	(64.961.476)	(36.377.882)	(10.234.133)	(8.426.534)
Taxes paid	27	(74.222.096)	(30.533.830)	(11.693.066)	(5.373.034)
Payment for other provisions	15	(227.481)	(190.079)	(35.838)	(31.533)
		3.565.566.089	**1.047.831.767**	**552.771.355**	**189.840.713**
B. CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for sale of subsidiary	24	623.183	-	98.918	-
Proceeds from sale of aircraft		-	88.849.440	-	15.634.824
Proceeds from sale of property, equipment and intangible assets		3.344.475	14.164.058	526.894	2.492.447
Cash outflows from purchase of property, equipment and intangible assets		(147.509.095)	(228.382.610)	(21.735.572)	(45.333.812)
Changes in cash advances and payables		(395.930.787)	(425.320.814)	(67.290.001)	(76.329.313)
		(539.472.224)	**(550.689.926)**	**(88.399.761)**	**(103.535.854)**
C. CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in borrowings		720.798.400	788.002.450	113.555.717	138.664.685
Repayment of borrowings		(830.070.250)	(729.414.500)	(130.770.576)	(124.354.971)
Repayment of principal in lease liabilities		(1.375.775.278)	(478.111.094)	(220.537.324)	(84.133.145)
Interest and commission paid		(432.731.037)	(239.646.948)	(68.173.130)	(35.442.181)
Interest received		91.543.245	123.352.402	14.421.867	21.706.306
		(1.826.234.920)	**(535.817.690)**	**(291.503.446)**	**(83.559.306)**
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE TRANSLATION EFFECT (A+B+C)		**1.199.858.945**	**(38.675.849)**	**172.868.148**	**2.745.553**
D. TRANSLATION DIFFERENCES EFFECT ON CASH AND CASH EQUIVALENTS		246.412.665	791.610.573	2.027.904	11.687.520
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**1.446.271.610**	**752.934.724**	**174.896.052**	**14.433.073**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD AT THE BEGINNING OF THE PERIOD	35	2.741.044.971	1.988.110.247	454.718.807	440.285.734
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	**35**	**4.187.316.581**	**2.741.044.971**	**629.614.859**	**454.718.807**

(*)The functional currency of the Company is Euro. However, the presentation currency is determined as Turkish Lira. See Note 2.1 for the conversion of Euro and Turkish Lira amounts.

TL 2.702.451.941 of tangible and intangible assets acquisitions in total of TL 3.280.237.905 was financed through leases for the year ended 31 December 2019 (31 December 2018: TL 2.554.101.905 of tangible and intangible assets acquisitions in total of TL 1.894.337.487 was financed through finance leases).

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Pegasus Hava Taşımacılığı A.Ş. (the "Company" or "Pegasus") and its subsidiaries (together "the Group") is a low cost airline. The Group operates under a low cost business model and employs low cost airline business practices which focus on providing affordable, reliable and simple service. Group management focuses on providing high-frequency services on short- and medium-haul, point-to-point routes on its domestic and international transit network primarily from its main hub, Sabiha Gökçen Airport in İstanbul. The Group also operates scheduled flights from four other domestic hubs in Ankara, Adana, Antalya and İzmir. The Group operates with 84 aircraft (31 December 2018: 82) including 3 owned and 81 leased, 45 of which have purchase option, as of 31 December 2019.

The Group offers a number of services ancillary to the core air passenger services and generate revenue through the provision of these services. These ancillary services include, but not limited to, revenue related to in-flight sale of beverages and food, excess baggage fees, reservation change and cancellation fees, airport check-in fees and seat selection fees.

The Group also provides cargo services and provides various training services. These training services include crew training, type rating training (i.e., training to fly a certain aircraft type), dangerous goods training and crew resource management (CRM) training.

The shareholders and their respective holdings in the Company as of 31 December 2019 and 2018 are as follows:

	31 December 2019	**31 December 2018**
Esas Holding A.Ş. ("Esas Holding")	62,91%	62,91%
Publicly held	34,53%	34,53%
Sabancı Family Members	2,56%	2,56%
Total	**100,00%**	**100,00%**

Shares of the Company has been started to be traded in İstanbul Stock Exchange since 26 April 2013, after the book building between the dates of 18-19 April 2013.

The Group's total number of full time employees as of 31 December 2019 is 6.164 (31 December 2018: 5.621). The address of its principal executive office is Aeropark Yenişehir Mah. Osmanlı Bulvarı No: 11/A Kurtkoy-Pendik İstanbul.

Subsidiaries

Air Company "Air Manas" LLC

Air Company "Air Manas" LLC ("Air Manas") is a limited liability company established in Kyrgyz Republic on 27 October 2006. The Group acquired 49% of Air Manas in August 2012 and has the ability to control Air Manas. The remaining shares in Air Manas are held by individuals in the Kyrgyz Republic. The Company has the right to manage the operations of Air Manas with a share rate of 49% pursuant to its rights originating from Air Manas Articles of Incorporation, and therefore Air Manas has been consolidated on a line by line basis as a subsidiary as of 30 September 2019 and 31 December 2018. The Group deconsolidated Air Manas, which was operating only domestic flights in Kyrgzstan, by the sale of its share rate of 49% to AviaTrade Corp. LP, operating in the UK, as of 15 October 2019 (Note 24).

Pegasus Havacılık Teknolojileri ve Ticaret A.Ş.

The Group, incorporated Pegasus Havacılık Teknolojileri ve Ticaret A.Ş. ("PHT") on 13 May 2016 in İstanbul for the operations of simulator technical support and maintenance. The Group owns 100% of the outstanding shares of PHT and consolidated on a line by line basis as a subsidiary.

NOTE 1- ORGANIZATION AND OPERATIONS OF THE GROUP

Joint Ventures and Associates

Pegasus Uçuş Eğitim Merkezi A.Ş.

The Group incorporated Pegasus Uçuş Eğitim Merkezi A.Ş. (“PUEM”) in October 2010 in Turkey, a joint venture flight training company, with SIM Industries B.V., a Dutch simulator manufacturing and marketing company. PUEM has a 737-800 “next generation” flight simulator and commenced its operations in İstanbul in January 2011. The Group owns 49,40% of the outstanding shares of PUEM and disclose as joint venture under investments accounted for using the equity method in the financial statements.

Hitit Bilgisayar Hizmetleri A.Ş.

Hitit Bilgisayar Hizmetleri A.Ş. (“Hitit Bilgisayar”) was established in 1994, and as of 31 December 2014 it was merged with its related company Hitit Yazılım A.Ş. The scope of operations of the entity is to develop software solutions for airlines and travel agencies as well as airports, and be engaged with the activities concerning service of the foregoing operations, services and sales thereof.

The Group owns 50% of the outstanding shares of Hitit Bilgisayar Hizmetleri A.Ş. and disclose as joint venture under investments accounted for using the equity method in the financial statements as of March 2015.

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 December 2019 and delegated authority for publishing it on 3 March 2020. General shareholders’ meeting has the authority to modify the financial statements.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance with TAS

The accompanying consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board (“CMB”) Communiqué Serial II, No: 14.1 “Basis of Financial Reporting in Capital Markets”, which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards / Turkish Financial Reporting Standards and interpretations (“TAS/TFRS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation.

Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles and the local currency in their registered countries.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with Turkish Accounting Standards.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation (cont'd)

Statement of Compliance with TAS (cont'd)

Functional and Presentation Currency

Although there is no prominent currency affecting revenue and cost of sales, the Group's functional currency is determined as Euro for the reasons that, largest scale of scheduled flight revenue which is the Group's primary operation is generated from European flights, Euro is clearly effective on the financial liabilities of the Group and management reports and budget enabling the Company's management to make executive decisions are prepared in Euro. The functional currency of the Company and its subsidiaries is Euro except Air Manas Air Company LLC ("Air Manas"). The functional currency of Air Manas is US Dollar.

If the legal records are kept in a currency other than the functional currency, the financial statements are initially translated into the functional currency and then translated to the Group's presentation currency, Turkish Lira ("TL"). For the companies in Turkey that book legal records in TL, currency translation from TL to the functional currency Euro is made under the framework described below:

- Monetary assets and liabilities have been converted to the functional currency with the The Central Bank of Turkish Republic (CBRT) foreign exchange buying rate.
- Non-monetary items have been converted into the functional currency at the exchange rates prevailing at the transaction date.
- Profit or loss accounts have been converted into the functional currency using the exchange rates at the transaction date, except for depreciation expenses.
- The capital is followed according to historical costs.

The translation differences resulting from the above mentioned conversions are recorded under financial income / expenses in the statement of profit or loss.

Presentation currency of the Group's financial statements is TL. Financial Statements have been translated from Euro and US Dollar to TL in accordance with the relevant provisions of TAS 21 ("The Effects of Changes in Foreign Exchange Rates") as follows:

- Assets and liabilities are translated using the Central Bank of the Republic of Turkey ("TCMB") Euro buying rate prevailing at the balance sheet date; 31 December 2019: 1 Euro (€) = TL 6,6506, 1 US Dollar ($)= TL 5,9402 (31 December 2018: 1 Euro (€) = TL 6,0280, 1 US Dollar ($)= TL 5,2609).
- Income and expenses are translated from Euro to TL at exchange rates at the dates of transactions and translated from US Dollar to TL using the TCMB US Dollar average buying rates.

Translation gains or losses arising from the translations stated above are presented as foreign currency translation reserve under equity. Share capital amount, representing the nominal share capital of the Company, all other equity items are presented in historic TL terms where all translation gains or losses in relation to these balances are accounted under foreign currency translation reserve.

Euro Amounts in the Financial Statements

Euro amounts shown in the consolidated balance sheet prepared in accordance with the TFRS have been translated from TL, as a matter of arithmetic computation only, at the official Euro bid rates announced by the TCMB on 31 December 2019 of TL6,6506 = EUR1, and Euro amounts shown in the consolidated statements of income, comprehensive income and cash flow have been translated from TL, as a matter of arithmetic computation only, Euro bid rates calculated from the official daily bid rates announced by the TCMB.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)

2.1 Basis of Presentation (cont’d)

Comparative Information and Reclassification of Prior Period Financial Statements

Consolidated financial statements of Group are prepared in comparison to prior period in order to identify financial position and performance trends. In order to maintain consistency with current period consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In order to comply with the Financial Statements Samples and Term Guidelines which has published on 7 June 2019, the Group has added the “Contract Liabilities” account in consolidated financial statements and amounting to TL 677.753.986 previously presented in "Deferred income" is reclassified under to "Contract liabilities” as of December 31, 2019. In addition, delayed flights passenger payments presented in “Cost of Sales” amounting to TL 19.992.668 has been netted off “Domestic and international flights revenue”.

Basis of Consolidation

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

		Participation rate		Country of registration and
Name of the company	Principal activity	31 December 2019	31 December 2018	operation
Air Manas (*)	Air transportation	-	49%	Kyrgyzstan
PHT	Simulator technical support and maintenance	100%	100%	Turkey

(*) In accordance with its rights arising from Air Manas Articles of Association, the Company has the right to control Air Manas operations with 49% shareholding rate and therefore, Air Manas was included in line by line consolidation as a subsidiary as of 30 September 2019 and 31 December 2018. Based on the decision of the Board of Directors dated 12 September 2019, the Group sold its shareholding rate of 49% in Air Manas to AviaTrade Corp. LP, operating in the UK (Note 24).

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Associates and Joint Ventures

The table below sets out affiliates and joint ventures then indicates the proportion of ownership interest of the Company in these affiliates and joint bentures as of 31 December 2019 and 2018:

		Participation rate		Country of
Name of the company	Principal activity	31 December 2019	31 December 2018	registration and operation
Pegasus Uçuş Eğitim Merkezi A.Ş. ("PUEM")	Simulator training	49%	49%	Turkey
Hitit Bilgisayar Hizmetleri A.Ş. ("Hitit Bilgisayar")	Information system solutions	50%	50%	Turkey

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or a joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

2.2 Significant Accounting Policies and Changes

The accounting policies, presentation and methods of computation are consistent with those of the financial year ended 31 December 2018 and corresponding reporting period, except for the adoption of new accounting policies for transactions valid for the periods starting on 1 January 2019.

The Group adopted TFRS 16 Leases for the first time for the period beginning on 1 January 2019.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

(i) TFRS 16 Leases

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

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asssets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. As of the leasing start date, the redelivery and maintenance provisions of the aircraft are considered as an indispensable obligation within the scope of the contract, and the estimated provisions are included in the discounted cost and the right of use assets.

Right-of-use assets are subject to impairment.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

First transition to TFRS 16 Leases standard:

The Group adopted the new standard on the required effective date using the modified retrospective method which requires the recognition of the cumulative effect of initially applying TFRS 16 as at January 1, 2019, to retained earnings and not restate prior years.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

(i) TFRS 16 Leases (cont'd)

First transition to TFRS 16 Leases standard (cont'd):

The Group applied this standard in the operational aircraft rental agreements, service buildings in the terminals that are used for aviation and ticket sales activities, lands, parking and filling areas, sheds used for storing luggage and cargo of the passengers it carried, office and warehouse rental agreements which it has previously defined as leasing by applying TAS 17 Leases.

