

Czech University of Life Sciences Prague
Faculty of Economics and Management
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Bachelor Thesis

**Assessment of the Financial Position and Performance of
a Chosen Company Operating in the Aviation Industry
in Turkey**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Mehmet Talha Aygun

Economics and Management

Thesis title

Assesment of the Financial Position and Performance of a Chosen Company Operating in the Aviation Industry in Turkey

Objectives of thesis

The aim of this bachelor thesis is to assess the financial position and performance of a chosen company operating in the aviation industry in Turkey by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The proposed extent of the thesis

40-50

Keywords

financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, aviation industry

Recommended information sources

- ALEXANDER, J. Financial Planning & Analysis and Performance Management. USA : John Wiley & Sons, Inc. Hoboken, 2018, 640 p., ISBN-13: 978-1119491484
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Declaration

I declare that I have worked on my bachelor thesis titled " Assessment of the Financial Position and Performance of a Chosen Company Operating in the Aviation Industry in Turkey " by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 10.03.2022

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Assessment of the Financial Position and Performance of a Chosen Company Operating in the Aviation Industry in Turkey

Abstract

This bachelor thesis deals with the assessment of financial position and performance of a chosen Turkish company, Turkish Airlines, which operates in aviation industry. The theoretical background of the thesis monitors the accounting framework in Turkey and the presentation of financial statements for companies which has to prepare their financial statements according to the international or national financial reporting standards IFRS/IAS. The practical part consist of analyses the financial position which is represented by the Balance sheet and the financial performance which is represented by the Statement of profit or loss of the company by using vertical and horizontal analysis of these statements covering financial years 2017-2020 with the focus on the representation and changes of the reported liabilities, assets, revenues, expenses and profit for the chosen period in order to identify the potential financial problems and the most significant factors influencing the profit.

Keywords: financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, expenses, revenues, Turkey, aviation industry

Posouzení Finanční Pozice a Výkonnosti Vybrané Společnosti Působící v Leteckém Průmyslu v Turecku

Abstrakt

Tato bakalářská práce se zabývá zhodnocením finanční situace a výkonnosti vybrané turecké společnosti Turkish Airlines, která působí v leteckém průmyslu. Teoretická východiska práce monitorují účetní rámec v Turecku a prezentaci účetní závěrky pro společnosti, které musí sestavovat účetní závěrku podle mezinárodních nebo národních standardů účetního výkaznictví IFRS/IAS. Praktická část se skládá z analýz finanční situace, která je reprezentována rozvahou, a finanční výkonnosti, která je reprezentována Výkazem zisku nebo ztráty společnosti pomocí vertikální a horizontální analýzy těchto výkazů pokrývajících finanční roky 2017-2020 s účetní závěrkou. zaměřit se na zobrazení a změny vykazovaných závazků, aktiv, výnosů, nákladů a zisku za zvolené období s cílem identifikovat potenciální finanční problémy a nejdůležitější faktory ovlivňující zisk.

Klíčová slova: finanční výkazy, finanční analýza, finanční situace, rozvaha, aktiva, pasiva, vlastní kapitál, finanční výkonnost, náklady, výnosy, Turecko, letecký průmysl

Table of content

1	Introduction	13
2	Objectives and Methodology	15
2.1	Objectives	15
2.2	Methodology	15
3	Literature Review	16
3.1	Financial Statements in Turkey	16
3.1.1	Conceptual Framework for Financial Reporting in Turkey	17
3.1.2	Purpose of Financial Reporting	19
3.1.3	Elements of the Financial Statement	20
3.1.4	Financial Statements Under TFRS	20
3.1.5	Statement of Financial Position- The Balance Sheet	23
3.1.6	Statement of Financial Performance – The Statement of Profit or Loss	26
3.2	Financial Analysis of Selected Ratios	27
3.3	Aviation industry in Turkey	30
4	Practical Part	32
4.1	General information about Turkish Airlines A.O.	32
4.1.1	History	32
4.1.2	Operations and Market	33
4.2	Analysis of Financial Position – Balance Sheet	33
4.2.1	Vertical Analysis of Assets	33
4.2.2	Vertical analysis of liabilities and equity	37
4.2.3	Horizontal analysis of assets	40
4.3	Analysis of Financial Performance- Statement of Profit and Loss	44
4.3.1	Horizontal analysis of the statement of profit & loss	45
4.3.2	Vertical analysis of the Statement of Profit & Loss	47
4.4	Selected ratios of financial analysis	50
4.4.1	The Cash Ratio	50
4.4.2	Return on Equity (ROE)	51
4.4.3	Operating profit margin	52
5	Results and Discussion	53
5.1	Assessment of the financial position of the company	53
5.2	Assessment of the financial performance of the company	54
5.3	The most significant factors influencing the profit	55
5.4	Possible financial problem areas	56

6 Conclusion..... 57
7 References 59
8 Appendix 62

List of figures

Figure 1 Cash ratio formula	29
Figure 2 ROE formula	29
Figure 3 Operating margin formula	30
Figure 4 Right of use assets	37

List of tables

Table 1 Classification of expenses according to characteristics	27
Table 2 Vertical analysis of assets 2017-2020(all amounts are expressed in million US dollars (USD)).....	34
Table 3 Vertical analysis of liabilities and equity, FY 2017-2020(all amounts are expressed in million US dollars (USD)).....	38
Table 4 Long-term borrowings, FY 2017-2020 (in million US dollars (USD)).....	40
Table 5 Horizontal analysis of assets, FY 2017-2020 (in million US dollars (USD))	41
Table 6 Horizontal analysis of liabilities and equity, FY 2017-2020 (in million US dollars (USD))	43
Table 7 Horizontal analysis of the statement of profit/loss 2017-2020 (in million US dollars (USD)).....	45
Table 8 Breakdown of financial income and financial expenses (in million US dollars (USD))	47
Table 9 Vertical analysis of revenues separately 2017-2020 (in million US dollars (USD))	48
Table 10 Vertical analysis of the cost of sales separately 2017-2020 (in million US dollars (USD))	49
Table 11 The calculation of cash ratio (in million US dollars (USD)).....	50
Table 12 The calculation of return on equity ratio (in million US dollars (USD))	51
Table 13 The calculation of operating profit margin ratio, (in million US dollars (USD)).	52

List of abbreviations

THY – Turkish Airlines

IATA - International Air Transport Association

GAAP - Generally Accepted Accounting principles

IAS - International Accounting Standards

IFRS - International Financial Reporting Standards

TFRS - Turkish Financial Reporting Standards

TAS - Turkish Accounting Standard

TMSK - Turkish Accounting Standards Institution

KGK - The Public Oversight, Accounting and Auditing Standards Institution

SIC - Standard Interpretations Committee

IFRIC - IFRS Interpretations Committee

1 Introduction

With the effect of developing technology, a great increase and change is observed in the relations between societies. In all areas of today's life, people, institution, society, and international relations are developed as parallel with technological developments and affect each other more than ever. Technology and transportation, which accelerate life immensely, are the most important factors in this. Air transport is the fastest way of transportation. In the aviation industry, especially air transport and airline management have an important place in terms of the value it creates and the contribution it provides to the country's economy because of bringing many economic units together. The first scheduled air service was in Florida on 1st of January, 1914. The single plane service accommodated one passenger at a time, and the company charged 5 US dollars as a one-way fare. And the company, which operated two flights a day for four months, went bankrupt with the end of the winter tourism season. Commercial aviation was too slow to catch up with the public, many of whom were afraid to take on the new flying machines. Advances in aircraft design were also slow. However, after World War I, the military value of aircraft was quickly recognized, and production increased significantly to meet the growing demand for aircraft. Most important was the development of more powerful engines, which allowed the aircraft to reach speeds of up to 130 miles per hour, which was more than twice the speed of pre-war aircraft. The increased power also made larger aircraft possible. Boeing built the Boeing 247, which was generally considered the first modern passenger plane. It was introduced in 1933. The 247 accommodated 10 passengers and traveled at 155 miles per hour. By the 1960s, international travel had become increasingly popular and passenger volume had increased significantly and from 2000 onward, air passenger traffic was significantly increased. It was provided widely opportunity to the companies to gain great profit in the industry. According to International Air Transport Association (IATA), there are over 5,000 airlines which operates worldwide. Based on Airline Industry Economic Performance April 2021 report of IATA , the total revenue in the industry was 709 billion US dollars in 2016 and 755 billion US dollars in 2017. In addition, it was seen that the total net profit of the industry was increased from 34.2 billion US dollars in 2016 to 37.6 billion US dollars in 2017. However, due to the rapid fall in the oil price in 2018, the net profit of the industry in 2018 was decreased to

27.3 billion US dollars. Afterwards, net profit of the industry, which was seriously damaged due to the epidemic, was decreased to 26.4 billion US dollars in 2019 and to -126.4 billion US dollars in 2020. According to IATA's report, forecast of the net profit for 2021 is -47.7 billion US dollars and a rapid recovery is expected in the industry (IATA, 2020).