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

Impacts of transition to TFRS 16 are as follows:

	1 January 2019
Lease commitments	2.371.874.199
- Discounted amount (-)	(388.105.764)
- Short term and low value leases (-)	(1.185.154)
Total lease liability	1.982.583.281
Lease liability discounted with alternative borrowing rate (equivalent of TL)	**2.881.511.868**
- Short term lease liability	426.266.369
- Other short term provisions	145.042.883
- Long term lease liability	1.557.502.066
- Other long term provisions	752.700.550

The details of the right of use assets according to asset types are as follows:

	31 December 2019	**1 January 2019**
Aircraft	11.868.904.259	9.254.729.295
Field Rental	19.272.586	28.126.554
Building	17.928.002	22.391.742
Other	650.118	1.881.318
Net book value	**11.906.754.965**	**9.307.128.909**

The impact of adoption of TFRS 16 on retained earnings as of 1 January 2019 is stated as below:

	1 January 2019
Assets	
Right of use assets	**9.307.128.909**
Property, plant and equipment (-)	**(6.839.150.440)**
Liabilities	
Lease liabilities	(1.983.768.435)
Redelivery provisions	(897.743.433)
Deferred tax liabilities	82.609.742
Total Liabilities	**(2.798.902.126)**
Equity	**(330.923.657)**

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.2 Significant Accounting Policies and Changes (cont'd)

First transition to TFRS 16 Leases standard (cont'd):

	31 December 2019	TFRS 16 Effects	31 December 2019 (excluding effects)
Profit or loss			
Sales	11.025.224.523	-	11.025.224.523
Cost of sales (-)	(8.326.180.393)	295.566.094	(8.621.746.487)
Gross profit	**2.699.044.130**	**295.566.094**	**2.403.478.036**
General administrative expenses (-)	(302.553.091)	-	(302.553.091)
Marketing expenses (-)	(311.965.775)	-	(311.965.775)
Other operating income	5.080.503	-	5.080.503
Other operating expenses (-)	(27.622.759)	-	(27.622.759)
Operating profit	**2.061.983.008**	**295.566.094**	**1.766.416.914**
Income from investing activities	925.185	-	925.185
Expenses from investing activities (-)	(29.314.778)	-	(29.314.778)
Share of investments income accounted for using the equity method	16.241.182	-	16.241.182
Operating profit before financial expense	**2.049.834.597**	**295.566.094**	**1.754.268.503**
Financial income	99.535.989	-	99.535.989
Financial expense (-)	(755.105.856)	(247.322.788)	(507.783.068)
Profit before tax	**1.394.264.730**	**48.243.306**	**1.346.021.424**
Tax income expense	**(59.696.815)**	**10.961.704**	**(70.658.519)**
Current tax expense	(60.501.004)	-	(60.501.004)
Deferred tax expense	804.189	10.961.704	(10.157.515)
Profit for the period	**1.334.567.915**	**59.205.010**	**1.275.362.905**
Net profit / (loss) attributable to:			
Non-controlling interest	1.198.797	-	1.198.797
Deferred tax expense	1.333.369.118	59.205.010	1.274.164.108
Profit for the period	**1.334.567.915**	**59.205.010**	**1.275.362.905**
Profit per share (TL) / (EUR)	13,03	0,58	12,45
Other comprehensive income			
Items not to be reclassified to profit or loss			
Actuarial (losses) / gains on defined benefit plans	(2.214.490)	-	(2.214.490)
Deferred tax effect	442.898	-	442.898
Items not to be reclassified to profit or loss			
Currency translation differences	457.503.847	-	457.503.847
Items to be reclassified to profit or loss			
Currency translation differences	(29.024.747)	-	(29.024.747)
Cash flow hedge	231.942.068	-	231.942.068
Deferred tax effect	(52.945.293)	-	(52.945.293)
Other comprehensive income	**605.704.283**	**-**	**605.704.283**
Total comprehensive income	**1.940.272.198**	**59.205.010**	**1.881.067.188**
Total comprehensive income attributable to:			
Non-controlling interest	(1.609.113)	-	(1.609.113)
Shareholders' of the parent	1.941.881.311	59.205.010	1.882.676.301
	1.940.272.198	**59.205.010**	**1.881.067.188**

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Changes in Accounting Estimates

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period. Significant errors identified by the Group in the accounting estimates are applied retrospectively and prior period financial statements are restated. The Group has not made any changes in accounting estimates in the current year.

2.4 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

TFRS 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Group has applied this standard with a modified retrospective aproach and disclosed the impact on its financial position and performance in Note 2.2.

The following standards and amendments came into effect as of January 1, 2019, but had no impact on the Group's consolidated financial statements:

TFRS Interpretation 23	*Uncertainty over Income Tax Treatments*
Amendments to TAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to TAS 19 Employee	*Plan Amendment, Curtailment or Settlement* Benefits
Annual Improvements to TFRS Standards 2015–2017 Cycle	*Amendments to TFRS 3 Business Combinations, TFRS 11 Joint Arrangements*, *TAS 12 Income Taxes and TAS 23 Borrowing Costs*

TFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "TAS 12 Income Taxes" when there is uncertainty over income tax treatments.

Amendments to TAS 28 "Investments in Associates and Joint Ventures" (Amendments)

The amendments clarify that a company applies TFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 The new standards, amendments and interpretations (cont'd)

i) The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows (cont'd):

Plan Amendment, Curtailment or Settlement" (Amendments to TAS 19)

In January 2019, the POA published Amendments to TAS 19 "Plan Amendment, Curtailment or Settlement" The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. These amendments are applied for annual periods beginning on or after 1 January 2019.

Annual Improvements – 2015–2017 Cycle

Annual Improvements to TFRS Standards 2015–2017 Cycle include amendments to TFRS 3 Business Combinations and TFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, TAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TAS 23 Borrowing Costs in capitalized borrowing costs.

Other than TFRS 16, these standards, amendments and improvements have no impact on the consolidated financial position and performance of the Group.

ii) Standards issued but not yet effective and not early adopted

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

TFRS 17	*Insurance Contracts*
Amendments to TFRS 3	*Definition of a Business*
Amendments to TAS 1 and TAS 8	*Definition of Material*
Amendments to TFRS 9, TAS 39 and TFRS 7	*Interest Rate Benchmark Reform*

TFRS 17 Insurance Contracts

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2021.

Definition of a Business (Amendments to TFRS 3)

In May 2019, the PAO issued amendments to the definition of a business in TFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Application of New and Revised Turkish Accounting Standards (TAS) (cont'd)

ii) Standards issued but not yet effective and not early adopted (cont'd)

Definition of a Business (Amendments to TFRS 3) (cont'd)

The amendments:
- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to TFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Definition of Material (Amendments to TAS 1 and TAS 8)

In June 2019, the PAO issued amendments to TAS 1 Presentation of Financial Statements and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to TAS 1 and TAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

The amendments issued to TFRS 9 and TAS 39 which are effective for periods beginning on or after January 1, 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in TFRS 9 and TAS 39 is aimed to be disclosed in financial statements based on the amendments made in TFRS 7.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Application of New and Revised Turkish Accounting Standards (TAS) (cont'd)

iii) Standards issued but not yet effective and not early adopted (cont'd)

Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.5 Summary of Significant Accounting Policies

Related Parties

Related parties comprise of any person or entity related to the entity preparing the financial statements (reporting entity).

a) Any individual or any one of the close family members of such individual are considered as being related with the reporting entity: In the event the subject matter individual,

(i) is in possession of control or joint control over the reporting entity,
(ii) is entitled to a crucial influence on the reporting entity,
(iii) is a member of the key management staff of the reporting entity or one of the major shareholders of the reporting entity.

(b) In the event any of the following circumstances is present in existence, the entity is considered to be in relation with the reporting entity:

(i) If the entity and the reporting entity are members of the same group (in other words, each major partnership, associated partnership and other associated partnership is related to the others).
(ii) If the entity is an affiliate or business partnership of the other entity (or a member of the group that such other entity is also a member of).
(iii) If both entities are business partnerships of the same third party.
(iv) If one of the entities is a business partnership of any third entity and the other entity is an affiliate of the subject matter third entity.
(v) If there are benefit plans for the post-retirement stage with respect to the employees of the entity, reporting entity or any other entity related to the reporting entity. In the event the reporting entity is itself in possession of such a plan, the sponsoring employers are likewise related to the reporting entity.
(vi) If the entity is controlled by any individual identified under article (a) or under joint control.
(vii) If any individual identified under item (i) of article (a) is in possession of a substantial influence on the entity or is a member of the key management personnel of the subject matter entity (or of the major shareholder of any such entity).

Consists of the transfer of sources, services or obligations between the related party and any party related to the reporting entity of the transaction performed, regardless of whether the same is in consideration for a charge or otherwise.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Revenue

The Group generates its revenues from international and domestic flight operations. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. These revenues are recognized as follows:

- Scheduled and charter flight revenues are recorded as revenue when the transportation service is provided. Tickets sold but not yet used are recorded as passenger flight liabilities.
- Ancillary revenues, cargo services and training services are recognized when services are provided.
- Ancillary revenue is recognized as revenue when the service is provided.
- The passenger service fee is a surcharge on the ticket price for the purpose of selling. Since the passenger service fee, which is recorded as revenue as the ticket sold before the TFRS 15 application, is not considered as a different performance obligation than the transportation service, it has started to be recorded as revenue as of 1 January 2018 when the related transportation service is performed.

The Group has evaluated itself as a surrogate in terms of the airport tax paid to the relevant state institutions and collected from the passengers at the ticket price and has not included the taxes in the revenue amount. The most important factor in this evaluation is the fact that the addressee of the tax is not the Company but the passenger

If the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

The Group also receives interest income, which is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Revenue from Contracts with Customers

Group recognises revenue based on the following five principles in accordance with the TFRS 15, "Revenue from Contracts with Customers Standard"; effective from 1 January 2019:

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Revenue from Contracts with Customers (cont'd)

Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation. When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

Pegasus Card and Pegasus Plus Loyalty Program

The holders of Pegasus Card adn Pegasus Plus earn and accumulate flight points for both ticket and non-ticket purchases each time they use the Pegasus Card.

If the points are earned by ticket purchases, the flight points are provided by Pegasus and recognized as a separately identifiable component of the sales transaction and measured at fair value. They are recorded as "flight liability from flight points" initially and recognized as revenue when the flight points are used. The nominal amount of the points earned approximates the fair value of the points, because 50 Flight Points = TL 1. Flight points can be redeemed at the purchase of flight tickets at minimum TL 10 (500 Flight Points).

If the points are earned through non-ticket purchases, the bank funds the cost of the points through a payment to the Group. The Group defers this revenue, which it records as "flight liability from flight points" and recognizes the revenue when the points are used by the customer. Award points are valid for at least two years and expire at the last day of the second calendar year. Unused points are recognized as income based on historic usage.

Inventories

Inventories are composed of consumables, spare parts, catering stocks and other stocks and they are valued at the lower of cost or net realizable value.

Tangible Assets

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

Depreciation is recognised over their estimated useful lives, less their residual values using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Group allocates the cost of an acquired aircraft to its service potential reflecting the maintenance condition of its engines and airframe. This cost, which can equate to a substantial element of the total aircraft cost, is depreciated over the shorter of the period to the next maintenance check or the remaining life of the aircraft. The costs of subsequent major airframe and engine maintenance checks are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Tangible Assets (cont'd)

All significant components and repairable spare parts are accounted separately and depreciated over their estimated useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Acquired trademark, brands and licenses are shown at historical cost. Trademarks, brands and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives. The acquired software has a 5 year useful life.

Provisions, Contingent Assets and Contingent Liabilities

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 recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Impairment of Non-financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its aircraft to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At the end of each reporting period, non-financial assets are reviewed for possible reversal of the impairment.

The fleet has been determined as the lowest level cash generating unit and analysed for impairment accordingly. For determination of recoverable amounts the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used. Net selling price for the aircraft is determined according to second hand prices in international price guides.

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. There are no qualifying assets during the years ended 31 December 2019, and 2018. Therefore, no borrowing costs were capitalized during the years ended 31 December 2019, and 2018. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

Maintenance and Repair Costs and Maintenance Reserve Contribution Receivables

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned and financial leased aircraft is described in the accounting policy for tangible assets.

For aircraft held under operating lease agreements, the Group pays monthly supplemental amount called "Maintenance Reserve Contribution" to operating lease companies with respect to heavy maintenance expenditures. This reserve contribution is calculated based on the actual flight hours or the actual number of landings of the aircraft. These maintenance reserve payments are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term. However, when the Group incurs such heavy maintenance expenditures on behalf of the operating lease company, it claims these costs back and recognise an agreed maintenance reserve contribution receivable until it is collected. All other maintenance and repair costs are expensed as incurred.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Redelivery Provision

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year.

The Group has entered into operating lease agreements with operating lease companies where the Group has transferred its right to buy the new aircraft and it is liable to perform the heavy maintenance expenditures after the end of the lease term (8 years). The total maintenance reserve has been calculated based on the present value of the estimated future cost by Group management in line with the accounting policies used in the aircraft held under operating lease agreements and they are recognised as maintenance expense in the statement of profit or loss on a monthly basis during the lease term. For the accounting method after January 1, 2019, see Note 2.2.

Taxation and Deferred Income Taxes

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss because of 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 end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. 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 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.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Deferred Tax (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and Deferred Tax for the Period

Taxes are recognised as an expense or income in profit or loss, except when they related to transactions that are recognised in equity. Otherwise, taxes are also recognized in equity with other related transactions.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. As a financing instrument, governmet grants, rather than to be recognized in profit or loss to offset the expenses they are financing, are to be recognized in the balance sheet as deferred income and be recognized in profit or loss on a systematic basis over the economical life of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Taxation and Deferred Income Taxes (cont'd)

Government Grants (cont'd)

Investment Incentives

The Turkish Government has an Investment Incentive Program which became effective upon the issuance of the Council of Ministers‟ resolution "Government Assistance for Investments" No:2009/15199 ("Incentive Program") on 14 July 2009.

The Incentive Program aims to provide support to companies which make investments by providing a credit against taxable income related to those investments. The amount of credit is determined based on a "contribution rate" in the Incentive Program. An entity must obtain an investment certificate related to the associated incentives.

The Group obtained incentive certificates from the Undersecretariat of Treasury for 45 aircraft. According to the incentive certificate of 27 aircraft, the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 11% instead of 22%) taxable income attributable to the operation of these aircraft. According to the incentive certificate of 18 aircraft, the Company will use 50% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2,2% instead of 22%) taxable income attributable to the operation of these aircraft. As the Group has taxable profits during the year ended 31 December 2019, it has recognized the benefit in the financial statements associated with the Incentive Program (Note 13).

Employee Benefits

Termination Benefits

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 No. 19 (revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation. The calculated actuarial gains and losses are accounted under the other comprehensive income when material.

Employee Bonus Plan

The Group recognizes a liability and an expense for employee bonus, based on current year performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Employee Benefits (cont'd)

Executive Bonus Plan

The Group recognizes a liability and an expense for executive bonus plan, based on a formula that takes into consideration the budget compared to actual performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Foreign Currency Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Based on the nature of the Group's business, there are various transactions entered into that are in currencies other than the functional currency. In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognized either as finance income or finance costs in the period in which they arise.

Leasing - the Company as Lessee

Practice before 1 January 2019

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

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also charged to statement of profit or loss on a straight-line basis over the lease term.

Practice after 1 January 2019

See note 2.2 for the details.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Assets

Recognition and Measurement

Group classifies its financial assets in three categories of financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase. The Group classifies its financial assets at the date of the purchase. TFRS 9 eliminates the categories of available-for-sale financial assets, loans and receivables and available-for-sale financial assets included in the existing TAS 39 standard.

"Financial assets measured at amortized cost", are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortized cost comprise "cash and cash equivalents", "trade receivables" and "financial investments". Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the consolidated statement of income.

"Financial assets measured at fair value through other comprehensive income", are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified.

In derecognition of financial assets, the valuation differences which is classified under the other comprehensive income are recognized in retained earnings.

Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under consolidated statement of income.

"Financial assets measured at fair value through profit or loss", are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

The changes in the classification of financial assets and financial liabilities in accordance with TFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Assets (cont'd)

Recognition and Measurement (cont'd)

	Classification under TAS-39	Classification under TFRS-9
Financial Assets		
Cash and cash equivalents	Loans and receivables	Amortised cost
Financial investments	Held-to-maturity financial assets	Amortised cost
Financial investments	Available for sale financial assets	Fair value through other comprehensive income
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Trade receivables	Loans and receivables	Amortised cost
Other receivables	Loans and receivables	Amortised cost
Financial Liabilities		
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Other payables	Amortised cost	Amortised cost

Derecognition

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognized as a separate asset or liability.

Impairment

Impairment of the financial and contractual assets measured by using "Expected credit loss model" (ECL). The impairment model applies for amortized financial and contractual assets.

Provision for loss measured as below ;

12- Month ECL: results from default events that are possible within 12 months after reporting date. Lifetime ECL: results from all possible default events over the expected life of financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since 12 month ECL measurement if it has not.

The group may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement (simplified approach) always apply for trade receivables and contract assets without a significant financing.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Assets (cont'd)

Trade receivables

Trade receivables that are created by way of providing services directly to a debtor are measured at amortized cost, using the effective interest rate method, Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

Group has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other operating income.

Unearned finance income/expense due to commercial transactions are accounted for under "Other Operating Income/Expenses" in the consolidated statement of income or loss.

Cash and Cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank deposits with original maturities of more than three months and shorter than 1 year are classified under short-term financial investments.

Financial Liabilities

The Group's financial liabilities and equity instruments are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The contract representing the right in the assets of the Group after deducting all debts of the Group which is an equity-based financial instrument. The accounting policies applied for certain financial liabilities and equity instruments are as follows.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially recognized at fair value as a net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Liabilities (cont'd)

Other financial liabilities (cont'd)

The effective interest method calculates the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

In case of fulfilling the contractual obligations of other financial liabilities, canceling the contract or expiring, the Group offsets this liability. The carrying amount of the off-balance sheet and the difference between the book value of the financial liability and the new financial liability arising are recognized in the statement of profit or loss.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the statement of profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group is exposed to foreign exchange risk through the impact of currency rate changes on translation into the Euro of its foreign currency denominated assets and liabilities and non-Euro denominated currency transactions. To monitor the risk, the Group enters into forward transactions where the Group is liable to pay a certain amount of Euro and receive a certain amount of foreign currency (mainly US Dollars) at a specified date. The change in the fair value of the derivative financial assets that qualify for hedge accounting according to TAS 39 (Financial Instruments) are recognized in other comprehensive income and the change in the fair value of the derivative financial assets that do not qualify for hedge accounting according to TAS 39 are recognized in statement of profit or loss. The Group started applying TFRS 9 for derivative financial instruments starting from 1 October 2019.

Inherently, the Group is exposed to financial risks related to interest rate fluctuations. The most significant source of the interest rate risk is the financial lease liabilities. The policy of the Group is to transform a part of its floating rate financial liabilities into fixed rate financial liabilities by using derivative financial instruments. Derivative financial instruments procured for this purpose do not qualify for hedge accounting and the change in the fair value of these derivative financial assets are recognized immediately in profit or loss.

Fuel costs which are predominantly determined in US Dollars constitute a substantial portion of the Group's cost base. The Group enters into forward and option forward transactions with financial institutions based on acquisition of jet fuel or Brent oil on specified prices. These commodity forward transactions qualify for hedge accounting and they are accounted as cash flow hedges under equity as at 31 December 2019 and 2018.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Derivative Financial Instruments and Hedge Accounting (cont'd)

Brent within framework of hedge transactions against cash flow risk is a substitute product of Jet Fuel, whereas the correlation between the two commodities is set forth in terms of past statistics. The correlation rate between Brent and Jet Fuel between years 2010-2019 is between the effectiveness ranges. The excessive amount over the effective rate is accounted in profit or loss in the related period when the amount has material effect in the financial statements.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as using the basis of recent market transactions on arm's length terms, using the fair value of similar financial instruments and using discounted cash flow analysis (Note 33).

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations (cont'd)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations (cont'd)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Amounts included in the item "Effect of Business Acqusition" if the business acquired as a result of business combination subject to joint control is terminated and the subsidiary becomes later acquired. Starting from the fiscal period, it is closed by transferring to the "Previous Years Profits / Loss" item in equal installments within a maximum of 5 fiscal periods.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Events After Reporting Period

Events after reporting period comprise any events between the reporting period and the date of authorization of the financial statements, even if the event after balance sheet date occurred subsequent to an announcement on the Group's profit or following any financial information that are released.

In the case of events requiring adjustments, the Group adjusts the amounts recognized in its financial statements to reflect the events. For non-adjusting events, disclosure is made in the notes to the financial statements.

Contingent Liabilities and Contingent Assets

Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group's contingent liabilities are probable but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes to the financial statements.

Earnings per Share

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

Cash Flow Statement

Cash flows for the period are classified and presented as operating, investing and financing activities in the cash flow statement.

Cash flows from operating activities present cash generated from the Group's airline operations.

Cash flows from investing activities present cash used in, generated from investing activities (capital investments and financial investments) of the Group.

Cash flows from financing activities present the funds used in financing operations and repayment regarding these operations.

Cash and cash equivalents are short term investments that are cash on hand, demand deposits, time deposits of with maturities not exceeding three months from purchase date and free of detoration of value with high liquidity.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Capital and Dividends

Common shares are classified as equity. Dividends distributed over common shares are accounted by deduction from retained earnings in the period decision for dividend payment is undertaken.

2.6 Critical Accounting Estimates and Assumptions

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. The Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations. Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are given below:

Useful Lives and Residual Values of Tangible Assets and Aircraft

The Group has allocated depreciation over tangible assets by taking into consideration the useful lives and residual values which were explained in Note 10. While determining estimated useful lives and residual values, the Group makes estimations and assumptions by taking past experience and business plans into consideration.

Income Taxes

The Group recognizes deferred tax assets and liabilities using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. Based on the available evidence, it is the Group's belief that sufficient taxable profit will be available to utilize these deferred tax assets as at 31 December 2019.

The Group estimates to utilize reduce corporate tax advantages arising from acquisition of aircrafts. With this respect, the Group recognized deferred tax assets for only foreseeable future due to uncertainty of the timing on realization of total tax advantages earned.

Redelivery Provision

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor to the level of return condition of the aircraft based on the actual condition of the airframe, engines and life-limited parts upon return. A provision is made over the lease term for this contractual obligation, based on the present value of the estimated future cost complying with the contractual commitment described above, by reference to the number of hours flown or cycles operated during the year. The provision also incorporates management expectation on the cost of the maintenance and component compensation at the time of the redelivery. The group considers the estimated maintenance costs and estimated flight times and number of flights as significant assumptions.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.6 Critical Accounting Estimates and Assumptions (cont'd)

Litigation Provision

The Group, within its normal course of business, is party to various lawsuits, fines and claims that have been filed against it. These lawsuits and fines have been evaluated by the Group's management and provisions are provided where necessary. The Group has provided a provision at an amount of TL 8.340.623 as of 31 December 2019 (31 December 2018: TL 9.673.544) (Note 15).

Fair Value of Derivatives and Other Financial Instruments

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date.

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The details of investments accounted for using the equity method are as follows:

	31 December 2019	31 December 2018
Joint ventures		
Hitit Bilgisayar	44.417.911	29.695.050
PUEM	12.736.262	10.102.064
	57.154.173	**39.797.114**

Total profit from investments accounted for using the equity method is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Hitit Bilgisayar	14.722.864	6.910.913
PUEM	1.518.318	1.534.891
Net profit	**16.241.182**	**8.445.804**

The summarized financial information of the investment accounted by using the equity method is as follows:

PUEM

	31 December 2019	31 December 2018
Current assets	2.274.519	310.426
Non-current assets	25.153.183	23.292.609
Current liabilities	(1.084.942)	(2.648.532)
Non-current liabilities	(560.853)	(504.980)
Net assets of joint venture	**25.781.907**	**20.449.523**
Group's ownership interest in the joint venture	49,40%	49,40%
Group's share in the net assets of the joint venture	**12.736.262**	**10.102.064**

NOTE 3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

PUEM (cont'd)

	1 January- 31 December 2019	1 January- 31 December 2018
Revenue	10.199.468	9.492.705
Depreciation&amortisation expense	(1.856.956)	(2.099.172)
Interest income/(expense), net	(416.678)	(1.069.940)
Profit for the year	3.073.519	3.107.067
Group's ownership interest	49,40%	49,40%
Group's share in the net profit of the joint venture	**1.518.318**	**1.534.891**

Hitit Bilgisayar

	31 December 2019	31 December 2018
Current assets	43.964.800	28.644.555
Non-current assets	65.238.423	39.786.447
Current liabilities	(15.268.867)	(10.063.146)
Non-current liabilities	(6.883.558)	(762.780)
Net assets of joint venture	**87.050.798**	**57.605.076**
Group's ownership interest in the joint venture	50%	50%
Goodwill	892.512	892.512
Group's share in the net assets of the joint venture	**44.417.911**	**29.695.050**

	1 January- 31 December 2019	1 January- 31 December 2018
Revenue	93.876.905	60.006.658
Depreciation&amortisation expense	(6.638.232)	(4.281.300)
Interest income/(expense), net	586.635	403.285
Profit for the year	29.445.728	13.821.826
Group's weighted average ownership interest	50%	50%
Group's share in the net profit of the joint venture	**14.722.864**	**6.910.913**

NOTE 4 - SEGMENT REPORTING

The Group is managed as a single business unit that provides low fares airline-related services, including scheduled services, charter services, ancillary services and other services. The Group's Chief Operating Decision Maker is the Board of Directors. The resource allocation decisions are based on the entire network and the deployment of the entire aircraft fleet. The objective in making resource allocation decisions is to maximise consolidated financial results, rather than results on individual routes within the network. All other assets and liabilities have been allocated to the Group's single reportable segment.

NOTE 5 - RELATED PARTY TRANSACTIONS

The immediate parent and controlling party of the Group is Esas Holding. The Group has a number of operating and financial relationships with its shareholders and other entities owned by its shareholders. There are no set payment terms for any of the related party transactions. The related party receivables and payables resulting from operating activities are generally settled in normal course of business.

(i) Balances with Related Parties:

a) Other receivables from related parties

	31 December 2019	**31 December 2018**
Balances with joint ventures and subsidiaries:		
PUEM	102.852	1.580.011
	102.852	**1.580.011**

b) Trade payables to related parties

	31 December 2019	**31 December 2018**
Balances with joint ventures and subsidiaries:		
Hitit Bilgisayar	1.397.591	1.012.372
Balances with other related parties:		
Esasburda İnşaat Sanayi ve Ticaret A.Ş.	146.359	146.192
	1.543.950	**1.158.564**

(ii) Significant Transactions with Related Parties:

The significant transactions with Esas Holding consist of the financial guarantee that Esas provides for aircraft acquisitions and their related commissions. The Group records these commissions within finance expense.

The Group also leases their head office building from Esasburda İnşaat Sanayi ve Ticaret A.Ş. ("Esasburda"), another Esas Holding subsidiary, and records the expenses as depreciation and interest under new leases standard.

The Group receives simulator training services from PUEM for their pilots and generates revenue from labor hire and common area use.

The Group receives software and software support services from Hitit Bilgisayar that provides informations system solutions for transportation industry.

NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

(ii) Significant Transactions with Related Parties (cont'd):

a) Other Income

	1 January- 31 December 2019	1 January- 31 December 2018
Transactions with joint ventures and subsidiaries:		
PUEM	2.004.915	2.348.471
	2.004.915	**2.348.471**

b) Purchases of goods or services

	1 January- 31 December 2019	1 January- 31 December 2018
Transactions with joint ventures and subsidiaries:		
Hitit Bilgisayar	19.790.367	13.899.544
PUEM	10.199.468	9.492.705
Transactions with other related parties:		
Esasburda	3.093.335	2.256.348
Other	35.912	27.527
	33.119.082	**25.676.124**

c) Rent expenses

	1 January- 31 December 2019	1 January- 31 December 2018
Esasburda(*)	7.270.399	7.744.350
	7.270.399	**7.744.350**

(*)Rent expenses are recorded as depreciation and interest under new leases standard.

d) Surety commission expenses

	1 January- 31 December 2019	1 January- 31 December 2018
Esas Holding (Note 25)	11.780.578	9.425.198
	11.780.578	**9.425.198**

Commission expenses represent commissions and fees for Esas Holding's guarantee which is provided for financial leases of aircraft. The fee rate is 0,080% of the 115% of the amount guaranteed.

NOTE 5 - RELATED PARTY TRANSACTIONS (cont'd)

(iii) Compensation of Key Management Personnel:

Key management personnel include members of the board of directors, general managers and assistant general managers. The remuneration of key management paid during the period ended 31 December 2019 and 2018 are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Salaries and other short term benefits	20.451.408	12.960.751
Other long term benefits	2.114.002	810.479
	22.565.410	**13.771.230**

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

Short term trade receivables

The details of short term trade receivables as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Trade receivables	253.007.254	183.818.051
Credit card receivables	209.689.912	60.138.676
Income accruals	6.486.220	2.163.918
	469.183.386	**246.120.645**
Less: Allowance for doubtful receivables	(22.205.026)	(10.606.503)
	446.978.360	**235.514.142**

The average collection period of trade receivables is approximately 19 days (31 December 2018: 20 days).

The movement of provision for doubtful receivables for the years ended 31 December 2019 and 2018 are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
1 January	10.606.503	6.979.931
The effect of change in accounting policy (Note 2.2)	-	942.112
Charge for the year	12.278.020	1.043.644
Collections and written off allowances	(183.240)	(55.038)
Currency translation differences	(496.257)	1.695.854
31 December	**22.205.026**	**10.606.503**

The nature and level of risks related to trade receivables is disclosed in Note 32.

NOTE 6 - TRADE RECEIVABLES AND PAYABLES (cont'd)

Short term trade payables

The details of short term trade payables as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Trade payables	542.178.273	404.564.278
Accrued direct operational costs	179.066.402	125.651.810
Other accrued expenses	66.940.862	52.151.590
Due to related parties (Note 5)	1.543.950	1.158.564
	789.729.487	**583.526.242**

The average credit period of trade payables is approximately 30 days (31 December 2018: 25 days).

NOTE 7 - OTHER RECEIVABLES AND PAYABLES

Short Term Other Receivables

	31 December 2019	31 December 2018
Deposits and guarantees given(*)	32.225.590	274.430.087
Receivables from pilots for flight training	53.554.739	-
Due from related parties (Note 5)	102.852	1.580.011
Maintenance reserve contribution receivables	-	182.991.588
Other receivables	5.180.385	23.308.120
Less: Allowance for doubtful receivables	(2.880.997)	(2.551.536)
	88.182.569	**479.758.270**

(*)The amount of TL 19.840.273 in deposits and gurantees given, consists of guarantee deposits given to banks related to valuation of derivative contracts(31 December 2018: 258.353.069).