2 Objectives and Methodology

2.1 Objectives

The aim of this bachelor thesis is to evaluate the performance and financial position of a chosen Turkish company by examining the company's financial statements with focus on the representation and changes of the reported revenues, expenses, assets and liabilities for a chosen period and to identify the most significant factors that influencing the profit of the company and the potential financial problems.

2.2 Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company.

Vertical and horizontal analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. Selected ratios of financial analysis will be calculated. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The analyzed company is Turkish Airlines A.O., one of the biggest airlines in aviation industry in Turkey. The Balance sheet of the company will be analyzed for the assessment of the financial position and statement of profit and loss (the income statement) for the assessment of the financial performance. The analysis covers the financial years 2017-2020. The definitions of the vertical and horizontal analysis as well as the formulas of the selected ratios of the financial analysis are included in the literary review of this thesis. Data are obtained from the published annual reports of the company and amounts in the tables are presented in US dollars.

3 Literature Review

The literature review is a theoretical background for the thesis and focuses on the characteristics of the selected financial statements according to the Turkish accounting standards. The literature review also deals with selected methods of financial analysis as a base for the practical part of the thesis and outlines the characteristics of the aviation industry in Turkey.

3.1 Financial Statements in Turkey

For all organizations, Generally Accepted Accounting principles (GAAP) is based on established concepts, objectives, standards and conventions that have evolved over time to guide how financial statements are prepared and presented. For companies or not-for-profits, GAAP is set with the objective of providing information that is useful to investors, lenders, or others that provide or may potentially provide resources (FAF, 2021).

As with financial reports prepared in accordance with the different legal and financial structures of countries, International Accounting Standards (IAS) were made compatible which resulted in an exact translation of the International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS) were entered into force as Turkish Financial Reporting Standards (TFRS) in Turkey (Sabuncu, 2019).

The purpose of financial reporting is to provide existing and potential investors, lenders, and other creditors with financial information that will be useful in making decisions about funding the reporting entity. Decisions taken by these users include decisions to buy, sell or hold equity instruments and debt instruments, and to provide or pay off loans. In order to achieve these objectives, Turkish Accounting Standard (TAS) and Turkish Financial Reporting Standard (TFRS) standards have been determined in Turkey by the Public Oversight, Accounting and Auditing Standards Authority in accordance with international financial reporting standards and presented to the information of businesses and those who will benefit from these standards. The financial statements to be prepared in these standards, the principles of issuing these statements and the standards for accounting transactions have been determined.

The inadequacy of the regulations applied only to the institutions whose securities are traded on the stock exchange and their financial institutions continued until the Turkish Accounting Standards Institution (TMSK) was established. TMSK translated the current IAS, IFRS and International Interpretation Committee Decisions into Turkish and published them in April 2006. The TMSK, which was included in the Public Oversight, Accounting and Auditing Standards Institution (KGK), which was established with the Decree-Law No. 660 published on November 2, 2011, has regularly reflected the changes and innovations that have occurred in international standards to the TAS until this date. After the establishment of KGK, the authority to regulate accounting standards was given to the KGK (Çetin, 2015).

While the names and numbers of the standards published in Turkish are given, they have been published by leaving the IAS and IFRS numbers the same in order not to cause any confusion in practice. Therefore, there are some gaps in the TAS numbers due to the repealed standards. International Accounting Standards, as Turkish Accounting Standards; Standard Interpretations Committee (SIC) and IFRS Interpretations Committee (IFRIC) were published as Turkish Accounting Standards Interpretations and Turkish Financial Reporting Standards Interpretations, respectively (Sağlar, Yüce, 2015).

3.1.1 Conceptual Framework for Financial Reporting in Turkey

In general, financial statements are prepared within the framework of an accounting model based on the concept of recoverable historical cost and nominal capital preservation. The Conceptual Framework specifies the procedures and principles to which financial statements prepared and presented for users outside the entity will be subject.

The purpose of the Conceptual Framework is:

- a) Assist the Board in developing new Standards and reviewing existing Standards,
- b) Assist the Board in harmonizing the rules, accounting standards and application procedures for the presentation of financial statements by providing a basis for reducing alternative accounting methods permitted by the standards,

- c) To assist authorities that can determine accounting rules and practices within their field of duty,
- d) Assist those who prepare their financial statements in accordance with the Standards in the application of the Standards and in matters not yet covered by any Standards,
- e) Assisting auditors in determining their opinion of whether the financial statements are in conformity with the Standards,
- f) To assist users of financial statements in interpreting the information contained in the financial statements prepared in accordance with the Standards, and to provide information on the approach of setting the Standards to those interested in the work of the Board.

The Conceptual Framework is not a standard. Therefore, it does not set a standard for any measurement or explanation. When there is a conflict between the Conceptual Framework and one of the standards, that standard takes precedence over the Conceptual Framework. As the Board will take the existing Conceptual Framework as a guide in establishing new standards and reviewing existing standards, the discrepancies mentioned will decrease over time (Sultanoğlu, 2019).

The Board may make changes to the Conceptual Framework from time to time in line with its experience in the implementation of the Conceptual Framework. The Conceptual Framework regulates the following topics:

- (a) Purpose of financial reporting,
- (b) Qualitative characteristics of useful financial information,
- (c) Definition, accrual and measurement basis of the constituent elements of the financial statements,
- (d) Concepts of capital and continuity (protection) of capital (Kaya, 2019).

3.1.2 Purpose of Financial Reporting

The general purpose of financial reporting is to provide financial information that will be useful to existing and potential investors, lenders and other creditors when making decisions about funding the reporting entity. Decisions taken by these users include decisions to buy, sell or hold equity instruments and debt instruments, and to provide or pay off loans. Existing and potential investors make their decisions to buy, sell, or hold equity and debt instruments based on the returns they expect from their investments in these instruments (for example, returns from dividend payments, principal and interest payments, or market price increases). Similarly, existing and potential lenders and other creditors make their decisions to provide or repay loans, based on their anticipated principal and interest yields or other returns. Investors, lenders, and other creditors' expectations of returns are based on their assessment of the amount, timing, and uncertainty of future net cash inflows to the business (in other words, expected future net cash inflows to the business) (Doğan, Ertugay, 2010).

The current and potential investors, lenders, and other creditors need information to assist them in assessing expected future net cash inflows to the business. In order to evaluate the expected future net cash inflows to the business, existing and potential investors, lenders and other creditors need information about the economic resources of the business and the extent to which the business management and the board of directors fulfill their responsibilities in using the resources of the business. Protection of business assets from the negative effects of economic factors (such as price changes and technological changes) and ensuring that the business complies with the relevant laws, regulations and the provisions of the contract to which it is bound can be given as an example of such responsibilities. This knowledge of management's responsibilities will also be useful for decisions to be made by existing investors, lenders, and other creditors who have the power to approve or otherwise influence management's activities (Özbek, Badem, 2020).

General purpose financial reports provide information about the financial position of the reporting entity. Information showing the financial position of the entity consists of information about the reporting entity's economic resources and claims against the entity. In

addition, financial reports provide information about the effects of transactions and other events that change the reporting entity's economic resources and the rights to the entity. Both types of information provide data that will be useful when making decisions about funding a business.

3.1.3 Elements of the Financial Statement

The definitions regarding the main groups in the balance sheet and income statement as elements of the Financial Statement are briefly given in the Conceptual Framework as follows;

- An asset is a value that arises as a result of past transactions and is currently under the control of the entity and is expected to provide economic benefits to the entity in the future.
- Debt are current liabilities arising from past events, the payment of which will result in an outflow of values that can provide economic benefits to the business.
- Equity is the remainder by deducting foreign resources from the total assets of the enterprise.
- Income, in the accounting period, represents the increase in economic benefits as a result of asset inflows or other forms of asset growth or a decrease in liabilities that increase equity in items other than the funds invested by the shareholders.
- Expense represents decreases in economic benefits as a result of asset outflows or other decreases in assets during the accounting period or increases in liabilities that result in a decrease in equity, excluding decreases in equity as a result of payments to shareholders (Sabuncu, 2017).

3.1.4 Financial Statements Under TFRS

Turkish Financial Reporting Standards (TFRS): Standards and Interpretations published by the Public Oversight Accounting and Auditing Standards Authority (KGK). These Standards include:

- (a) Turkish Financial Reporting Standards,

- (b) Turkish Accounting Standards,
- (c) TAS Interpretations and TFRS Interpretations.

Financial statements are a formatted presentation of an entity's financial position and financial performance. The purpose of financial statements is to provide information about the financial position, financial performance and cash flows of the business that helps a wide range of users make economic decisions. In addition, financial statements show how effectively managers use the resources entrusted to them. To achieve this goal, the financial statements present the following information about the entity:

- Assets,
- Debts,
- Equity,
- Income and expenses, including profits and losses,
- Contributions made by the partners due to being partners and distributions made to the partners,
- Cash flows.