The movement of provision for doubtful other receivables for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	2.551.536	1.829.372
Currency translation differences	329.461	722.164
31 December	**2.880.997**	**2.551.536**

NOTE 7 - OTHER RECEIVABLES AND PAYABLES (cont'd)

Long Term Other Receivables

	31 December 2019	31 December 2018
Receivables from pilot trainings	117.197.274	-
Deposits given	27.303.618	72.613.409
	144.500.892	**72.613.409**

Short Term Other Payables

	31 December 2019	31 December 2018
Taxes payables	30.518.103	21.644.255
Deposits received	2.879.886	2.525.881
	33.397.989	**24.170.136**

NOTE 8 - INVENTORIES

The details of inventories as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Consumables and spare parts	65.049.356	51.157.643
Operational and other inventories	10.324.951	6.966.919
Catering inventories	78.719	57.760
	75.453.026	**58.182.322**

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

The details of prepaid expenses as of 31 December 2019 and 2018 are as follows:

Short term prepaid expenses

	31 December 2019	31 December 2018
Advances on aircraft purchases	1.078.133.045	404.326.349
Advances to suppliers	138.064.398	344.837.476
Prepaid aircraft operating lease expenses	-	46.506.839
Prepaid insurance expenses	39.969.877	26.967.518
Prepaid advertising expenses	132.959	450.732
Other prepaid expenses	20.109.555	24.844.848
	1.276.409.834	**847.933.762**

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

Long term prepaid expenses

	31 December 2019	31 December 2018
Advances on aircraft purchases	506.767.830	663.541.132
Prepaid maintenance expenses	431.497.058	173.520.734
Other prepaid expenses	17.094.986	8.271.224
	955.359.874	**845.333.090**

Deferred Revenue

Contract Liabilities

The details of passenger flight liabilities as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Flight liability from ticket sales	692.054.775	496.132.705
Passenger airport fees received from customers	209.032.208	138.844.563
Flight liability from flight points	62.821.313	42.776.718
	963.908.296	**677.753.986**

The movement of flight liability from ticket sales as of the year ended 31 December 2019 is as follows:

	2019	2018
Opening (1 January)	496.132.705	268.933.251
Flown in the period	(10.938.655.109)	(8.140.814.833)
Sold in the period	11.134.577.179	8.368.014.287
Closing (31 December)	**692.054.775**	**496.132.705**

Deferred Revenue (Excluding Passenger Flight Liabilities)

Short term deferred income

	31 December 2019	31 December 2018
Advances received from customers	81.362.753	40.009.174
Other deferred income	48.218.322	22.763.517
	129.581.075	**62.772.691**

Long term deferred income

	31 December 2019	31 December 2018
Income relating to future periods	318.913.475	121.994.007
	318.913.475	**121.994.007**

NOTE 10 - PROPERTY AND EQUIPMENT

31 December 2019	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Components, spare engine and repairables	Owned Aircraft	Construction in progress	Total
Cost:								
Opening	**107.827.347**	**100.683.168**	**151.141.325**	**79.369.370**	**1.007.485.389**	**8.977.788.704**	**3.713.862**	**10.428.009.165**
Additions	37.181.577	1.637.589	13.595.983	3.932.173	191.841.779	-	53.914.017	302.103.118
Disposals	(23.617)	(1.654.972)	(736.254)	-	-	-	-	(2.414.843)
Transfers(*)	-	-	-	-	-	(8.269.533.424)	(651.070)	(8.270.184.494)
Sale of subsidiary	(9.074.432)	(1.719.197)	(1.396.583)	(374.968)	(6.375.395)	(47.626.201)	-	(66.566.776)
Currency translation differences	10.605.243	10.510.354	17.283.525	8.260.341	114.847.274	46.111.239	2.926.678	210.544.654
Closing	**146.516.118**	**109.456.942**	**179.887.996**	**91.186.916**	**1.307.799.047**	**706.740.318**	**59.903.487**	**2.601.490.824**
Accumulated depreciation:								
Opening	**(21.043.895)**	**(23.059.619)**	**(97.346.345)**	**(65.504.421)**	**(204.998.522)**	**(1.767.852.728)**	**-**	**(2.179.805.530)**
Depreciation for the year	(10.862.551)	(8.194.574)	(15.774.533)	(7.993.375)	(35.248.363)	(60.266.320)	-	(138.339.716)
Disposals	11.813	1.167.419	604.755	-	-	-	-	1.783.987
Transfers(*)	-	-	-	-	-	1.430.867.671	-	1.430.867.671
Sale of subsidiary	169.211	527.553	725.398	106.004	2.329.539	23.974.769	-	27.832.474
Currency translation differences	(2.162.811)	(2.675.902)	(11.345.145)	(6.983.043)	(25.185.713)	(19.575.429)	-	(67.928.043)
Closing	**(33.888.233)**	**(32.235.123)**	**(123.135.870)**	**(80.374.835)**	**(263.103.059)**	**(392.852.037)**	**-**	**(925.589.157)**
Net book value	**112.627.885**	**77.221.819**	**56.752.126**	**10.812.081**	**1.044.695.988**	**313.888.281**	**59.903.487**	**1.675.901.667**

(*)Consists of aircraft transferred to Right of Use Assests under TFRS 16.

NOTE 10 - PROPERTY AND EQUIPMENT (cont'd)

31 December 2018	**Machinery and equipment**	**Motor vehicles**	**Furniture and fixtures**	**Leasehold improvements**	**Components, spare engine and repairables**	**Aircraft**	**Construction in progress**	**Total**
Cost:								
Opening	**72.526.512**	**75.261.821**	**101.564.014**	**58.525.763**	**499.675.611**	**5.106.452.248**	**3.510.816**	**5.917.516.785**
Additions	10.071.644	2.005.740	14.571.329	42.369	341.023.929	2.159.107.104	8.594.138	2.535.416.253
Disposals	-	(1.874.846)	(1.142.572)	-	(13.035.026)	(144.286.346)	-	(160.338.790)
Transfers	-	-	1.227.172	1.109.028	-	-	(9.511.349)	(7.175.149)
Currency translation differences	25.229.191	25.290.453	34.921.382	19.692.210	179.820.875	1.856.515.698	1.120.257	2.142.590.066
Closing	**107.827.347**	**100.683.168**	**151.141.325**	**79.369.370**	**1.007.485.389**	**8.977.788.704**	**3.713.862**	**10.428.009.165**
Accumulated depreciation:								
Opening	**(10.771.676)**	**(12.180.327)**	**(62.382.916)**	**(43.069.275)**	**(111.270.901)**	**(1.015.320.632)**	**-**	**(1.254.995.727)**
Depreciation for the year	(6.258.824)	(7.461.096)	(14.126.384)	(7.541.334)	(58.901.840)	(431.221.392)	-	(525.510.870)
Disposals	-	1.071.498	869.465	-	659.460	77.772.358	-	80.372.781
Currency translation differences	(4.013.395)	(4.489.694)	(21.706.510)	(14.893.812)	(35.485.241)	(399.083.062)	-	(479.671.714)
Closing	**(21.043.895)**	**(23.059.619)**	**(97.346.345)**	**(65.504.421)**	**(204.998.522)**	**(1.767.852.728)**	**-**	**(2.179.805.530)**
Net book value	**86.783.452**	**77.623.549**	**53.794.980**	**13.864.949**	**802.486.867**	**7.209.935.976**	**3.713.862**	**8.248.203.635**

NOTE 10 - PROPERTY AND EQUIPMENT (cont'd)

The useful lives of the depreciable assets are as follows:

	Useful life	
Aircraft	23 years	
Engine and Engine LLP's	16 years	
Airframe and maintenance	7-8 years	
Repairables and components	3-7 years	
Machinery and equipment	7 years	
Furniture and fixtures	7 years	
Motor vehicles	5 years	
Simulator	7 years	
Leasehold improvements	5 years	or lease term

The Group has determined the residual value of the aircraft as 15% of market value of a new aircraft in the same model.

Depreciation and amortisation expense charged to cost of sales, general administrative expenses, and marketing expenses is summarized below:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Current year depreciation (Note 10,11)	1.529.342.126	525.510.870
Current year amortization (Note 12)	18.625.666	12.618.162
	1.547.967.792	**538.129.032**

	31 December 2019	**31 December 2018**
Cost of sales (Note 21)	1.486.166.042	493.290.892
General administrative expenses (Note 22)	49.511.298	35.547.864
Marketing expenses (Note 22)	12.290.452	9.290.276
	1.547.967.792	**538.129.032**

NOTE 11 - INTANGIBLE ASSETS

31 December 2019	**Brand**	**Software**	**Total**
Cost:			
Opening	**4.249.742**	**116.056.170**	**120.305.912**
Additions	-	46.337.207	46.337.207
Transfers	-	651.073	651.073
Disposals	(4.249.742)	-	(4.249.742)
Currency translation differences	-	14.558.922	14.558.922
Closing	**-**	**177.603.372**	**177.603.372**
Accumulated amortization:			
Opening	**(2.461.308)**	**(70.984.707)**	**(73.446.015)**
Amortization for the year	-	(18.625.666)	(18.625.666)
Disposals	2.461.308	-	2.461.308
Currency translation differences	-	(8.201.993)	(8.201.993)
Closing	**-**	**(97.812.366)**	**(97.812.366)**
Net book value	**-**	**79.791.006**	**79.791.006**

31 December 2018	**Brand**	**Software**	**Total**
Cost:			
Opening	**3.183.429**	**66.414.193**	**69.597.622**
Additions	-	18.685.652	18.685.652
Transfers	-	7.175.149	7.175.149
Currency translation differences	1.066.313	23.781.176	24.847.489
Closing	**4.249.742**	**116.056.170**	**120.305.912**
Accumulated amortization:			
Opening	**(1.684.564)**	**(43.424.572)**	**(45.109.136)**
Amortization for the year	(200.318)	(12.417.844)	(12.618.162)
Currency translation differences	(576.426)	(15.142.291)	(15.718.717)
Closing	**(2.461.308)**	**(70.984.707)**	**(73.446.015)**
Net book value	**1.788.434**	**45.071.463**	**46.859.897**

Remaining average useful life of intangible assets as of 31 December 2019 is 2,3 years (31 December 2018: 2 years).

NOTE 12 – RIGHT OF USE ASSETS

31 December 2019	Field Rental	Building	Aircraft	Other	Total
Cost:					
TFRS 16 opening effects(*)	28.126.554	22.391.742	14.318.653.346	1.881.318	14.371.052.960
Additions	-	-	2.931.797.580	-	2.931.797.580
Disposals	-	-	(843.014.725)	-	(843.014.725)
Currency translation differences	2.832.115	2.254.663	1.593.326.622	189.437	1.598.602.837
Closing	**30.958.669**	**24.646.405**	**18.000.762.823**	**2.070.755**	**18.058.438.652**
Accumulated depreciation:					
TFRS 16 opening effects	-	-	(5.063.924.051)	-	(5.063.924.051)
Depreciation for the period	(11.153.546)	(6.412.244)	(1.372.082.662)	(1.353.958)	(1.391.002.410)
Disposals	-	-	843.014.725	-	843.014.725
Currency translation differences	(532.537)	(306.159)	(538.866.576)	(66.679)	(539.771.951)
Closing	**(11.686.083)**	**(6.718.403)**	**(6.131.858.564)**	**(1.420.637)**	**(6.151.683.687)**
Net book value	**19.272.586**	**17.928.002**	**11.868.904.259**	**650.118**	**11.906.754.965**

(*)Consists of aircraft amounting TL 8.269.533.424 transferred from Property & Equipment to Right of Use Assests under TFRS 16.

NOTE 13 - GOVERNMENT GRANTS AND INCENTIVES

The Group obtained incentive certificates from the Undersecretariat of Treasury for 45 aircraft. According to the incentive certificate of 27 aircraft, the Company will use 15% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 50% of the effective tax rate for the (i.e. use of 11% instead of 22%) taxable income attributable to the operation of these aircraft. According to the new incentive certificate of 18 aircraft bought in 2019 the Company will use 50% of the purchase value of the aircraft as the contribution rate which is the maximum amount that could be deducted against taxable income that is attributable to the operation of aircraft. The deduction will be performed by the application of 90% of the effective tax rate for the (i.e. use of 2,2% instead of 22%) taxable income attributable to the operation of these aircraft.

NOTE 14 - BORROWING COSTS

For the years ended 31 December 2019 and 2018, as there are no qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs for the respective periods are not capitalized. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short term provisions

	31 December 2019	31 December 2018
Provision for litigation claims	8.340.623	9.673.544
Redelivery provision	268.853.286	419.158.401
	277.193.909	**428.831.945**

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Long term provisions

	31 December 2019	31 December 2018
Redelivery provision	1.605.503.722	599.070.536
	1.605.503.722	**599.070.536**

Redelivery Provision

The detail of redelivery provision is as follows:

	31 December 2019	31 December 2018
Short term	268.853.286	419.158.401
Long term	1.605.503.722	599.070.536
	1.874.357.008	**1.018.228.937**

The movement of redelivery provision as of the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	1.018.228.937	618.217.361
TFRS 16 effect	947.659.045	-
Charge for the year	203.479.166	298.939.091
Disposals	(468.601.336)	(169.341.424)
Currency translation differences	173.591.196	270.413.909
31 December	**1.874.357.008**	**1.018.228.937**

Litigation

The movement of litigation provision is as follows:

	2019	2018
1 January	9.673.544	9.782.213
Charge for the year	822.519	371.828
Payments	(227.481)	(190.079)
Reversal of provision	(1.927.959)	(290.418)
31 December	**8.340.623**	**9.673.544**

The Group is party to various lawsuits and claims that have been filed against it, the total claims constituted by which, excluding reserved rights for claiming excess amounts, risk of litigation and interest, is TL 27.096.909 as of 31 December 2019 (31 December 2018: TL 26.092.242). These lawsuits and fines have been evaluated by the Group's management and a litigation provision of TL 8.340.623 (31 December 2018: TL 9.673.544) has been provided against claims for which management believes it is probable it will be required to make a payment. These lawsuits consist of guest complaints and claims by the Group's former employees, besides a limited number of commercial claims.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Contingent Liabilities

In addition to the above, in June 2008, the İstanbul Atatürk Airport Customs Directorate imposed a monetary fine against the Group in the amount of TL 545.366 on the grounds that the Group had violated temporary import regime regulations. The monetary fine was challenged before the relevant tax court which ruled against the Group in April 2009, in response to which the Group filed an appeal and refused to make payment, citing amendments in the temporary import regime legislation and providing a letter of credit for the amount of the fine and the accrued interest totaling TL 931.212. In January 2011 the Customs Directorate requested the liquidation of the letter of credit in a motion that was challenged by the Group, which resulted, first, in an injunction decision in February 2011, and later, in the cancellation of the liquidation request in September 2011. The Customs Directorate later appealed the cancellation decision of the tax court. As of 31 December 2019 the appellate review of both lawsuits have been finalized in the Group's favor, whereby the court decision turning down the Group's request for the cancellation of the monetary fines has been overturned and the court decision cancelling the liquidation of the letter of credit by the administration has been upheld, and decisions are finalized as stated. The Group management believes that significant cash outflow is not probable and has not provided any provision for this fine.

Tax Inspection

Company’s accounts as well as operations pertaining to year 2010 are inspected and examined in terms of Taxation Laws; and Corporation Tax Inspection Report number 2013-B-228/3, Corporation Tax Withholding Inspection Report number 2013-B-228/5, and Value Added Tax Withholding Tax Inspection Report number 2013-B-228/6 are hereby presented.