This information, along with other information in the footnotes, helps users of financial statements to estimate the future cash flows of the business, and in particular their timing and certainty (KGK, 2020).

Financial statements within the scope of TFRS consist of the following;

- Period-end statement of financial position, (Balance sheet)
- Statement of profit or loss and other comprehensive income for the period,
- Statement of changes in equity for the period,
- Cash flow statement for the period,
- Footnotes containing significant accounting policies and other explanatory information,

An entity may use different headings for its financial statements than those used in TAS 1 Presentation of Financial Statements, namely the headings above. For example, the entity may use the heading 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'. In order for the prepared set of financial statements

to comply with TFRS, the tables listed above must be complete and complete. In other words, the expression financial statements according to International/Turkish Financial Reporting Standards corresponds to all of the financial statements and footnotes listed above. In addition, TAS 1 standard states that all financial statements are of equal importance in this context (Sabuncu, 2019).

Financial statements present the financial position, financial performance and cash flows of the business in a fair manner. Fair presentation means that the results of transactions, other events and conditions are presented in accordance with the definitions of assets, liabilities, income and expenses and recognition criteria set forth in the Conceptual Framework. It is assumed that the application of TFRSs, with additional disclosures where necessary, will create financial statements that provide fair presentation. An entity whose financial statements are in compliance with TFRSs shall clearly and fully disclose this compliance in the footnotes. An entity cannot qualify its financial statements as in compliance with TFRSs unless the financial statements comply with all the clauses of TFRSs (KGK, 2015).

Management assesses the entity's ability to continue operating as a going concern when issuing financial statements. If the management has no intention or obligation to liquidate the company or terminate its commercial activities, financial statements are prepared according to the concept of going concern. If management is aware, in making its assessments, of events or conditions that contain material uncertainties that cast doubt on the continuity of the entity's operations, it discloses those uncertainties. If an entity does not prepare its financial statements on a going-concern basis, it shall disclose that fact together with the basis on which it is preparing its financial statements and the reason why the entity is considered to be non-continuous (Karakaya, 2020).

An entity must submit a complete set of financial statements (including comparable information) at least annually. When an entity changes the end of the reporting period (the balance sheet date) and prepares its financial statements for a period longer or shorter than one year, in addition to disclosing the period covered by the financial statements, it must disclose the following information:

- The reason why the financial statements cover a period of more than one year or less,
- The amounts presented in its financial statements are not fully comparable.

An entity normally prepares its financial statements to cover a period of one year on a regular basis. However, some businesses may choose to report for practical reasons. This standard does not prevent such an application.

An entity should clearly identify each of its financial statements and footnotes. In addition, the entity should clearly display and repeat the following information as necessary to ensure a proper understanding of the information:

- a) The name or other identification information of the reporting entity and any changes in this information since the previous reporting period,
- b) Whether the financial statements include a single company or a group of companies,
- c) The end of the reporting period (balance sheet date) or the period covered by the financial statements and footnotes,
- d) Presentation currency, as defined in TAS 21,
- e) The degree of rounding of the amounts presented in the financial statements.

Titles of pages, tables, footnotes, etc. should be clearly demonstrated that it fulfils the above provisions. In order to best present such information, an appropriate assessment must be made. For example, if financial statements are presented electronically, separate pages are not always used; In this case, the above elements are repeated frequently enough to ensure that the information in the financial statements is understood correctly. The currency used in the presentation of the information is rounded to the “thousand” or “million” digits, generally making the financial statements more understandable. However, its admissibility depends on disclosing the level of rounding of the presentation and not neglecting important information (KGK, 2015).

3.1.5 Statement of Financial Position- The Balance Sheet

Statement of Financial Position is the table prepared to give information about the financial position of the business and showing the assets, liabilities and equity of the business at a certain date.

Assets are values that arise as a result of past events and are currently under the control of the enterprise and are expected to provide economic benefits to the enterprise in the future.

Liabilities are current obligations arising from past events that, if fulfilled, will result in an outflow of values that have economic benefits.

An item that meets the definition of assets and liabilities is included in the Statement of Financial Position if it meets the following criteria:

- a) it is probable that the future economic benefits associated with the item will flow into or out of the business; and
- b) Its cost or value can be measured reliably.

This Standard specifies the measurement basis to be used for many assets and liabilities. Unless another measurement basis, such as fair value, is specified in this Standard, assets and liabilities are measured at initial recognition cost (historical cost).

In terms of assets, cost is the amount of cash or cash equivalents paid for the acquisition of the asset or the value of non-cash assets given in return for the acquisition of the asset.

In terms of liabilities, cost is the amount of cash or cash equivalents received in response to the obligation or the fair value of non-cash received or, in some cases, the amount of cash or cash equivalents that the entity is expected to pay in the normal operating cycle to settle the obligation at the time the obligation is assumed.

In this Standard, fair value is the amount that would arise when an asset changes hands or a liability is settled between knowledgeable and willing parties in a mutual bargaining environment.

Equity is the remaining shares after deducting all the liabilities of the business from the assets of the business.

For each class of share capital:

- a) Number of shares constituting the authorized capital;
- b) Number of issued and fully paid and issued but not fully paid shares;
- c) A share has no par value or no par value;
- d) Harmonization of the number of shares outstanding at the beginning and end of the period;
- e) Rights, privileges and limitations (restrictions) on that class of capital, including limitations on the distribution of dividends and repayment of capital;
- f) Own shares of the entity owned by the entity or by its subsidiaries or affiliates; and
- g) Shares held to be issued for stock sales to be made pursuant to options and contracts, their maturities and amounts; and

A description of the nature and purpose of each of the reserves in equity.

The statement of financial position must contain the following items of account:

- Tangible fixed assets,
- Investment properties,
- Intangible assets,
- Financial assets,
- Investments accounted for using the equity method,
- biological assets,
- Stocks,
- Trade and other receivables,
- Cash and cash equivalents,
- The total of assets held for sale and those held for sale in accordance with TFRS 5, and the total of assets included in the disposal group,
- Trade and other debts,
- Provisions,
- Financial debts,
- Current tax liabilities and assets, as defined in TAS 12 “Income Taxes” Standard,
- As defined in TAS 12, deferred tax liabilities and deferred tax assets,

- As held-for-sale items included in the disposal group in accordance with TFRS 5 classified debts,
- Non-controlling interests (minority interests) shown in equity and
- Issued capital and reserves belonging to the partners of the parent company (Gençoğlu, 2017).

3.1.6 Statement of Financial Performance – The Statement of Profit or Loss

Profit or Loss Statement is the table prepared to give information about the financial performance of the business and showing the income and expenses of the business for the reporting period and their net result.

The elements of the Profit or Loss Statement are revenues and expenses.

Revenues: It is an increase in equity during the reporting period in the form of an inflow of assets or an increase in the value of assets or a decrease in liabilities, excluding contributions from partners.

Expenses, on the other hand, are the decrease in equity during the reporting period in the form of an outflow of assets or a decrease in the value of assets or an increase in liabilities, excluding distributions to shareholders.

It describes the main characteristics of income and expenses but does not determine the basic criteria they must meet in order to be included in the Statement of Profit or Loss. Therefore, the definition of income and expense also includes income and expenses that cannot be included in the Profit or Loss Statement because they do not meet the recognition criteria (Sarıkale, İlter, 2018).

In addition to the items required under other TFRSs, the profit or loss section or statement of profit or loss includes items showing the following amounts for the period:

- Revenue,
- Financing costs,
- Shares of profit or loss of associates and joint ventures accounted for using the equity method,

- Tax expense,
- A single amount for the sum of discontinued operations

The following is an example of the classification of expenses according to their characteristics:

Table 1 Classification of expenses according to characteristics

Revenue	
Other Income	
Change in inventories of finished or semi-finished goods	X
Used raw materials and consumables used	X
Employee benefit costs	X
Depreciation and amortization expenses	X
Other expenses	X
Total expenses	X
Profit before tax	

Source: Vergi Raporu, 2015

3.2 Financial Analysis of Selected Ratios

Financial analysis is defined as the evaluation of the relationships between the accounts in the financial statements, and the interpretation by comparing them with the determined standards and industry averages in order to determine the financial status and financial performance of a company. Ratio analysis is one of the most used financial analysis techniques. In this method, the accounts in the financial statements are formulated and evaluations are made about the liquidity, financial structure, profitability and activities of the company by comparing against those of other companies or against the company's own historical performance. The basic financial statements used in financial analysis are the balance sheet and income statement (Lakada, Lapian, Tumiwa, 2017).

Vertical analysis is a type of analysis that allows to see the relative weights of the items on the balance sheet and income statement of a business for that year. Accordingly, it will be revealed how much weight each item has in the asset. Under vertical analysis, financial statements measure the quantity relationship of various items in the financial statement in a given period. It is also called static analysis because this analysis helps to determine the relationship with various items appearing in the financial statements. Vertical analysis is a technique that expresses each financial statement item as a percentage of a base amount (Dereköy, 2020).