Under such Corporation Tax Inspection Report number 2013-B-228/3, it is allegedly stated that deducted amount of TL 1.553.762,38 over the corporation tax return of such lump sum expenses calculated and deducted under scope of the provision of Article 40/1 of Corporation Tax Law over transport proceeds obtained abroad cannot possibly be subjected to any deduction, and further that such portion deducted over the tax return is not related to transport proceeds obtained abroad, while on the other hand it is expressed on the same Report that those minor fixed assets purchased in year 2010, and each to be entered as direct expenses according to Article 313 of Tax Procedures Law are required to be redeemed through amortization , and therefore it is pointed out that TL 76.798,80 as well is to be included in the income of the corporation pertaining to year 2010.

A lawsuit has been filed by the Company, claiming revocation of such determination act with respect to an income difference in the amount of TL 1.630.561,18. Lawsuit filed before Istanbul Tax Court is concluded in favor of the Company. In respect of this judgment, The decision was appealed by the Tax Office and the decision of the first instance court was approved as a result of the appeal. The Tax Office has applied for the correction of the decision and our response to this application has been submitted to the file. The decision is pending.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Tax Inspection (cont'd)

On such Corporation Tax Inspection Report number 2013-B-228/5, it is stated that despite the fact that rental payments of the Company with respect to such aircraft subject matter of financial leasing from the acquisition of the same through financial leasing from companies with legal and principal places of business domiciled abroad, constitute commercial income of the company obtaining the same under scope of business revenues, alleging that such payments are real property capital income under Article 30 of Corporation Tax Law, they are subject to added value tax withholding at the rate of 1% and in the total amount of TL 706.539,70 as per the relevant months of year 2010, and further on the same report, it is stated that such package computer software in the form of commercial commodity, purchased from any company with legal and principal places of business domiciled abroad, is subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right charge within framework of Article 30 of Corporation Tax Law.

Major Taxpayers Tax Office that we are affiliated to, accrued corporation tax withholding in the total amount of TL 719.508 for year 2010 through Tax Fine Notices issued as per the relevant months of year 2010 by basing on the said Tax Inspection Report, and charged tax loss fine in the total amount of TL 1.079.262 on grounds of such tax accrued. Lawsuits have been filed within legal terms granted, before Istanbul Tax Courts as of the respective, with the demand for waiver of the assessments set forth and rescission of any fines accrued. The lawsuits based on the Corporate Tax Law Article 30, claiming that the Company is subject to real property income tax resulting in 1% withholding tax, amounting to TL 706.539,70, for the year 2010 have been concluded in favor of the Company. Such lawsuit filed subject to corporation tax withholding at the rate of 10% and in the amount of TL 12.968,63 as non-material right (royalty) fee is concluded against the Company and such Judgment is brought by the Company to appeal before the Council of State, and the trial process is still ongoing. Under such capacity and in parallel to the relevant opinions of Company's legal advisors and taxation specialists, no provision has been provided therefore, including the periods on the accompanied consolidated financial statements not inspected.

Value Added Tax Inspection Report Number 2013-B-228/6, is based on the allegation that corporation tax withholdings arising on such amounts set forth to be accrued under such Corporation Tax Withholding Inspection Report Number 2013-B-228/5, and corporation tax withholdings anticipated under the said report are at the same time subject to value added tax withholding.

In the aforesaid process, all of the lawsuits filed with the demand for rescission of such fined value added tax assessments imposed in the name of the Company as per respective monthly periods of year 2010, with the claim that the rate of value added tax required to be calculated over corporation tax withholdings claimed as being payable over such leasing payments with respect to aircraft subject matter of financial leasing with the purpose of acquiring the same from companies with legal domiciles as well as principal places of business abroad being 18% are concluded, and such lawsuits filed in tax courts are concluded in favor of the Company. A part of the judgments were subject to appeal by Major Taxpayers Tax Office before Istanbul Tax Court due to their amounts, but in respect of judgment of İstanbul Regional Administrative Court, the appeals has been rejected and lawsuits were concluded in favor of the Company. The decision was appealed by the Tax Office and the decision of the first instance court was approved as a result of the appeal. The Tax Office has applied for the correction of the decision and our response to this application has been submitted to the file. The decision is pending.

It is believed that as a result of the said action filed, the principal taxes anticipated to be accrued, including any fines charged thereon, are to be released. Therefore, in parallel to the opinions of the Company's legal advisors as well as taxation specialists, no provision has been provided on the accompanied consolidated financial statements, including the period not inspected.

NOTE 16 - COMMITMENTS

Purchase Commitments

	31 December 2019	31 December 2018
Commitments to purchase aircraft	56.563.789.155	54.525.144.416
Other purchase commitments	-	7.750.884
	56.563.789.155	**54.532.895.300**

As of 31 December 2019, the Group holds firm orders for 71 aircraft. In accordance to with agreement the expected deliveries are 16 aircraft in 2020, 17 aircraft in 2021, 18 aircraft in 2022, 10 aircraft in 2023, 10 aircraft in 2024 . The purchase commitments for these aircraft were calculated based on their list prices and actual prices would be typically lower than the list prices.

The Group has provided advances on aircraft purchases amounting TL 1.584.900.875 (31 December 2018: TL 1.067.867.481) and TL 1.078.133.045 of this amount is reclassified under short term, TL 506.767.830 of this amount is reclassified under long term prepaid expenses (31 December 2018: TL 404.326.349 of this amount is reclassified under short term, TL 663.541.132 of this amount is reclassified under long term prepaid expenses).

The Company as Lessee

Operating Lease Agreements:

Payments recognised as expense:

	1 January- 31 December 2019	1 January- 31 December 2018
Minimum lease payments	-	694.224.083
	-	**694.224.083**

The non-cancellable unrecorded operating lease liabilities as of 31 December 2019 is none because of transition to TFRS 16 (31 December 2018:TL 2.370.689.045)

NOTE 16 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages("CPM")

The details of the CPMs given by the Group as of 31 December 2019 is as follows:

31 December 2019	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.664.459.335	269.080.506	6.786.958	13.487.804	7.442.166
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	1.664.459.335	**269.080.506**	**6.786.958**	**13.487.804**	**7.442.166**

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

The other CPMs given by the Company constitute 0% of the Company's equity as of 31 December 2019.

NOTE 16 - COMMITMENTS (cont'd)

Collaterals-Pledges-Mortgages("CPM") (cont'd)

The details of the CPMs given by the Group as of 31 December 2018 is as follows:

31 December 2018	TL TOTAL	USD	EUR	TL	Other
A. Total amounts of CPM given on behalf of its own legal entity					
-Collateral	1.627.549.630	295.367.519	6.974.381	12.131.918	19.477.163
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
D. Total amounts of other CPM given					
i. Total amount of CPM given on behalf of the Parent					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies not covered in B and C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties not covered in C					
-Collateral	-	-	-	-	-
-Pledge	-	-	-	-	-
-Mortgage	-	-	-	-	-
	1.627.549.630	**295.367.519**	**6.974.381**	**12.131.918**	**19.477.163**

The CPMs given by the Group are consisted of collaterals given to airports and terminals operators, aircraft leasing companies and service suppliers.

The other CPMs given by the Company constitute 0% of the Company's equity as of 31 December 2018.

NOTE 17 - EMPLOYEE BENEFITS

Employee benefit obligations

The details of employee benefit obligations as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Social security premiums payable	17.059.456	12.201.220
Accrual of employee wages	21.351.597	13.440.412
	38.411.053	**25.641.632**

Short term provisions for employee benefits

The details of short term provisions for employee benefits as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Unused vacation accrual	21.330.785	14.888.136
Executive bonus plan	35.656.711	5.331.494
Employee bonus plan	125.962.503	59.200.000
	182.949.999	**79.419.630**

Long term provisions for employee benefits

The details of long term provisions for employee benefits as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Employment termination benefits	14.796.499	9.796.278
Executive bonus plan	54.879.290	15.223.412
	69.675.789	**25.019.690**

Unused Vacation Accrual

The movement of unused vacation accrual as of the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	14.888.136	12.101.696
Charge for the year	8.077.476	5.090.182
Payment during the year	(1.634.827)	(2.303.742)
31 December	**21.330.785**	**14.888.136**

NOTE 17 - EMPLOYEE BENEFITS (cont'd)

Executive Bonus Plan

The composition of executive bonus plan provision is as follows:

	31 December 2019	**31 December 2018**
Short term	35.656.711	5.331.494
Long term	54.879.290	15.223.412
	90.536.001	**20.554.906**

The movement of executive bonus plan as of the years ended 31 December 2019 and 2018 are as follows:

	2019	**2018**
1 January	20.554.906	7.090.997
Charge for the year	71.034.886	13.583.333
Payment during the year	(5.179.537)	(2.014.262)
Currency translation differences	4.125.746	1.894.838
31 December	**90.536.001**	**20.554.906**

Employee Bonus Plan

The movement of employee bonus plan as of the years ended 31 December 2019 and 2018 are as follows:

	2019	**2018**
1 January	59.200.000	34.436.836
Charge for the year	125.962.503	59.200.000
Payment during the year	(54.681.384)	(27.768.738)
Reversal of provision	(4.518.616)	(6.668.098)
31 December	**125.962.503**	**59.200.000**

Employee Termination Benefits

The Group, according to Turkish Labor Law, has an obligation to pay legal termination benefits for every employee who has completed at least one year service and retired after completion of 25 years working life (for females 58 years, for males 60 years), fired from job, called up to military service or died.

The amount payable consists of one month's salary limited to a maximum of TL 6.379,86 for each period of service at 31 December 2019 (31 December 2018: TL 5.434,42).

NOTE 17 - EMPLOYEE BENEFITS (cont'd)

Employee Termination Benefits (cont'd)

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 8,00% (2018: 9,00%) and a discount rate of 12,00% (2018: 14,60%), resulting in a real discount rate of approximately 3,70% (2018: 5,14%). Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 14,10% (2018: 13,60%) for employees with 0-15 years of service, and 0% for those with 16 or more years of service. As the maximum liability is revised annually, the maximum amount of TL 6.730,15 effective from 1 January 2020 has been taken into consideration in calculation of provision from employee termination benefits.

The movement of employee termination benefits as of the years ended 31 December 2019 and 2018 are as follows:

	2019	**2018**
1 January	9.796.278	8.689.109
Actuarial gain	2.214.490	(1.466.019)
Service cost	5.549.847	6.369.719
Interest cost	701.612	494.609
Retirement benefits paid	(3.465.728)	(4.291.140)
31 December	**14.796.499**	**9.796.278**

Service cost and interest expenses are recognized in payroll expenses. Calculated actuarial gains and losses are accounted under other comprehensive income as of 31 December 2019 and 2018.

Significant assumptions used in the calculation of employee termination benefits are the discount rate and anticipated turnover rate.

- If the discount rate had been 1% lower, provision for employee termination benefits would increase by TL 1.817.754 (2018: TL 1.076.736); if the rate had been 1% higher, it would decrease by TL 1.508.054 (2018: TL 910.846).
- If the anticipated turnover rate had been 1% higher while all other variables were held constant, provision for employee termination benefits would decrease by TL 358.128 (2018: TL 180.069); if the rate had been 1% lower, it would increase by TL 418.084 (2018: TL 203.771).

NOTE 18 - EXPENSES BY NATURE

The details of expenses by nature for the years ended 31 December 2019 and 2018 are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Jet fuel expenses	3.159.894.510	2.729.667.414
Depreciation and amortisation expenses	1.547.967.792	538.129.032
Personnel expenses	1.427.947.584	883.175.422
Handling and station fees	720.417.073	560.584.961
Navigation expenses	590.792.482	479.772.475
Maintenance expenses	397.469.391	684.038.611
Landing expenses	320.297.522	249.581.102
Commission expenses	136.478.717	128.899.210
Passenger service and catering expenses	96.617.708	78.275.293
Advertising expenses	91.860.274	46.101.968
Operating lease expenses	-	694.224.083
Other expenses	450.956.206	386.880.520
	8.940.699.259	**7.459.330.091**

NOTE 19 - OTHER ASSETS AND LIABILITIES

Other current assets

The details of other current assets as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
VAT receivables	-	40.316.037
Other	829.576	242.526
	829.576	**40.558.563**

Other short term liabilities

The details of other short term liabilities as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Other short term liabilities	2.056.687	25.307.054
	2.056.687	**25.307.054**

NOTE 20 - SHAREHOLDERS' EQUITY, PROFIT RESERVES AND OTHER EQUITY ITEMS

The Company's shareholding structure as of 31 December 2019 and 2018 is as follows:

	31 December 2019		31 December 2018	
Shareholders:	**(%)**	**TL**	**(%)**	**TL**
Esas Holding	62,91	64.353.570	62,91	64.353.570
Publicly held	34,53	35.321.707	34,53	35.321.707
Emine Kamışlı	0,85	874.810	0,85	874.810
Ali İsmail Sabancı	0,85	874.810	0,85	874.810
Kazım Köseoğlu	0,43	437.405	0,43	437.405
Can Köseoğlu	0,43	437.405	0,43	437.405
TL historic capital	**100,00**	**102.299.707**	**100,00**	**102.299.707**

The Company's share capital consists of 102.299.707 shares of par value TL 1 each (31 December 2018: 102.299.707 shares). All issued shares are fully paid in cash.

Dividend distribution

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of associations.

Resources Available for Profit Distribution:

The Company have distributable equity in statutory accounts TL 1.388.252.188 as of balance sheet date (31 December 2018: TL 365.829.434).

Currency translation differences

For the purpose of preparation of the consolidated financial statements and disclosures, according to TAS 21, balance sheet items except shareholders' equity in financial statements are translated to TL using balance sheet date EUR exchange rates; equity items, income/expenses and cash flow are translated to TL by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under shareholders' equity.

NOTE 20 - SHAREHOLDERS' EQUITY (cont'd)

Gain/losses from cash flow hedges

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

Share premiums on capital stock

The surplus of sales price over nominal value amounted to TL 455.687.025 during the inital public offering on 18-19 April 2013 was accounted as share premium.

Effects of business acquisitions

As the acquisition of İzair's majority shares by the Group on 28 September 2010 had no effect over Esas Holding A.Ş. being the ultimately controlling shareholder which had ultimate control over both subsidiaries pre and post the acquisition, it is defined as business combination under common control. The amount included in the item "Effects of Business Acquisition" was transferred to "Previous Years Profits / Loss" as a result of merger with İzair in 2018.

Non-controlling interests

Non-controlling shareholders' shares on subsidiaries' net assets and operational outcomes are disclosed as non-controlling interests in the consolidated balance sheet and in the consolidated statement of profit or loss and other comprehensive income.

Actuarial gain/losses on defined benefit plans

The effects of the change in actuarial valuations that is calculated with respect to TAS 19 "Employee Benefits" is presented in actuarial gains/losses on defined benefit plans.

Restricted profit reserves

In the statutory accounts, profit restricted from retained earnings and not subject to distribution is presented in the restricted profit reserves.