Horizontal analysis is a financial statement that shows changes in the amounts of corresponding financial statement items over a period of time, which is a helpful tool to assess the trend situations. Under the horizontal analysis, financial statements are compared with several years. Normally, the current year's figures are compared with the base year, and it is examined how the financial information are changed from one year to another (Acar, 2012). Unlike vertical analysis, it reveals how certain items in the balance sheet and income statement have changed in two different years. This analysis, like vertical analysis, gives very important information about company activities (Dereköy, 2020).

There are several financial analysis ratios of asset utilization measurements, operating performance measurements. For the purposes of the thesis, the following ratios will be used:

- Cash ratio
- ROE (return on equity)
- Operating margin

The cash ratio shows the ability of the business to pay its short-term debts if the sales are over and it cannot collect its receivables. The cash ratio shows creditors and analysts the value of current assets that can be quickly converted into cash and what percentage of these cash and near-cash assets can meet the company's current liabilities (Yüksel, 2020).

Figure 1 Cash ratio formula

$$\text{Cash ratio} = \frac{\text{Cash \& cash equivalents}}{\text{Current liabilities}}$$

Source: <https://www.investopedia.com/terms/c/cash-ratio.asp>

Return on equity (ROE) is a ratio that gives investors an idea of how efficiently a company uses money contributed by shareholders. In other words, it measures a company's profitability in relation to equity. The higher the ROE, the more efficient a company's management is at generating revenue and growth from equity financing (Yenisu, 2019).

Figure 2 ROE formula

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

Source: <https://www.investopedia.com/terms/r/returnonequity.asp>

Operating margin is used to determine how profitable the main activities of the business and it is an important measure of a company's overall profitability from operations. It is the ratio of operating profits to revenues for a company or business segment. A high operating profit margin indicates that the main activities of the enterprise are profitable and efficient, while a decreasing trend in this ratio reveals that profitability and productivity have decreased.

Figure 3 Operating margin formula

$$\text{Operating Margin} = \frac{\text{Operating Earnings}}{\text{Revenue}}$$

Source: <https://www.investopedia.com/terms/o/operatingmargin.asp>

3.3 Aviation industry in Turkey

After the Second World War, important developments were observed in the Turkish Aviation industry, with the emphasis on modern aircraft production and the construction of new airports. Civil Aviation Act, which came into force in 1983, was a major step in the direction of liberalization of the Turkish civil aviation industry. The number of private airlines, fleet capacity and their share in the market increased significantly. With this law, private airline companies were allowed to be established and operated in the country, thus the aviation industry entered a significant development process. With the new law, significant increases have occurred in the seat capacities and market shares of private airline companies. Currently, 10 airlines operate in Turkey, one of which is state owned.

In 2017, approximately 196,041 employees were employed in the industry, and it was reached to 295,547 in 2019. The industry gross revenue, which was 24 billion US dollars in 2017, was increased to 27 billion US dollars in 2019. According to the Annual report of Directorate General of Civil Aviation annual report, the total number of passengers as of the end of 2018 was 210 million. Between 2017 and 2018, the number of domestic passengers increased by 3% from 109 million to 112 million. Between the same years, the number of international passengers increased by 16% from 83 million to 97 million. As of the end of 2018, the total air traffic was 2 million. Domestic air traffic decreased by 2% compared to the previous year and international air traffic increased by 10%. As of the end of 2020, the total number of passengers was 81.6 million. Between 2019-2020, the number of domestic passengers decreased by 50.4% from 99 million to 49 million. Between the same years, the number of international passengers decreased by 70.5% from 108 million to 31 million. As of the end of 2020, the total air traffic was 1 million. Domestic air traffic

is 31.5% compared to the previous year and international flight traffic decreased by 60.8% (SHGM, 2020).

4 Practical Part

4.1 General information about Turkish Airlines A.O.

4.1.1 History

Turkish Airlines A.O. was established on 20th of May, 1933 under the name of the State Airlines. It was affiliated to Ministry of National Defense and then it was diverted to the Ministry of Public Works by Law No. 2744 in 1935. Flights of the company was started in August 1933 with five planes and a capacity of 23 seats. The first general administrative center was in Ankara. The name of the company was changed to the General Directorate of State Airlines with the law No. 3424 in 03.06.1938 and it was diverted to the Ministry of Transport as an administration with an annexed budget. On 21st of May, 1955 with the Law No. 6623, the General Directorate of State Airlines was abolished, and the Government was given the authority to establish a joint-stock company under the name of Turkish Airlines Anonymous Partnership in order to carry out all kinds of air transportation and to be managed in accordance with the provisions of private law. Turkish Airlines Joint-Stock Company was established with a capital of 60 million Turkish lira (7 million US dollars) on 20th of February, 1956 with the approval of the Council of Ministers.

Having reached a capital of 700 billion Turkish lira (82 billion US dollars) in 1990, Turkish Airlines A.O. was diverted to the Public Partnership Administration. The capital structure of Turkish Airlines A.O. was changed again in May 2006. The company was affiliated to The Republic of Turkey Ministry of Treasury and Finance Privatization Administration, and 50.88% of the shares were traded on The Borsa Istanbul. The remaining 49.12% share was belonged to The Republic of Turkey Ministry of Treasury and Finance Privatization Administration. In February 2017, 49.12% share of Turkish Airlines A.O. owned by Republic of Turkey Prime Ministry Privatization Administration was transferred to Sovereign Wealth Fund of Turkey, while 50.88% of the shares are traded on The Borsa Istanbul.

4.1.2 Operations and Market

Turkish Airlines A.O. has number of subsidiaries like Turkish Cargo, AnadoluJet, Turkish Technic, Turkish Airlines International Investment and Transportation Inc. etc. Along with its joint ventures like Sun Express Aviation Inc., Air Albania SHPK, Turkish Airlines Opet Aviation Fuels Inc. etc. These companies collectively employ over 60,000 people.

The company, which operates scheduled services to 315 destinations, made over 464 thousand annual flights before Covid-19. However, in 2020 the company was able to make only around 209 thousand flights. According to the annual report of Turkish Airlines A.O., its net profit, which was 223 million US dollars in 2017, was reached to 753 million US dollars in 2018. Its net profit in 2019 was 788 million US dollars but due to the negative effects of the pandemic on the industry, net profit of 2020 was - 836 million US dollars. In 2019, the annual revenue of Turkish Airlines A.O. was 13 billion US dollars, and it was decreased to 6 billion US dollars in 2020 (Annual report,2020).

4.2 Analysis of Financial Position – Balance Sheet

Analysis of financial position of the company include the vertical and horizontal analysis of items of Balance sheet; assets, liabilities and equity, with the aim to identify the most significant items by vertical analysis and the changes over the years by horizontal analysis.

4.2.1 Vertical Analysis of Assets

Vertical analysis is important as it shows the distribution of the company's resources. With the vertical analysis method, it shows how much of the company resources are in current assets, how much is in tangible assets and how it changes over the years.

Table 2 Vertical analysis of assets 2017-2020(all amounts are expressed in million US dollars (USD))

ASSETS	2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Non-Current Assets								
Financial Investments	75	0.29%	90	0.36%	86	0.41%	51	0.28%
Other Receivables								
-Third Parties	1,200	4.70%	1,276	5.16%	1,004	4.84%	619	3.40%
Investments Accounted for Using Equity Method	256	1.00%	369	1.49%	358	1.73%	320	1.76%
Property and Equipment	4,145	16.24%	3,643	14.73%	13,918	67.13%	13,002	71.45%
Right of Use Assets	14,777	57.88%	13,618	55.08%				
Intangible Assets								
-Other Intangible Assets	89	0.35%	82	0.33%	82	0.40%	66	0.36%
-Goodwill	12	0.05%	12	0.05%	12	0.06%	12	0.07%
Prepaid Expenses	798	3.13%	864	3.49%	767	3.70%	496	2.73%
TOTAL NON-CURRENT ASSETS	21,352	83.63%	19,954	80.71%	16,227	78.27%	14,566	80.05%
Current Assets								
Cash and Cash Equivalents	1,811	7.09%	2,075	8.39%	1,636	7.89%	1,891	10.39%
Financial Investments	18	0.07%	400	1.62%	519	2.50%	195	1.07%
Trade Receivables								
-Related Parties	18	0.07%			2	0.01%	2	0.01%
-Third Parties	619	2.42%	540	2.18%	568	2.74%	590	3.24%
Other Receivables								
-Related Parties	6	0.02%	28	0.11%	3	0.01%		
-Third Parties	1,095	4.29%	1,053	4.26%	1,178	5.68%	319	1.75%
Derivative Financial Instruments	2	0.01%	52	0.21%	57	0.27%	203	1.12%
Inventories	305	1.19%	290	1.17%	190	0.92%	193	1.06%
Prepaid Expenses	141	0.55%	149	0.60%	192	0.93%	119	0.65%
Current Income Tax Assets	38	0.15%	43	0.17%	61	0.29%	32	0.18%
Other Current Assets	125	0.49%	140	0.57%	99	0.48%	87	0.48%
TOTAL CURRENT ASSETS	4,178	16.37%	4,770	19.29%	4,505	21.73%	3,631	19.95%
TOTAL ASSETS	25,530	100.00%	24,724	100.00%	20,732	100.00%	18,197	100.00%

Source: Own processing from financial statements of THY FY 2017-2020

Table 2 shows the changes in proportion of every item under assets on Consolidated Statement of Financial Position from 2017 to 2020. Tangible assets under Property and Equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Legal fees are also included in cost. Borrowing costs are capitalized for

assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use. Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates. The Group has classified the cost of assets that are acquired directly or through finance leases into the following parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life (Annual Report FY 18).

As seen in the Table 2, Property and Equipment, which had a share of 71,45% of total assets in 2017, was decreased on a percentage basis to 67,13% in 2018. On a value basis, it was increased from 13,002 US million dollars to 13,918 million US dollars with increased by 916 million US dollars. However, due to the percentage increase in total assets of other assets, the percentage share of Property and Equipment was decreased against total assets. For example, due to the significant increase in the amount of "Third Parties" under Other Receivables, the percentage of item was increased against total assets between 2017 and 2018.

In the Table 4, a significant change is observed in the Property and Equipment percentages in a 4-year time interval. The reason for this change is that since 2019, THY has started to show Property and Equipment as two different items in its financial reports. In the report, Property and Equipment represents the company's own assets, while Right of Use assets represents leased aircraft, spare engines, real estates and vehicles, and their depreciation separately. Right of use assets are shown in Figure 4.

Another significant change item is Investments Accounted for Using Equity Method. In 2017 the subsidiaries that includes Turkish Cargo, AnadoluJet, Turkish Technic, Turkish

Airlines International Investment and Transportation Inc. are under control of THY along with its joint ventures like Sun Express Aviation Inc., Air Albania SHPK, Turkish Airlines Opet Aviation Fuels Inc, gave to company 320 million US dollars which takes 1,76% of the total assets. In 2018 the list of controlled joint ventures and shares are the same, but there were changes in value as 358 million US dollars which takes 1,73% of total assets. In 2019 there were increased in value as 369 million USD dollars which takes 1,49% of total assets. But in 2020 there were significant decreased in value as well as percentages of Investments Accounted for Using Equity Method in total assets. The value was decreased from 369 million USD dollars to 256 million USD dollars, thus the percentage in total assets was decreased from 1,49% to 1%.

Figure 4 Right of use assets

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Cost</u>					
Opening balance at 1 January 2020	17,647	165	74	6	17,892
Additions	2,784	28	1	-	2,813
Transfer	15	11	-	-	26
Disposals	(132)	(2)	-	-	(134)
Transfers between the accounts (*)	(933)	-	-	-	(933)
Closing balance at 31 December 2020	19,381	202	75	6	19,664
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2020	4,222	39	10	3	4,274
Depreciation charge	1,171	11	11	2	1,195
Disposals	(132)	(2)	-	-	(134)
Transfers between the account (*)	(448)	-	-	-	(448)
Closing balance at 31 December 2020	4,813	48	21	5	4,887
Net book value at 31 December 2020	14,568	154	54	1	14,777
<u>Cost</u>					
Opening balance at 1 January 2019	15,749	148	56	6	15,959
Additions	2,134	25	18	-	2,177
Transfers	166	-	-	-	166
Disposals	(131)	(8)	-	-	(139)
Transfers between the accounts (*)	(271)	-	-	-	(271)
Closing balance at 31 December 2019	17,647	165	74	6	17,892
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2019	3,394	36	-	-	3,430
Depreciation charge	1,097	11	10	3	1,121
Disposals	(131)	(8)	-	-	(139)
Transfers between the account (*)	(138)	-	-	-	(138)
Closing balance at 31 December 2019	4,222	39	10	3	4,274
Net book value at 31 December 2019	13,425	126	64	3	13,618

Source: Financial statements of THY, 2017-2020

4.2.2 Vertical analysis of liabilities and equity

With vertical analysis of liabilities and equity, total liabilities are compared all liabilities and total equity is compared all equity accounts to analyze how it changes over the years.

Table 3 Vertical analysis of liabilities and equity, FY 2017-2020(all amounts are expressed in million US dollars (USD))

LIABILITIES	2020		2019		2018		2017	
Equity	Amount	%	Amount	%	Amount	%	Amount	%
Share Capital	1,597	6.3%	1,597	6.5%	1,597	7.7%	1,597	8.8%
Items That Will Not Be Reclassified to Profit or Loss								
-Actuarial (Losses) on Retirement Pay Obligation	-48	-0.2%	-38	-0.2%	-35	-0.2%	-15	-0.1%
Items That Are or May Be Reclassified to Profit or Loss								
-Foreign Currency Translation Differences	-201	-0.8%	-184	0.7%	-160	-0.8%	-108	-0.6%
-Fair Value Gains on Hedging Instruments								
Entered into for Cash Flow Hedges	-450	-1.8%	171	0.7%			61	0.3%
-Gains on Remeasuring FVOCI	2	0.0%	-1	0.0%	6	0.0%	1	0.0%
Restricted Profit Reserves	72	0.3%	67	0.3%	36	0.2%	36	0.2%
Previous Years Profit	5,246	20.5%	4,463	18.1%	3,760	18.1%	3,551	19.5%
Net (Loss) / Profit for the Year	-836	-3.3%	788	3.2%	753	3.6%	223	1.2%
Equity of the Parent	5,382	21.1%	6,863	27.8%	5,945	28.7%	5,346	29.4%
Non-Controlling Interests	1	0.0%	1	0.0%				
TOTAL EQUITY	5,383	21.1%	6,864	27.8%	5,945	28.7%	5,346	29.4%
Non- Current Liabilities								
Long-Term Borrowings	2,681	10.5%	1,721	7.0%	8,239	39.7%	7,339	40.3%
Long Term Lease Liabilities	9,579	37.5%	8,545	34.6%				
Other Payables								
-Third Parties	22	0.1%	37	0.1%	36	0.2%	83	0.5%
Deferred Income	109	0.4%	120	0.5%	60	0.3%	42	0.2%
Long-Term Provisions								
-Provisions for Employee Benefits	134	0.5%	135	0.5%	130	0.6%	128	0.7%
-Other Provisions	49	0.2%	45	0.2%				
Deferred Tax Liability	1,119	4.4%	1,293	5.2%	1,138	5.5%	962	5.3%
TOTAL NON-CURRENT LIABILITIES	13,693	53.6%	11,896	48.1%	9,603	46.3%	8,554	47.0%

	2020		2019		2018		2017	
Current Liabilities	Amount	%	Amount	%	Amount	%	Amount	%
Short Term Borrowings	1,527	6.0%	1,241	5.0%	1,099	5.3%	744	4.1%
Short-Term Portion of Long-Term Borrowings	1,186	4.6%	491	2.0%	1,270	6.1%	983	5.4%
Short Term Portion of Lease Liabilities	1,728	6.8%	1,374	5.6%				
Other Financial Liabilities	17	0.1%	19	0.1%	6	0.0%	16	0.1%
Trade Payables								
-Related Parties	141	0.6%	172	0.7%	231	1.1%	168	0.9%
-Third Parties	720	2.8%	958	3.9%	791	3.8%	687	3.8%
Payables Related to Employee Benefits	90	0.4%	160	0.6%	199	1.0%	200	1.1%
Other Payables								
-Third Parties	88	0.3%	98	0.4%	78	0.4%	65	0.4%
Derivative Financial Instruments	64	0.3%	70	0.3%	196	0.9%	128	0.7%
Deferred Income	614	2.4%	1,071	4.3%	1,052	5.1%	1,016	5.6%
Short-Term Provisions								
-Provisions for Employee Benefits	16	0.1%	39	0.2%	39	0.2%	41	0.2%
-Other Provisions	10	0.0%	13	0.1%	16	0.1%	22	0.1%
Other Current Liabilities	253	1.0%	258	1.0%	207	1.0%	208	1.1%
TOTAL CURRENT LIABILITIES	6,454	25.3%	5,964	24.1%	5,184	25.0%	4,297	23.6%
TOTAL LIABILITIES AND EQUITY	25,530	100.0%	24,724	100.0%	20,732	100.0%	18,197	100.0%

Source: Own processing from financial statements of THY, 2017-2020

Table 3 represent vertical analysis of liabilities and equity. It is seen that the largest share from the total equity and liabilities is Long-Term Borrowings under Non-Current Liabilities. Long-Term Borrowings had a share of 40.3% of total liabilities and equity in 2017. In 2018, the percentage share of Long-Term Borrowings was decreased against total liabilities and equity as the share was 39.7%. However, it is seen that the value of Long-Term Borrowings was increased from 7,339 million US dollars to 8,239 million US dollars. A significant change is observed in the Long-Term Borrowings percentages in a 4-year time interval. The reason for this change is that since 2019, THY has started to show Long-Term Borrowings as two different items as Long-Term Borrowings and Long-Term Lease Liabilities on its financial reports. The value of Long-Term Lease Liabilities was increased from 8,545 million US dollar to 9,579 million US dollar between 2019 and 2020 while taking the increased percentage from 34.6% to 37.5% against total liabilities and equity. Meantime, Long-Term Borrowings had been increased significantly between 2019 and 2020. In 2019, it took 7% of total liabilities and equity and increased to 10.5% in 2020.