NOTE 21 - SALES AND COST OF SALES

The details of sales and cost of sales for the years ended 31 December 2019 and 2018 are as follows:

Sales:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Scheduled flight and service revenue	10.636.178.486	7.787.593.188
International flight revenue	*5.599.444.560*	*3.988.065.866*
Domestic flight revenue	*2.127.539.695*	*1.783.399.035*
Service revenue	*2.909.194.231*	*2.016.128.287*
Charter flight and service revenue	302.476.623	353.221.645
Charter flight revenue	*302.264.108*	*352.540.634*
Service revenue	*212.515*	*681.011*
Other revenue	86.569.414	135.928.532
	11.025.224.523	**8.276.743.365**

Geographical details of revenue from the scheduled flights are as follows:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Europe	3.930.506.432	2.888.946.375
Domestic	2.127.539.695	1.783.399.035
Other	1.668.938.128	1.099.119.491
	7.726.984.255	**5.771.464.901**

Geographical details of revenue from the charter flights are as follows:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Europe	245.007.130	285.759.925
Middle East	57.256.978	66.780.709
	302.264.108	**352.540.634**

NOTE 21 - SALES AND COST OF SALES (cont'd)

Cost of sales:

	1 January- 31 December 2019	1 January- 31 December 2018
Jet fuel expenses	3.159.894.510	2.729.667.414
Depreciation and amortisation expenses	1.486.166.042	493.290.892
Personnel expenses	1.236.501.966	788.828.099
Handling and station fees	720.417.073	560.584.961
Navigation expenses	590.792.482	479.772.475
Maintenance expenses	397.469.391	684.038.611
Landing expenses	320.297.522	249.581.102
Passenger service and catering expenses	96.617.708	78.275.293
Operating lease expenses	-	694.224.083
Other expenses	318.023.699	255.302.279
	8.326.180.393	**7.013.565.209**

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES

	1 January- 31 December 2019	1 January- 31 December 2018
Marketing expenses	311.965.775	225.652.168
General administrative expenses	302.553.091	220.112.714
	614.518.866	**445.764.882**

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES AND MARKETING EXPENSES (cont'd)

The details of general administrative expenses and marketing expenses for the years ended 31 December 2019 and 2018 are as follows (there are no research & development expenses in the periods ended in respective dates):

General administrative expenses:

	1 January- 31 December 2019	1 January- 31 December 2018
Personnel expenses	145.201.315	70.539.324
IT expenses	52.572.821	45.801.497
Depreciation and amortisation expenses	49.511.298	35.547.864
Consultancy expenses	12.122.513	9.872.219
Legal and notary expenses	6.456.336	7.275.756
Travel expenses	3.996.322	1.774.699
Office utility expenses	3.782.919	3.121.472
Communication expenses	2.799.285	2.880.870
Training expenses	2.180.569	2.753.398
Rent expenses	-	23.885.116
Other expenses	23.929.713	16.660.499
	302.553.091	**220.112.714**

Marketing expenses:

	1 January- 31 December 2019	1 January- 31 December 2018
Commission expenses	136.478.717	128.899.210
Advertising expenses	91.860.274	46.101.968
Personnel expenses	46.244.303	23.807.999
Call center expenses	17.669.425	13.040.064
Depreciation and amortisation expenses	12.290.452	9.290.276
Other expenses	7.422.604	4.512.651
	311.965.775	**225.652.168**

NOTE 23 - OTHER OPERATING INCOME AND EXPENSES

The details of other operating income and expenses for the years ended 31 December 2019 and 2018 are as follows:

Other operating income:

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign exchange gain from operating activities	-	38.688.312
Reversal of doubtful cash and cash equivalents	4.794.784	-
Other	285.719	1.062.698
	5.080.503	**39.751.010**

Other operating expenses:

	1 January- 31 December 2019	1 January- 31 December 2018
Doubtful receivable allowance expense	12.094.780	988.606
Foreign exchange loss from operating activities	5.271.796	-
Penalty expense	4.257.127	1.858.220
Cash and cash equivalents allowance expense	-	2.910.330
Tax restructuring expense	-	54.476.875
Other	5.999.056	5.208.679
	27.622.759	**65.442.710**

NOTE 24 - INCOME FROM INVESTING ACTIVITIES

The details of income from investing activities for the years ended 31 December 2019 and 2018 are as follows:

Income from investing activities:

	1 January- 31 December 2019	1 January- 31 December 2018
Income from sale of aircraft	-	22.335.451
Other income	925.185	712.037
	925.185	**23.047.488**

Expense from investing activities:

	1 January- 31 December 2019	1 January- 31 December 2018
Loss from subsidiary sale (*)	29.045.073	-
Financial investments allowance expense	269.705	-
	29.314.778	**-**

(*)Based on the decision of the Board of Directors dated 12 September 2019, the Group sold its share rate of 49% in Air Manas to AviaTrade Corp. LP, operating in the UK, at a price of EUR 98.918 on 15 October 2019.

NOTE 25 - FINANCIAL INCOME AND EXPENSES

The details of financial income and expenses for the years ended 31 December 2019 and 2018 are as follows:

Financial income:

	1 January- 31 December 2019	1 January- 31 December 2018
Interest income	91.285.498	123.684.898
Gain on derivative contracts	8.250.491	-
	99.535.989	**123.684.898**

Financial expenses:

	1 January- 31 December 2019	1 January- 31 December 2018
Interest expense on leases(*)	399.711.275	133.502.605
Foreign exchange loss	193.189.519	156.254.768
Other commission expenses	127.382.371	87.361.360
Interest expense on bank loans	23.042.113	14.060.726
Surety commission expenses	11.780.578	9.425.198
Losses from derivative contracts	-	4.029.261
	755.105.856	**404.633.918**

(*)Interest expenses incurred in the period of 31 December 2018 arise from the contracts accounted as financial leasing within the scope of TAS 17. In the period of 31 December 2019, interest expenses of all lease contracts were accounted in this account.

NOTE 26 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

Currency Translation Differences

	2019	2018
1 January	2.042.057.018	1.035.123.760
Exchange differences arising on translating the non-monetary items of the the parent	341.526.461	1.052.766.584
Exchange differences arising on translating the non-monetary items from the sale of subsidiaries abroad	101.082.981	-
Exchange differences arising on translating the non-monetary items of the subsidiaries abroad	89.760.549	(45.833.326)
31 December	**2.574.427.009**	**2.042.057.018**

NOTE 26 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS (cont'd)

Hedge Fund

	2019	2018
1 January	(221.159.956)	23.761.279
Gain/(loss) from the accounting of cash flow hedges against financial risk	231.942.068	(315.699.027)
Deferred tax related with the accounting of cash flow hedges against financial risk	(52.945.293)	70.777.792
31 December	**(42.163.181)**	**(221.159.956)**

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Actuarial gains/(losses) on defined benefit plans

	2019	2018
1 January	(2.132.417)	(3.305.232)
Actuarial gains on defined benefit plans	(2.214.490)	1.466.019
Deferred tax effect of actuarial gains on defined benefit plans	442.898	(293.204)
31 December	**(3.904.009)**	**(2.132.417)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Current corporate tax provision	60.501.004	24.579.806
Less: Prepaid taxes and funds	(74.222.096)	(30.533.830)
Current tax assets (*)	**(13.721.092)**	**(5.954.024)**

(*) The exceeding portion of the prepaid taxes over current corporate tax provision is reported in current tax assets.

	1 January- 31 December 2019	1 January- 31 December 2018
Income tax expense		
- Current tax expense	(60.501.004)	(24.579.806)
- Deferred tax expense	804.189	(15.569.025)
Total tax (expense) / income	**(59.696.815)**	**(40.148.831)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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 dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate in Turkey is 22% (2018: 22%).

Deferred Tax

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

For the calculation of deferred tax assets and liabilities, the rate 22% was used for the temporary differences expected to be reversed in 2020 and 20% was used for the ones expected to be reversed in 2021 and later (2018: %22).

In Turkey, companies cannot declare a consolidated tax return, therefore their deferred tax balances are not netted off and are disclosed separately.

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The consolidated deferred tax liability position as of 31 December 2019 is as follows:

	1 January - 31 December 2019					
	31 December 2019	Currency translation effect	Other comprehensive income tax effect	Deferred tax charge for the year	Changes in accounting estimates	1 January 2019
Difference between tax base and carrying value of tangible assets and intangible assets	(1.046.279.375)	(102.906.051)	-	47.593.887	50.896.930	(1.041.864.141)
Government grants and incentives	239.053.862	21.449.300	-	18.472.089	-	199.132.473
Provision for employee termination benefits	2.959.300	165.977	442.897	391.170	-	1.959.256
Provision for litigation claims	1.834.937	196.428	-	(489.671)	-	2.128.180
Unused vacation and bonus plans provision	9.531.183	1.329.958	-	(12.620.244)	-	20.821.469
Deferred revenue from flight points	13.820.689	1.128.661	-	3.281.150	-	9.410.878
Relivery provisions for the leased aircraft	258.804.669	18.291.275	-	(9.329.313)	36.014.630	213.828.077
Change in fair value of derivative contracts	12.007.264	(31.308)	(52.945.292)	835.947	-	64.147.917
Other	12.752.022	8.779.137	-	(47.330.826)	-	51.303.711
Deferred tax liability	**(495.515.449)**	**(51.596.623)**	**(52.502.395)**	**804.189**	**86.911.560**	**(479.132.180)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The consolidated deferred tax asset position as of 31 December 2018 is as follows:

	1 January - 31 December 2018				
	31 December 2018	Currency translation effect	Other comprehensive income tax effect	Deferred tax charge for the year	1 January 2018
Difference between tax base and carrying value of tangible assets and intangible assets	(1.041.864.141)	(222.330.382)	-	(195.176.401)	(624.357.358)
Carry forward tax losses	55.966.305	11.417.292	-	(39.340.697)	83.889.710
Government grants and incentives	199.132.473	22.647.865	-	132.988.644	43.495.964
Provision for employee termination benefits	1.959.256	317.305	(293.203)	197.332	1.737.822
Provision for litigation claims	2.128.180	627.631	-	(455.894)	1.956.443
Unused vacation and bonus plans provision	20.821.469	1.694.759	-	16.706.371	2.420.339
Deferred revenue from flight points	9.410.878	1.910.767	-	2.193.384	5.306.727
Relivery provisions for the leased aircraft	213.828.077	44.414.421	-	45.770.184	123.643.472
Change in fair value of derivative contracts	64.147.917	(157.277)	70.777.791	(76.629)	(6.395.968)
Other	51.303.711	(31.529)	-	37.867.445	13.467.795
Deferred tax provision	(55.966.305)	-	-	(16.242.764)	(39.723.541)
Deferred tax liability	**(479.132.180)**	**(139.489.148)**	**70.484.588**	**(15.569.025)**	**(394.558.595)**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The Group's carryforward tax losses subject to recognition of deferred tax asset as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
2019	-	68.383.477
2020	-	135.358.575
2021	-	10.121.624
2021 and after	-	40.528.619
	-	**254.392.295**

Tax effects related to other comprehensive income as of 31 December 2019 and 2018 are as follows:

	1 January - 31 December 2019		
	Amount before tax	Tax expense	Amount after tax
Change in foreign currency translation	457.503.847	-	457.503.847
Actuarial gains/(losses) on defined benefit plans	(2.214.490)	442.898	(1.771.592)
Change in cash flow hedge reserve	231.942.068	(52.945.293)	178.996.775
Other comprehensive income	**687.231.425**	**(52.502.395)**	**634.729.030**

	1 January - 31 December 2018		
	Amount before tax	Tax income	Amount after tax
Change in foreign currency translation	1.052.766.584	-	1.052.766.584
Actuarial gains/(losses) on defined benefit plans	1.466.019	(293.204)	1.172.815
Change in cash flow hedge reserve	(315.699.027)	70.777.792	(244.921.235)
Other comprehensive income	**738.533.576**	**70.484.588**	**809.018.164**

NOTE 27 - TAXATION ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Reconciliation of tax expense in consolidated statement of profit or loss for the years 31 December 2019 and 2018 is as follows:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Profit before tax	**1.394.264.730**	**542.265.846**
Enacted local tax rate	22%	22%
Tax calculated at the enacted tax rate	(306.738.241)	(119.298.486)
Tax effect of disallowable expenses	(80.659.701)	(9.615.165)
Income from investment incentives	18.472.089	132.988.644
Tax-exempt revenue	8.367.262	6.024.991
Tax losses over which deferred tax asset was not recognized	959.037	(4.729.634)
Subsidiary effect that have different tax rate	799.198	(3.941.362)
Translation effect and other	299.103.541	(41.577.819)
Taxation expense	**(59.696.815)**	**(40.148.831)**

NOTE 28 - EARNINGS / LOSS PER SHARE

Earnings/(loss) per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned. Number of total shares and calculation of earnings per share at 31 December 2019 and 2018 are as follows:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Profit attributable to the shareholders of the parent	1.333.369.118	507.378.625
Weighted average number of shares issued in the year	102.299.707	102.272.000
Profit per share	**13,03**	**4,96**

NOTE 29- EFFECTS OF EXCHANGE RATE CHANGES

Details related to effects of exchange rate changes are disclosed at foreign currency risk management in Note 32.

NOTE 30 - DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments

	31 December 2019		31 December 2018	
	Asset	**Liability**	**Asset**	**Liability**
Short term	61.239	53.134.363	3.134.337	189.722.017
Long term	-	1.505.350	-	104.993.760
	61.239	**54.639.713**	**3.134.337**	**294.715.777**

Explanations related to derivative instruments are disclosed in Note 33.

NOTE 31 - FINANCIAL INSTRUMENTS

Financial Assets

Financial investments measured at amortized cost

	31 December 2019	31 December 2018
Financial investments measured at amortized cost	151.176.049	-
Less: Allowance for impairment under TFRS 9	(269.705)	-
	150.906.344	**-**

Company issuing security	31 Aralık 2019	31 Aralık 2018
TC Hazine Müsteşarlığı	32.205.718	-
Türkiye Vakıflar Bankası	60.534.622	-
Yapi ve Kredi Bankası	58.166.004	-
Eurobond (*)	**150.906.344**	**-**

(*)The Group's fixed income securities are accounted over their amortized costs using the effective interest rate. The securities in question are denominated in Euros and US Dollars and must pay fixed interest every year and every six months, respectively.

Interest income amounting to TL 2.377.828 in the period related to Eurobonds carried at amortized cost has been netted off financial investments allowance expense under TFRS 9 and accounted in Expense from Investment Activities.

NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)

Financial Assets (cont'd)

Financial investments measured at amortized cost (cont'd)

Financial investments measured at amortized cost have has an active market and market prices (according to dirty prices) are as follows:

Company issuing security	31 Aralık 2019	31 Aralık 2018
TC Hazine Müsteşarlığı	33.176.455	-
Türkiye Vakıflar Bankası	62.850.418	-
Yapi ve Kredi Bankası	59.355.018	-
	155.381.891	**-**

The coupon interest rates and call dates of the financial investments in Euro and US Dollars that are measured by their amortized costs and continues as of the reporting date are as follows. The effective interest rate of the mentioned securities is 4.75% (2018: None).