As it is shown in Table 4, there was a significant increase in Bank Borrowings under Long-Term Borrowings throughout years. In 2017, it was 80 million US dollar, and it was significantly increased to 1,233 million US dollar in 2018. The increased was continued by following years. And it reached to 2,681 million US dollar in 2020.

Table 4 Long-term borrowings, FY 2017-2020 (in million US dollars (USD))

	2020	2019	2018	2017
Finance Lease Obligations	9,579	8,545	7,006	7,259
Bank borrowings	2,681	1,721	1,233	80
TOTAL	12,260	10,266	8,239	7,339

Source: financial statements of THY FY 2017-2020

4.2.3 Horizontal analysis of assets

Horizontal analysis also known as trend analysis. In this method, one of the chosen or previous year can be used as a base year and compare to another year. Always two years should be compared to see how particular item was changed from year to another. In this thesis, analysis is done by comparing the comparison year with previous year as a chain. The change on items during the specified years can be easily described and the effects on the growth of company, their activities and how it affects the revenues can be analyzed based on this analysis.

Table 5 Horizontal analysis of assets, FY 2017-2020 (in million US dollars (USD))

ASSETS	2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Non-Current Assets								
Financial Investments	75	-16.67%	90	4.65%	86	68.63%	51	-
Other Receivables								-
-Third Parties	1,200	-5.96%	1,276	27.09%	1,004	62.20%	619	-
Investments Accounted for Using Equity Method	256	-30.62%	369	3.07%	358	11.88%	320	-
Property and Equipment	18,922	9.62%	17,261	24.02%	13,918	7.05%	13,002	-
Right of Use Assets								-
Intangible Assets								-
-Other Intangible Assets	89	8.54%	82	0.00%	82	24.24%	66	-
-Goodwill	12	0.00%	12	0.00%	12	0.00%	12	-
Prepaid Expenses	798	-7.64%	864	12.65%	767	54.64%	496	-
TOTAL NON-CURRENT ASSETS	21,352	7.01%	19,954	22.97%	16,227	11.40%	14,566	-
Current Assets								
Cash and Cash Equivalents	1,811	-12.72%	2,075	26.83%	1,636	-13.48%	1,891	-
Financial Investments	18	-95.50%	400	-22.93%	519	166.15%	195	-
Trade Receivables								-
-Related Parties	18			-100.00%	2	0.00%	2	-
-Third Parties	619	14.63%	540	-4.93%	568	-3.73%	590	-
Other Receivables								-
-Related Parties	6	-78.57%	28	833.33%	3			-
-Third Parties	1,095	3.99%	1,053	-10.61%	1,178	269.28%	319	-
Derivative Financial Instruments	2	-96.15%	52	-8.77%	57	-71.92%	203	-
Inventories	305	5.17%	290	52.63%	190	-1.55%	193	-
Prepaid Expenses	141	-5.37%	149	-22.40%	192	61.34%	119	-
Current Income Tax Assets	38	-11.63%	43	-29.51%	61	90.63%	32	-
Other Current Assets	125	-10.71%	140	41.41%	99	13.79%	87	-
TOTAL CURRENT ASSETS	4,178	-12.41%	4,770	5.88%	4,505	24.07%	3,631	-
TOTAL ASSETS	25,530	3.26%	24,724	19.26%	20,732	13.93%	18,197	-

Source: Own processing from financial statements of THY FY 2017-2020

Table 5 shows the horizontal analysis of assets, and their changes of shares from the overall proportion and the significance of items for the company. It is seen that there was 7.05% growth of Property and Equipment between 2017 and 2018 and it was significantly increased between 2018 and 2019 as the percentage of Property and Equipment was 24.02% comparing with 2018. The change of share for Property and Equipment was 9.62% in 2020 comparing with 2019.

In the meantime, it was seen that there was a significant decreased in shares of Investments Accounted for Using Equity Method throughout years. It was 11.88% in 2018 comparing with 2017 while it was -30.62% in 2020 compering to 2019. It is seen that most of the assets are shown negative growth in 2020 comparing with 2019 and in 2019 compering to 2018 while there was a positive growth in 2018 comparing to 2017.

Table 6 Horizontal analysis of liabilities and equity, FY 2017-2020 (in million US dollars (USD))

LIABILITIES	2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Equity								
Share Capital	1,597	0.0%	1,597	0.0%	1,597	0.0%	1,597	-
Items That Will Not Be Reclassified to Profit or Loss								-
-Actuarial (Losses) on Retirement Pay Obligation	-48	26.3%	-38	8.6%	-35	133.3%	15	-
Items That Are or May Be Reclassified to Profit or Loss								-
-Foreign Currency Translation Differences	-201	9.2%	-184	15.0%	-160	48.1%	-108	-
-Fair Value Gains on Hedging Instruments								-
Entered into for Cash Flow Hedges	-450	-363.2%	171			-100.0%	61	-
-Gains on Remeasuring FVOCI	2	-300.0%	-1	-83.3%	-6	-700.0%	1	-
Restricted Profit Reserves	72	7.5%	67	86.1%	36	0.0%	36	-
Previous Years Profit	5,246	17.5%	4,463	18.7%	3,760	5.9%	3,551	-
Net (Loss) / Profit for the Year	-836	-206.1%	788	4.6%	753	237.7%	223	-
Equity of the Parent	5,382	-21.6%	6,863	15.4%	5,945	11.2%	5,346	-
Non-Controlling Interests	1	0.0%	1					-
TOTAL EQUITY	5,383	-21.6%	6,864	15.5%	5,945	11.2%	5,346	-
Non- Current Liabilities								-
Long-Term Borrowings	12,260	19.4%	10,266	24.6%	8,239	12.3%	7,339	-
Long Term Lease Liabilities								-
Other Payables								-
-Third Parties	22	-40.5%	37	2.8%	36	-56.6%	83	-
Deferred Income	109	-9.2%	120	100.0%	60	42.9%	42	-
Long-Term Provisions								-
-Provisions for Employee Benefits	134	-0.7%	135	3.8%	130	1.6%	128	-
-Other Provisions	49	8.9%	45					-
Deferred Tax Liability	1,119	-13.5%	1,293	13.6%	1,138	18.3%	962	-
TOTAL NON-CURRENT LIABILITIES	13,693	15.1%	11,896	23.9%	9,603	12.3%	8,554	-
Current Liabilities								-
Short Term Borrowings	1,527	23.0%	1,241	12.9%	1,099	47.7%	744	-
Short-Term Portion of Long-Term Borrowings	1,186	141.5%	491	-61.3%	1,270	29.2%	983	-
Short Term Portion of Lease Liabilities	1,728	25.8%	1,374					-
Other Financial Liabilities	17	-10.5%	19	216.7%	6	-62.5%	16	-
Trade Payables								-
-Related Parties	141	-18.0%	172	-25.5%	231	37.5%	168	-
-Third Parties	720	-24.8%	958	21.1%	791	15.1%	687	-
Payables Related to Employee Benefits	90	-43.8%	160	-19.6%	199	-0.5%	200	-
Other Payables								-
-Third Parties	88	-10.2%	98	25.6%	78	20.0%	65	-
Derivative Financial Instruments	64	-8.6%	70	-64.3%	196	53.1%	128	-
Deferred Income	614	-42.7%	1,071	1.8%	1,052	3.5%	1,016	-
Short-Term Provisions								-
-Provisions for Employee Benefits	16	-59.0%	39	0.0%	39	-4.9%	41	-
-Other Provisions	10	-23.1%	13	-18.8%	16	-27.3%	22	-
Other Current Liabilities	253	-1.9%	258	24.6%	207	-0.5%	208	-
TOTAL CURRENT LIABILITIES	6,454	8.2%	5,964	15.0%	5,184	20.6%	4,297	-
TOTAL LIABILITIES AND EQUITY	25,530	3.3%	24,724	19.3%	20,732	13.9%	18,197	-

Source: Own processing from financial statements of THY FY 2017-2020

The significant change can be seen for Total Current Liabilities. The proportion of Total Current Liabilities was 20.6% in 2018 comparing to 2017 while it was decreased as 15% in 2019 comparing to 2018 and it was seen that it was 8.2% in 2020 comparing to 2019. The change in Total Current Liabilities was mainly caused by the significant change in Short-Term Provisions, Deferred Income and Payables Related to Employee Benefits.