Company issuing security	ISIN Code	Coupon Interest Rate (%)	Call Date
TC Hazine Müsteşarlığı	XS0993155398	4,350	12.11.2021
Türkiye Vakıflar Bankası	XS1571399754	2,375	4.05.2021
Türkiye Vakıflar Bankası	XS1403416222	5,500	27.10.2021
Yapi ve Kredi Bankası	XS1508914691	5,750	24.02.2022
Yapi ve Kredi Bankası	XS1571399754	5,750	24.02.2022

NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities

The details of financial liabilities as of 31 December 2019 and 2018 are as follows:

Short term financial liabilities	31 December 2019	31 December 2018
Short term bank borrowings	758.293.604	797.815.861
Lease liabilities	1.536.570.246	659.409.925
Short term portion of long term operating lease obligations	*635.282.662*	-
Short term portion of long term financial lease obligations	*901.287.584*	*659.409.925*
	2.294.863.850	**1.457.225.786**

Long term financial liabilities	31 December 2019	31 December 2018
Lease liabilities	8.460.811.498	5.064.858.596
Long term operating lease obligations	*1.614.122.499*	-
Long term financial lease obligations	*6.846.688.999*	*5.064.858.596*
	8.460.811.498	**5.064.858.596**

a) Bank Borrowings

The effective interest rates, original currency and TL equivalents of the short term bank borrowings as of 31 December 2019 and 2018 are as follows :

31 December 2019	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	%2,84	US Dollar	125.000.000	742.525.000
Short term bank borrowings(*)	%0,00	TL	15.768.604	15.768.604
				758.293.604

(*) The amount consists of interest-free loan used for monthly social insurance and tax payments.

31 December 2018	Weighted average interest rate (%)	Currency	Original amount	TL equivalent
Short term bank borrowings	3,29%	US Dollar	149.500.000	786.504.550
Short term bank borrowings(*)	0,00%	TL	11.311.311	11.311.311
				797.815.861

(*) The amount consists of interest-free loan used for monthly social insurance and tax payments.

NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

b) Lease Liabilities

The details of financial and operating lease liabilities as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Less than 1 year	1.968.639.836	814.748.155
Between 1 - 5 years	5.830.430.461	3.038.571.214
Over 5 years	4.242.706.951	2.774.021.245
	12.041.777.248	6.627.340.614
Less: Future interest expenses	(2.044.395.504)	(903.072.093)
	9.997.381.744	**5.724.268.521**

Present value of minimum lease payments of financial lease liabilities are as follows;

	31 December 2019	31 December 2018
Less than 1 year	1.536.570.246	659.409.925
Between 1 - 5 years	5.199.045.253	2.567.916.804
Over 5 years	3.261.766.245	2.496.941.792
	9.997.381.744	**5.724.268.521**

The Group purchases certain of its handling equipment and aircraft through lease arrangements. The average lease term is 4,51 years. For the period ended 31 December 2019, the floating interest rate applicable to Euro-denominated lease obligations, amounting to TL 3.968.204.566, is 1,72% (31 December 2018: 1,93%) and the floating rate applicable to US Dollar-denominated lease obligations, amounting to TL 6.029.177.178, is 4,84% (31 December 2018: 5,11%).

The Group's obligations under finance leases of aircraft are guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank").

The aircraft manufacturer, the Group, the lender, Ex-Im Bank, Special Purpose Vehicle Company ("SPV") and orphan trust which managed the SPV and a security trustee with whom the orphan trusts securities are pledged enter into a Participation Agreement to structure the financing deal. The Lender enters into a commitment with the Group and loan documentation with a SPV as borrower, owner and lessor. The SPV draws down the loan from lender and purchases the aircraft from Boeing on the delivery date. The equity interests in the SPV are indirectly beneficially owned by an unrelated orphan trust which in turn its shares are pledged to a security trustee in favor of Ex-Im Bank.

The Group indemnifies the SPV against all of their obligations under the finance lease, with Esas Holding providing a guarantee for the full obligation.

NOTE 31 - FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

c) Lease Liabilities (cont'd)

All Ex-Im Bank supported credit facilities also contain cross-default and cross-collateralization provisions. These provisions provide for mandatory pre-payment of Ex-Im Bank guaranteed loans (without penalties, but with applicable breakage costs) in the event of total loss or seizure of any of the Group's aircraft in the event of default which had not been cured or equivalent events affecting the aircraft, including the sale or disposal of such aircraft before the pay down of the debt to lender and extinguishment of US Ex-Im Bank guarantee. The termination of Esas Holding's ownership of the Group may also result in the acceleration of the finance leases. Additionally, Ex-Im Bank documentation governing these guaranteed loans also imposes restrictive covenants on the SPV in respect of their liabilities and the nature of their business and a restriction on other pledges of interests on the aircraft and other assets of the SPV, and imposes on the Group a restriction on mergers, consolidations and sale of substantially all of the Group's assets.

In respect of the aircraft purchased by the Group in December 2013 through financial lease without using US Ex-Im guarantee, the same method of finance is used as in under US Ex-Im structure only to the extent that all rights on SPV as the proprietor of the aircraft are pledged by the bank providing the financing. There are no guarantees provided by Esas Holding in connection with the subject matter aircraft.

b) Reconciliation of obligations arising from financing activities

The changes in the Group's liabilities arising from financing activities are given in the following table.

	1 January 2019	Utilized bank loans and repayments	Finance lease obtained and repayment of principals, (net)	TFRS 16 effect	Foreign exchange valuations	31 December 2019
Bank loans	797.815.861	(109.271.850)	-	-	69.749.593	758.293.604
Lease payables	5.724.268.521	-	928.792.901	2.371.874.199	972.446.123	9.997.381.744
	6.522.084.382	**(109.271.850)**	**928.792.901**	**2.371.874.199**	**1.042.195.716**	**10.755.675.348**

	1 January 2018	Utilized bank loans and repayments	Finance lease obtained and repayment of principals, (net)	Foreign exchange valuations	31 December 2018
Bank loans	541.267.652	58.587.950	-	197.960.259	797.815.861
Lease payables	3.067.212.772	-	1.416.226.393	1.240.829.356	5.724.268.521
	3.608.480.424	**58.587.950**	**1.416.226.393**	**1.438.789.615**	**6.522.084.382**

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Capital Risk Management

The Group manages its capital with the goal of ensuring that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the financial liabilities and obligations under finance leases disclosed in Note 31, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings, respectively. The Group meets working capital requirement with the cash generated from its operations and through credit lines from Turkish and foreign banks, if needed.

The Group's management reviews the cost of capital together with the risk associated with each class in the capital structure. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital and obtains approval from Board of Directors in the form of a resolution. Based on evaluations of management and Board of Directors, the Group balances its overall capital structure from time to time through capital increases as well as the issue of new debt or the redemption of existing debt. The Group's overall capital risk management strategy remains unchanged from prior periods.

The debt-capital ratio that is calculated as net debt (total borrowings less cash and cash equivalents and financial investments) divided by total capital as of 31 December 2019 and 2018 are as follows.

	31 December 2019	**31 December 2018**
Financial Liabilities	10.755.675.348	6.522.084.382
Less: Cash and Cash Equivalents & Financial Investments	(4.338.222.925)	(2.741.044.971)
Net Debt	6.417.452.423	3.781.039.411
Total Equity	5.342.169.207	3.715.447.648
Total Capital	11.759.621.630	7.496.487.059
Net Debt/Total Capital Ratio	**0,5**	**0,5**

Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management plan focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Credit Risk Management (cont.'d)

The Group applied the simplified approach in TFRS 9 to calculate the expected credit loss provision for trade receivables. This approach allows for the expected credit loss provision for all trade receivables. In order to measure expected credit losses, the Group grouped its trade receivables considering the maturity and credit risk characteristics. The expected credit loss ratio for each class of trade receivables, which is grouped using past loan loss experiences and prospective macroeconomic indicators, is calculated and the expected credit loss provision has been calculated by multiplying the determined rate and trade receivable sums.

	Not Overdue	0-1 Months Overdue	1-3 Months Overdue	More than 3 Months Overdue	Total
Period end balance	423.425.894	23.715.764	13.195.470	8.846.258	469.183.386
Loan loss rate (%)	0,5%	0,5%	1%	55%	
Expected credit losses	2.036.361	114.055	131.997	4.865.442	7.147.855

	Not Overdue	0-1 Months Overdue	1-3 Months Overdue	More than 3 Months Overdue	Total
Period end balance	223.166.454	87.044.818	-	-	310.211.272
Loan loss rate (%)	0,5%	0,5%	2%	50%	
Expected credit losses	1.073.263	418.620	-	-	1.491.883

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Credit risk management (cont'd)

	Receivables						
	Trade Receivables		Other Receivables				
31 December 2019	Related Party	Other	Related Party	Other	Bank Deposits	Financial Investments	Derivative Instruments
Maximum exposed credit risk as of reporting date (A+B+C+D) (*)	**-**	**446.978.360**	**102.852**	**232.580.609**	**4.192.730.120**	**150.906.344**	**61.239**
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	76.903.258	-	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	423.425.894	102.852	232.580.609	4.192.730.120	150.906.344	61.239
B. Net book value of financial assets that are past due but not impaired	-	23.552.466	-	-	-	-	-
-The part under guarantee with collateral etc.	-	5.866.204	-	-	-	-	-
C. Net book value of impaired assets							
- Past due (gross carrying amount)	-	15.055.544	-	2.880.997	-	-	-
- Impairment(-)	-	(15.055.544)	-	(2.880.997)	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	7.149.482	-	-	5.761.778	269.705	-
- Impairment(-)	-	(7.149.482)	-	-	(5.761.778)	(269.705)	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-	-

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Credit risk management (cont'd)

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2018	**Related Party**	**Other**	**Related Party**	**Other**	**Bank Deposits**	**Derivative Instruments**
Maximum exposed credit risk as of reporting date (A+B+C+D) (*)	**-**	**235.514.142**	**1.580.011**	**550.791.668**	**2.750.645.236**	**3.134.337**
Secured portion of the maximum credit risk by guarantees, etc. (**)	-	46.465.732	-	-	-	-
A. Net book value of financial asset neither are not due or nor impaired	-	223.166.454	1.580.011	550.791.668	2.750.645.236	3.134.337
B. Net book value of financial assets that are past due but not impaired	-	12.347.688	-	-	-	-
-The part under guarantee with collateral etc.	-	6.220.454	-	-	-	-
C. Net book value of impaired assets						
- Past due (gross carrying amount)	-	9.114.619	-	2.551.536	-	-
- Impairment(-)	-	(9.114.619)	-	(2.551.536)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not Past due (gross carrying amount)	-	1.491.884	-	-	10.556.562	-
- Impairment(-)	-	(1.491.884)	-	-	(10.556.562)	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Credit risk management (cont'd)

Aging of the past due receivables is as follows:

31 December 2019	Trade receivables	Other receivables	Bank deposits	Total
1-30 days past due	12.574.324	-	-	12.574.324
1-3 months past due	3.402.012	-	-	3.402.012
3-12 months past due	1.663.232	-	-	1.663.232
1-5 years past due	20.968.442	2.880.997	-	23.849.439
Receivables secured by guarantees	(5.866.204)	-	-	(5.866.204)
	32.741.806	**2.880.997**	**-**	**35.622.803**

31 December 2018	Trade receivables	Other receivables	Bank deposits	Total
1-30 days past due	4.123.670	-	-	4.123.670
1-3 months past due	10.416.903	-	-	10.416.903
3-12 months past due	1.971.081	-	-	1.971.081
1-5 years past due	4.950.653	2.551.536	-	7.502.189
Receivables secured by guarantees	(6.220.454)	-	-	(6.220.454)
	15.241.853	**2.551.536**	**-**	**17.793.389**

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Liquidity risk management

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables show the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

31 December 2019 **Due date on the contract**	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months-12 months (II)**	**1 year-5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Short term bank borrowings	758.293.604	758.293.604	15.768.604	742.525.000	-	-
Obligations under leases	7.747.976.583	12.041.777.249	601.587.525	1.439.589.472	5.856.446.961	4.144.153.291
Trade payables	789.729.487	789.729.487	789.729.487	-	-	-
	9.295.999.674	**13.589.800.340**	**1.407.085.616**	**2.182.114.472**	**5.856.446.961**	**4.144.153.291**

Due date on the contract	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months-12 months (II)**	**1 year-5 years (III)**	**More than 5 years (IV)**
Derivative financial liabilities						
Derivative cash inflows outflows, net	(54.578.474)	(54.192.800)	(13.960.696)	(38.699.145)	(1.532.959)	-

31 December 2018 **Due date on the contract**	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months-12 months (II)**	**1 year-5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Short term bank borrowings	797.815.861	797.815.861	319.073.961	478.741.900	-	-
Obligations under leases	5.724.268.521	6.627.340.614	218.406.723	596.341.433	3.038.571.214	2.774.021.244
Trade payables	583.526.242	583.526.242	583.526.242	-	-	-
	7.105.610.624	**8.008.682.717**	**1.121.006.926**	**1.075.083.333**	**3.038.571.214**	**2.774.021.244**

Due date on the contract	**Carrying value**	**Contractual cash-flows (I+II+III+IV)**	**Up to 3 months (I)**	**3 months-12 months (II)**	**1 year-5 years (III)**	**More than 5 years (IV)**
Derivative financial liabilities						
Derivative cash inflows outflows, net	(291.581.440)	(299.642.766)	(45.795.312)	(146.228.418)	(107.619.036)	-

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, fuel price and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency, fuel price and interest rate risk.

Foreign currency risk management

The Group has significant transactions in non-Euro currencies including, but not limited to, Turkish Lira revenues, non-Euro borrowings and US Dollar fuel purchases. These non-Euro denominated transactions expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group's foreign currency position of monetary and non-monetary assets/liabilities for the years ended 31 December 2019 and 2018 are as follows:

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2019	TL Total	USD	TL	GBP	Other
1. Trade receivables	445.328.143	8.654.041	283.132.380	1.504.015	99.093.056
2a. Monetary financial assets	3.671.506.061	597.374.911	49.068.444	6.425.896	23.940.190
2b. Non monetary financial assets	-	-	-	-	-
3. Other	193.948.953	3.574.272	172.714.136	-	2.926
4. CURRENT ASSETS	4.310.783.157	609.603.224	504.914.960	7.929.911	123.036.172
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	14.889.453	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	142.398.435	23.154.357	355.786	1.000	4.493.361
8. NON CURRENT ASSETS	142.398.435	38.043.810	355.786	1.000	4.493.361
9. TOTAL ASSETS	4.453.181.592	647.647.034	505.270.746	7.930.911	127.529.533
10. Trade payables	412.035.767	43.853.367	107.150.780	1.575.470	32.135.574
11. Financial liabilities	1.654.852.242	275.930.716	15.768.604	-	-
12a. Other liabilitites, monetary	402.134.668	52.562.088	70.256.665	94.753	18.911.841
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	2.469.022.677	372.346.171	193.176.049	1.670.223	51.047.415
14. Trade payables	-	-	-	-	-
15. Financial liabilities	3.800.045.664	639.716.788	-	-	-
16a. Other lliabilities, monetary	1.570.845.470	264.443.196	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	5.370.891.134	904.159.984	-	-	-
18. TOTAL LIABILITIES	7.839.913.811	1.276.506.155	193.176.049	1.670.223	51.047.415
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	810.122	14.455.000	-	(10.937.500)	-
19.a Off-balance sheet foreign currency derivative assets	85.865.591	14.455.000	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	85.055.469	-	-	10.937.500	-
20. Net foreign currency asset/(liability) position	(3.386.732.219)	(628.859.121)	312.094.697	6.260.688	76.482.118
21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a)	(3.386.732.219)	(628.859.121)	312.094.697	6.260.688	76.482.118

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

31 December 2018	TL Total	USD	TL	GBP	Other
1. Trade receivables	203.609.379	6.214.073	104.613.930	1.001.390	59.641.785
2a. Monetary financial assets	2.275.444.728	408.574.864	87.220.749	3.558.802	15.076.479
2b. Non monetary financial assets	-	-	-	-	-
3. Other	747.506.237	133.909.710	36.206.482	-	6.814.162
4. CURRENT ASSETS	3.226.560.344	548.698.647	228.041.161	4.560.192	81.532.426
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	71.519.443	12.951.365	305.815	1.000	3.071.139
8. NON CURRENT ASSETS	71.519.443	12.951.365	305.815	1.000	3.071.139
9. TOTAL ASSETS	3.298.079.787	561.650.012	228.346.976	4.561.192	84.603.565
10. Trade payables	334.471.293	45.345.308	82.165.847	448.588	10.763.949
11. Financial liabilities	997.519.160	187.459.912	11.311.309	-	-
12a. Other liabilitites, monetary	529.196.380	88.002.009	63.498.647	38.323	2.473.006
12b. Other liabilities, non monetary	-	-	-	-	-
13. CURRENT LIABILITIES	1.861.186.833	320.807.229	156.975.803	486.911	13.236.955
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.653.110.816	314.225.858	-	-	-
16a. Other lliabilities, monetary	599.070.536	113.872.253	-	-	-
16b. Other liabilities, non monetary	-	-	-	-	-
17. NON CURRENT LIABILITIES	2.252.181.352	428.098.111	-	-	-
18. TOTAL LIABILITIES	4.113.368.185	748.905.340	156.975.803	486.911	13.236.955
19. Net asset / (liability) position of Off-balance sheet derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net foreign currency asset/(liability) position	202.940.539	6.291.201	71.371.173	4.074.281	71.366.610
21. Net foreign currency asset / (liability) position of monetary items (1+2a+3+5+6a+7-10-11-12a-14-15-16a)	(815.288.398)	(187.255.328)	71.371.173	4.074.281	71.366.610

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk arising primarily with respect to the US Dollar and Turkish Lira.

The following table details the Group's sensitivity to a 10% increase and decrease in US Dollar, and TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Foreign currency sensitivity tables as of 31 December 2019 and 2018 are as follows:

31 December 2019	**Profit/(Loss)**		**Shareholders' equity**	
	If foreign currency appreciated 10%	**If foreign currency depreciated 10%**	**If foreign currency appreciated 10%**	**If foreign currency depreciated 10%**
Effect of 10% change in USD rate				
USD net asset / (liability)	(373.554.895)	373.554.895	-	-
Part of hedged from USD risk	8.586.559	(8.586.559)	-	-
USD net effect	**(364.968.336)**	**364.968.336**	**-**	**-**
Effect of 10% change in TL rate				
TL net asset / (liability)	31.209.470	(31.209.470)	538.433.239	(538.433.239)
Part of hedged from TL risk	-	-	-	-
TL net effect	**31.209.470**	**(31.209.470)**	**538.433.239**	**(538.433.239)**
Effect of 10% change in GBP rate				
GBP net asset / liability	4.868.624	(4.868.624)	-	-
Part of hedged from GBP risk	(8.505.547)	8.505.547	-	-
GBP net effect	**(3.636.923)**	**3.636.923**	**-**	**-**

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Foreign currency risk management (cont'd)

<u>Foreign currency sensitivity (cont'd)</u>

31 December 2018	**Profit/(Loss)**		**Shareholders' equity**	
	If foreign currency appreciated 10%	**If foreign currency depreciated 10%**	**If foreign currency appreciated 10%**	**If foreign currency depreciated 10%**
Effect of 10% change in USD rate				
USD net asset / (liability)	(98.513.156)	98.513.156	-	-
Part of hedged from USD risk	-	-	-	-
USD net effect	**(98.513.156)**	**98.513.156**	**-**	**-**
Effect of 10% change in TL rate				
TL net asset / (liability)	7.137.117	(7.137.117)	393.660.760	(393.660.760)
Part of hedged from TL risk	-	-	-	-
TL net effect	**7.137.117**	**(7.137.117)**	**393.660.760**	**(393.660.760)**
Effect of 10% change in GBP rate				
GBP net asset / liability	2.710.538	(2.710.538)	-	-
Part of hedged from GBP risk	-	-	-	-
GBP net effect	**2.710.538**	**(2.710.538)**	**-**	**-**

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate borrowings, by the use of interest rate swap contracts based on the approved policies.

<u>Foreign currency sensitivity</u>

The Group's distribution of interest rate-sensitive financial instruments is as follows:

	31 December 2019		**31 December 2018**	
	Floating rate	**Fixed rate**	**Floating rate**	**Fixed rate**
Bank loans	-	758.293.604	-	797.815.861
Finance leases	6.638.304.491	3.359.077.253	5.023.848.172	700.420.349
Interest swap agreements not subject to hedge accounting (net)	61.239	-	3.134.337	-

For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

NOTE 32 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Financial Risk Factors (cont'd)

Interest rate risk management (cont'd)

Foreign currency sensitivity (cont'd)

If interest rates had been 0,5% lower/higher during the reporting period keeping all other variables constant:

The Group's profit before tax would have increased/decreased by TL 28.581.875 (2018: TL 22.322.257). This is mainly attributable to the Company's exposure to interest rates on its variable rate obligations under finance leases.

Price risk management

Fuel price risk management

The Group is exposed to commodity risk due to the significant of fuel purchases to its business. Fuel prices have been subject to wide fluctuations based on geopolitical issues, exchange rate fluctuations, supply and demand as well as market speculation. The fluctuations in fuel prices have had a significant impact on the cost of sales, and results of operations of the Group.

The Group manages its risk to fuel prices through the use of derivative financial instruments. The Group's policy since 2011 includes a primary non-discretionary program for the first 50% of anticipated fuel consumption and a supplemental discretionary program for an additional 20% of our anticipated fuel consumption up to twelve months. Both programs use swap and option arrangements on jet fuel and Brent oil. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Fuel price sensitivity

The Group entered into fuel purchase and option forward contracts in order to manage the cash flow risks arising from fuel purchases. Due to forward fuel purchase and option forward contracts subject to hedge accounting, as a result of a 1% increase in sfuel prices, the shareholders' equity of the Group will increase by TL 21.517.547 (2018: TL 17.403.705) excluding deferred tax effect. In case of a 1% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 21.517.547 (2018: TL 17.403.705) excluding deferred tax effect.

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

Fair Value of Financial Instruments

31 December 2019	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected at fair value in profit/loss	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	4.187.316.581	-	-	-	4.187.316.581	35
Trade receivables	446.978.360	-	-	-	446.978.360	6
- *Related party*	-	-	-	-	-	
- *Other*	*446.978.360*	-	-	-	*446.978.360*	*6*
Other receivables	232.683.461	-	-	-	232.683.461	
- *Related party*	*102.852*	-	-	-	*102.852*	*5*
- *Other*	*232.580.609*	-	-	-	*232.580.609*	
Financial investments	150.906.344	-	-	-	150.906.344	31
Derivative financial assets	-	-	61.239	-	61.239	30
Financial liabilities						
Bank borrowings	-	-	-	9.219.105.102	9.219.105.102	31
Obligations under leases	-	-	-	9.997.381.744	9.997.381.744	31
Trade payables	-	-	-	789.729.487	789.729.487	6
- *Related party*	-	-	-	*1.543.950*	*1.543.950*	*5*
- *Other*	-	-	-	*788.185.537*	*788.185.537*	
Derivative financial liabilities	-	54.055.360	584.353	-	54.639.713	30

(*) The Group's management believes that carrying amount of financial instruments approximates their fair value.

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Fair Value of Financial Instruments (cont'd)

31 December 2018	Loans and receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected at fair value in profit/loss	Financial liabilities at amortized cost	Carrying amount (*)	Note
Financial assets						
Cash and cash equivalents	2.741.044.971	-	-	-	2.741.044.971	35
Trade receivables	235.514.142	-	-	-	235.514.142	6
- Related party	-	-	-	-	-	
- Other	*235.514.142*	-	-	-	*235.514.142*	*6*
Other receivables	552.371.679	-	-	-	552.371.679	
- Related party	*1.580.011*	-	-	-	*1.580.011*	*5*
- Other	*550.791.668*	-	-	-	*550.791.668*	
Derivative financial assets	-	-	3.134.337	-	3.134.337	30
Financial liabilities						
Bank borrowings	-	-	-	797.815.861	797.815.861	31
Obligations under financial leases	-	-	-	5.724.268.521	5.724.268.521	31
Trade payables	-	-	-	583.526.242	583.526.242	6
- Related party	-	-	-	*1.158.564*	*1.158.564*	*5*
- Other	-	-	-	*582.367.678*	*582.367.678*	
Derivative financial liabilities	-	294.715.777	-	-	294.715.777	30

(*) The Group's management believes that carrying amount of financial instruments approximates their fair value.

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Fair Value of Financial Instruments (cont'd)

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices:
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of financial assets and liabilities are determined by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets / (Financial liabilities)	**Fair value as at**		**Fair value hierarchy**	**Valuation technique**
	31 December 2019	**31 December 2018**		
Fuel purchase option contracts	(42.733.371)	(218.102.353)	Level 2	Discounted cash flow method
Fuel purchase forward contracts	(11.321.989)	(76.613.424)	Level 2	Discounted cash flow method
Currency forward contracts	(584.353)	-	Level 2	Discounted cash flow method
Interest rate swap contracts	61.239	3.134.337	Level 2	Discounted cash flow method

31 December 2019	**Fuel purchase forward contracts**	**Fuel purchase option contracts**	**Currency forward contracts**	**Interest rate swap contracts**	**Total**
Fair value:					
Opening	(76.613.424)	(218.102.353)	-	3.134.337	(291.581.440)
Fair value increase					
Recognized in equity	65.291.435	166.650.633	-	-	231.942.068
Recognized in profit or loss	-	8.718.349	(584.353)	(3.073.098)	5.060.898
Closing	**(11.321.989)**	**(42.733.371)**	**(584.353)**	**61.239**	**(54.578.474)**
Assets	-	-	-	61.239	61.239
Liabilities	(11.321.989)	(42.733.371)	(584.353)	-	(54.639.713)
Total net assets and liabilities	**(11.321.989)**	**(42.733.371)**	**(584.353)**	**61.239**	**(54.578.474)**

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (cont'd)

Fair Value of Financial Instruments (cont'd)

31 December 2018	Fuel purchase forward contracts	Fuel purchase option contracts	Currency forward contracts	Interest rate swap contracts	Total
Fair value:					
Opening	4.034.930	25.666.669	204.227	2.074.015	31.979.841
Fair value increase / (decrease)					
Recognized in equity	(80.648.354)	(235.050.673)	-	-	(315.699.027)
Recognized in profit or loss	-	(8.718.349)	(204.227)	1.060.322	(7.862.254)
Closing	**(76.613.424)**	**(218.102.353)**	**-**	**3.134.337**	**(291.581.440)**
Assets	-	-	-	3.134.337	3.134.337
Liabilities	(76.613.424)	(218.102.353)	-	-	(294.715.777)
Total net assets and liabilities	**(76.613.424)**	**(218.102.353)**	**-**	**3.134.337**	**(291.581.440)**

As of 31 December 2019, the Group has fuel purchase forward contracts subject to hedge accounting on the purpose of covering 57% (2018: 59%) of the expected total fuel consumption for the upcoming one-year period. Weighted average price of these contracts is US Dollars 615,4 (2018: US Dollars 615,7).

NOTE 34 - EVENTS AFTER BALANCE SHEET DATE

The Group entered into a 20-year lease agreement with a term extension until the end of 2048 granted to us as the lessee with the airport operator Havaalanı İşletme ve Havacılık Endüstrileri A.Ş. ("HEAŞ") for a development area with a covered hangar space of 19,133 sqm with the aim of constructing a technical maintenance hangar to carry out line, component and base maintenance for the aircraft, engines and other components forming the fleet at main base at the Istanbul Sabiha Gökçen Airport ("SAW"). The lease term will commence upon the completion and acceptance of the hangar construction by Pegasus.

NOTE 35 - EXPLANATIONS RELATED TO STATEMENT OF CASH FLOW

The details of cash and cash equivalents as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Cash on hand	348.239	956.297
Cash at banks	4.192.730.120	2.750.645.236
- Demand deposits	34.128.875	46.167.431
- Time deposits	4.158.601.245	2.704.477.805
Less: Allowance for impairment under TFRS 9	(5.761.778)	(10.556.562)
	4.187.316.581	**2.741.044.971**

The weighted average interest rates of time deposits are as presented below:

31 December 2019	Weighted average interest rates	Total
USD deposits	%2,37	3.555.102.439
EUR deposits	%0,54	503.762.854
GBP deposits	%0,46	49.355.439
TL deposits	%11,23	47.329.684
CHF deposits	%0,50	3.050.829
		4.158.601.245

31 December 2018	Weighted average interest rates	Total
USD deposits	4,42%	2.151.033.661
EUR deposits	0,48%	445.814.851
TL deposits	22,84%	83.070.553
GBP deposits	0,72%	21.104.259
CHF deposits	0,20%	3.454.481
		2.704.477.805

All of the time deposits as of 31 December 2019 and 2018 have maturities less than 90 days.

Revenue

	Euro 1 January- 31 December 2019	**Euro 1 January- 31 December 2018**
Scheduled flight and service revenue	1.678.529.974	1.391.990.481
International flight revenue	*884.117.456*	*714.282.397*
Domestic flight revenue	*335.551.635*	*321.333.713*
Service revenue	*458.860.883*	*356.374.371*
Charter flight and service revenue	47.401.530	58.751.765
Charter flight revenue	*47.367.878*	*58.611.229*
Service revenue	*33.652*	*140.536*
Other revenue	13.526.206	19.747.856
	1.739.457.710	**1.470.490.102**

Expenses by Nature

	Euro 1 January- 31 December 2019	**Euro 1 January- 31 December 2018**
Jet fuel expenses	496.662.778	470.111.509
Depreciation and amortisation expenses	243.871.480	94.710.813
Personnel expenses	222.898.391	154.937.353
Handling and station fees	113.267.623	96.987.905
Navigation expenses	92.457.046	81.533.846
Maintenance expenses	61.270.090	120.738.283
Landing expenses	50.372.008	42.972.095
Commission expenses	21.554.662	22.086.235
Advertising expenses	14.398.195	8.459.615
Passenger service and catering expenses	15.232.583	13.600.961
Operating lease expenses	-	123.702.662
Other expenses	71.273.029	68.542.620
	1.403.257.885	**1.298.383.897**