In addition to negative change, there are many items in which positive change was observed. For example, Actuarial on Retirement Pay Obligation under Equity had significant changes throughout years. It was 133.3% in 2018 comparing to 2017 and proportion of it was decreased to 8.6% in 2019 comparing to 2018. And there was a considerable increase in 2020 as 26.3% comparing to 2019. Under Current Liabilities, noticeable change can be seen for Short Term Borrowings and Short-Term Portion of Long-Term Borrowings. The proportion of Short-Term Borrowings was 47.7% in 2018 comparing to 2017 and there was a decrease to 12.9% in 2019 comparing to 2018. In 2020, it was increased to 23% comparing to 2019. In addition to it, noticeable change can be seen for Short-Term Portion of Long-Term Borrowings. In 2018, proportion of it was 29.2% comparing to 2017 and it was significantly decreased to -61.3% in 2019 comparing to 2018 but there was a noticeable increase to 141.5% in 2020 comparing to 2019.

It was observed that the proportion of Long-Term Borrowings under Non- Current Liabilities was 12.3% in 2018 comparing to 2017 and the proportion was increased to 24.6% in 2019 comparing to 2018 but in 2020, proportion of it was decreased to 19.4% comparing to 2019.

4.3 Analysis of Financial Performance- Statement of Profit and Loss

Analysis of financial performance of the company include the vertical and horizontal analysis of items of the Statement of Profit and Loss; expenses and revenues with the aim to identify the most significant items by vertical analysis and the changes over the years by horizontal analysis.

4.3.1 Horizontal analysis of the statement of profit & loss

Table 7 shows the results of a financial analysis for years 2017-2020 and how the items on it changed throughout years and what components influenced it.

Table 7 Horizontal analysis of the statement of profit/loss 2017-2020 (in million US dollars (USD))

PROFIT OR LOSS	2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue	6,734	-49.1%	13229	2.9%	12855	17.3%	10958	-
Cost of Sales (-)	-6378	-41.6%	-10928	7.8%	-10136	15.7%	-8762	-
GROSS PROFIT	356	-84.5%	2301	-15.4%	2719	23.8%	2196	-
General Administrative Expenses (-)	-219	-26.8%	-299	15.0%	-260	-5.5%	-275	-
Marketing and Sales Expenses (-)	-667	-52.9%	-1417	9.8%	-1290	14.5%	-1127	-
Other Operating Income	330	-7.0%	355	115.2%	165	-37.5%	264	-
Other Operating Expenses (-)	-55	-14.1%	-64	-55.2%	-143	297.2%	-36	-
OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES	-255	-129.1%	876	-26.4%	1191	16.5%	1022	-
Income from Investment Activities	190	12.4%	169	67.3%	101	-43.3%	178	-
Expenses from Investment Activities	-11	-86.3%	-80	3900.0%	-2	100.0%	-1	-
Share of Investments' Loss / Profit Accounted by Using The Equity Method	-87	-206.1%	82	-33.3%	123	20.6%	102	-
OPERATING LOSS / PROFIT	-163	-115.6%	1047	-25.9%	1413	8.6%	1301	-
Financial Income	72	-48.2%	139	7.8%	129	130.4%	56	-
Financial Expenses (-)	-835	169.4%	-310	-47.3%	-588	-45.5%	-1078	-
LOSS/ PROFIT BEFORE TAX	-926	-205.7%	876	-8.2%	954	241.9%	279	-
Tax Expense/ Income	90	-202.3%	-88	-56.2%	-201	258.9%	-56	-
Current Tax Expense				-100.0%	-40	-18.4%	-49	-
Deferred Tax Expense / Income	90	-202.3%	-88	-45.3%	-161	2200.0%	-7	-
NET LOSS/ PROFIT FOR THE YEAR	-836	-206.1%	788	4.6%	753	237.7%	223	-

Source: Own processing from financial statements of THY FY 2017-2020

It was observed that there was significant increase in all items under the Profit & Loss statement in 2018 comparing to 2017. For example, in 2018 revenue showed 17.3%

increase along with cost of sales as 15.7% comparing to 2017. But nevertheless, the gross profit was increased by 23.8% in 2018 comparing to 2017. It is seen that there was noticeable increase in Share of Investments' Loss / Profit Accounted by Using the Equity Method by 20.06% in 2018 comparing to 2017 but there was a decrease in Income from Investment Activities by -43.3% in comparison of the same years.

The biggest noticeable decrease in 2018 comparing to 2017 was Financial Expenses by -45.5% but in the same year comparison, Financial Income showed significant increase as it was 130.4% comparing to 2017. The breakdown of Financial Income and Financial Expenses can be seen in Table 8.

It was seen that there was a decrease in most of the items in 2019 comparing to 2018. The revenue was decreased to 2.9% in 2019 comparing to 2018. Also Share of Investments' Loss / Profit Accounted by Using the Equity Method was decreased to -33.3% in 2019 comparing to 2018. There was an increase in Other Operating Income by 115.2% in 2019 comparing to 2018 along with Income from Investment Activities as it was increased by 67.3% in 2019 comparing to 2018. Also, there was decreased in Other Operating Expenses in 2019 by -55.2% comparing to 2018. But those did not have noticeable impact since the value of them were not high comparing to Revenue.

There was a significant decrease in items under the statement in 2020 comparing to 2019. Revenue was decreased by -49.1% as well as Cost of Sales by -41.6%. Therefore, the Gross Profit showed -84.5% decrease in 2020 comparing to 2019. But the biggest decrease was seen in Share of Investments' Loss / Profit Accounted by Using the Equity Method since it was decreased by -206.1% in 2020 comparing to 2019. And along with these decreases, there was a significant increase in Financial Expenses as it was increased by 169.4% in 2020 comparing to 2019. Revenue showed significant growth from 2017 to 2019 but it was significantly decreased in 2020 comparing to 2019.

It can be seen in Table 7 that Revenue showed significant growth from 2017 to 2019. The value of Revenue was 10,958 million US dollar in 2017 and it was reached to 12,855 million US dollar in 2018 by showing 17.3% increase. And it was reached to 13,229

million US dollar in 2019 by 2.9% increase but in 2020 the value of Revenue was decreased to 6,734 as almost half of previous year's value by showing -49.1% decrease.

Table 8 Breakdown of financial income and financial expenses (in million US dollars (USD))

	2020	2019	2018	2017
FINANCIAL INCOME				
Interest income	53	45	93	48
Rediscount interest income from repayments of aircrafts	15	13		
Foreign exchange gains from financial activities, net		79	36	
Other financial incomes	4	2		8
TOTAL	72	139	129	56
FINANCIAL EXPENSES				
Foreign exchange losses on financial activities, net	498		282	780
Interest expense from leasing liabilities	209	184	235	209
Interest expense from financial activities	63	57	19	
Aircraft financing expenses	22	23	21	29
Fair value losses on derivative financial instruments, net	21	23		39
Interest expenses on employee benefits	13	16	11	12
Other financial expenses	9	7	20	9
TOTAL	835	310	588	1,078

Source: Own processing from financial statements of THY, FY 2017-2020

4.3.2 Vertical analysis of the Statement of Profit & Loss

Vertical analysis for the Statement of Profit & Loss was done separately for the segments on the statement in order to analyze the items under the statement of profit & loss more accurately and to provide a clearer view.

Table 9 Vertical analysis of revenues separately 2017-2020 (in million US dollars (USD))

	2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Total passenger revenue	3,792	56.30%	11,167	84.40%	10,918	84.90%	9,403	85.80%
Total cargo revenue	2,722	40.40%	1,688	12.80%	1,647	12.80%	1,317	12.00%
Technical revenue	175	2.60%	305	2.30%	226	1.80%	173	1.60%
Other revenue	45	0.70%	69	0.50%	64	0.50%	65	0.60%
TOTAL REVENUE	6,734	100.00%	13,229	100.00%	12,855	100.00%	10,958	100.00%

Source: Own processing from financial statements of THY FY 2017-2020

Table 9 shows the separate vertical analysis of the revenues. More explanatory information for Revenue segment was provided in Notes 26 which is added to each the profit or loss statements. Passenger and cargo revenues are recognized as operating revenue when the transportation service is provided (Annual Report, 2020). It can be seen that passenger revenue was the most significant item as it had 85.8% of shares from the total revenue in 2017 while cargo revenue took 12% of shares. In 2018 and 2019, passenger revenue took the percentage of 84.9% and 84.4% respectively from the total revenue. Even the slightly decrease in shares against total revenue, passenger revenue showed noticeable increased in the value. It was 9,403 million US dollar in 2017 and increased to 10,918 million US dollar in 2018. And in 2019, it reached to 11,167 million US dollar. However, this noticeable increase trend was negatively affected by COVID-19 and in 2020, passenger revenue showed exceptionally decreased by reaching to 3,792 million US dollar in value and taking the shares of 56.3% from total revenue which was still the highest item under revenue segment in terms of shares against total revenue.

Another item, which took second biggest shares from total revenue after passenger revenue, was cargo revenue. Cargo revenue took 12% of total revenue in 2017 by having 1,317 million US dollar in value. It showed slight increase in 2018 by taking the shares of 12.8% from total revenue and it reached to 1,647 million US dollar in value. In 2019, there wasn't any noticeable change of share from total revenue for cargo revenue, it took shares of 12.8% and 1,688 million US dollar in value. However, in 2020 cargo revenue showed significant increase which was partially due to effect of decrease in shares of passenger

revenue. But it had showed also significant increased in value, it reached to 2,722 million US dollar while taking the 40.4% of total revenue.

Table 10 Vertical analysis of the cost of sales separately 2017-2020 (in million US dollars (USD))

	2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Fuel expenses	1,638	25.7%	3,873	35.4%	3,768	37.2%	2,866	37.0%
Personnel expenses	1,591	24.9%	1,462	13.4%	1,379	13.6%	1,369	17.7%
Depreciation and amortization charges	833	13.1%	1,624	14.9%	1,038	10.2%	1,009	13.0%
Aircraft maintenance expenses	546	8.6%	791	7.2%	804	7.9%	645	8.3%
Ground services expenses	485	7.6%	815	7.5%	733	7.2%	656	8.5%
Passenger services and catering expenses	315	4.9%	623	5.7%	560	5.5%	510	6.6%
Air traffic control expenses	296	4.6%	553	5.1%	542	5.3%	509	6.6%
Airport expenses	224	3.5%	284	2.6%	514	5.1%	469	6.0%
Operating lease expenses	217	3.4%	622	5.7%	336	3.3%	324	4.2%
Wet lease expenses	49	0.8%	66	0.6%	259	2.6%	203	2.6%
Insurance expenses	44	0.7%	52	0.5%	45	0.4%	49	0.6%
Transportation expenses	37	0.6%	44	0.4%	37	0.4%	30	0.4%
Rents	31	0.5%	33	0.3%	36	0.4%	34	0.4%
Service expenses	20	0.3%	27	0.2%	30	0.3%	29	0.4%
Taxes and duties	20	0.3%	18	0.2%	15	0.1%	14	0.2%
IT & communication expenses	4	0.1%	3	0.0%	5	0.0%	6	0.1%
Other expenses	28	0.4%	38	0.3%	35	0.3%	40	0.5%
Cost of Sales	6,378	100.0%	10,928	100.0%	10,136	100.0%	7,753	100.0%

Source: Own processing from financial statements of THY FY 2017-2020

Table 10 shows the separate vertical analysis of the cost of sales. More explanatory information for Revenue segment was provided in Notes 27 which is added to each the profit or loss statements. It can be seen that the fuel expenses was the most significant item as it had 37% of shares from the cost of sales in 2017 while personnel expenses took 17.7% of shares. In 2018 and 2019, fuel expenses took the percentage of 37.2% and 35.4% respectively from the cost of sales. Even the slightly increase in shares against the cost of sales, fuel expenses showed noticeable increased in the value. It was 2,866 million US dollar in 2017 and increased to 3,768 million US dollar in 2018. And in 2019, it reached to

3,873 million US dollar by taking the 35.4% of shares against the cost of sales. However, in 2020 Fuel expenses showed the significant decrease by reaching the value of 1,638 million US dollar and it took the 25.7% shares of total cost of sales. This changed was caused by COVID-19 since the pandemic had huge effect on international air traffic and aviation industry. But despite the issue, the fuel expenses took highest percentage from total cost of sales in 2020.

Another item, which took second biggest shares from total cost of sales after fuel expenses, was personnel expenses. Personnel expenses took 17.7% of cost of sales in 2017 by having 1,3369 million US dollar in value. In 2018, It didn't show any significant change in terms of value by reaching to 1,379 million US dollar but it had 13.6% shares of total cost of sales. In 2019, there wasn't any noticeable change of share from total revenue for personnel expenses, it took shares of 13.4% but it reached to 1,462 million US dollar in value. However, in 2020 personnel expenses showed significant increase which was partially due to effect of decrease in shares of fuel expenses. But it had showed also increased in value and it reached to 1,591 million US dollar while taking the 24.9% shares of total cost of sales.

4.4 Selected ratios of financial analysis

Selected ratios which are the cash ratio, ROE and the operating profit margin were calculated for the company, covering years between 2017 and 2020.

4.4.1 The Cash Ratio

Table 11 The calculation of cash ratio (in million US dollars (USD))

Year	2020	2019	2018	2017
Cash and Cash Equivalents	1,811	2,075	1,636	1,891
Current Liabilities	6,454	5,964	5,184	4,297
Cash Ratio	0.281	0.348	0.316	0.440

Source: Own processing from the data provided in the annual report, FY 2017-2020

Table 11 shows the cash ratio and the amounts used for the calculation. The cash ratio in 2017 was less than 1 as it was 0,44 which means there were more current liabilities than cash and cash equivalents. The cash ratio being less than 1 means that the company needs more than just its cash reserves to pay off its current debt. But this may not be bad news if there are conditions that skew the company's balance sheets, such as longer-than-normal credit terms with its suppliers, efficiently managed inventory, and very little credit extended to its customers. The low cash ratio may also be an indicator of a company's specific strategy that calls for maintaining low cash reserves because funds are being used for expansion. It was also seen that the cash ratio showed mainly decreasing trend throughout calculated years. It was decreased to 0,316 in 2018 and it was slightly increased to 0,348 in 2019. But it was decreased to 0,281 in 2020. One of the reasons of low cash ratio is general business model in the airline industry. As aircraft incur significant costs, most airlines finance purchase via lease, and a certain part of the lease obligation is classified as a current liability. Further, collection on account of advanced booking is classified as a liability. Hence, the nature of the business supports a higher proportion of the current liability, and this leads to a lower value of the cash ratio.

4.4.2 Return on Equity (ROE)

Table 12 The calculation of return on equity ratio (in million US dollars (USD))

Year	2020	2019	2018	2017
NET PROFIT	-836	788	753	223
Shareholders' equity	5,383	6,864	5,945	5,346
ROE	Can't be calculated	11%	13%	4%

Source: Own processing from the data provided in the annual report, FY 2017-2020

Table 12 shows the calculated ROE. The usual level of ROE is always different based on industry that company operates in. It is always necessary to compare the ROE result of company with the same field. ROE of THY in 2017 was 4% while the average of industry was 31.19% (CSI, 2020). It was increased to 13% in 2018 and it was decreased to 11% in 2019. In 2020, ROE was negative due to loss in profit. The ROE ratio indicates that how much would be paid in return for every invested 1 dollar. So, in 2017, THY had low level

of return comparing to 2018 and 2019. Level of return was 0.04 US dollar per 1 dollar, but the level of return was increased as 0.13 US dollar in 2018 and it was decreased to 0.11 US dollar in 2019. It would give some information to investors who would like to invest in THY.

4.4.3 Operating profit margin

Table 13 The calculation of operating profit margin ratio, (in million US dollars (USD))

Year	2020	2019	2018	2017
Revenue	6,734	13,229	12,855	10,958
Operating Profit	-163	1,047	1,413	1,301
Operating Profit Margin	-2%	8%	11%	12%

Source: Own processing from the data provided in the annual report, FY 2017-2020

Table 13 shows the calculated operating profit margin in years 2017, 2018, 2019 and 2020, operating profit margin ratio was approximately 8%-12% except the year 2020. As it was mentioned in literature review, operating profit margin ratio shows the how much the returned profit would be earned from sales of one unit. And calculated ratio showed that the return as profit from the sale was 0.12 US dollar in 2017, it was decreased to 0.11 US dollar in 2018 and it was reached to 0.08 US dollar in 2019. In 2020, the operating profit margin had significant decreased, and it was reached to -0.02 US dollar as the company showed loss in profit.

5 Results and Discussion

Assessment of the company's financial position and performance is based on the practical part of the thesis and the annual reports of the company. The assessment of the financial position of the company is based on data from the balance sheet, the financial performance is based on the income statement.

5.1 Assessment of the financial position of the company

The financial position of the company was analyzed by vertical and horizontal analysis of the Balance sheet for consequent years from 2017 to 2020.

The vertical analysis on table 2 showed that the most significant assets in the company are property and equipment (along with Right of Use Assets) under non-current assets. Property and equipment are taking around 70% shares of total assets and it is followed by long-term receivables from third parties which takes around 5% shares of total assets. Long-term receivables from third parties mainly consist of Predelivery payments made for aircrafts, Receivables related to investment certificates. Non-current assets take over 80% shares of total assets. And the most significant items in the equity and liabilities (Table 3) are long-term borrowings (along with long term lease liabilities) as being around 40% of total liabilities and equity. In the meantime, short-term borrowings are around 5% shares of total liabilities and equity.

Under equity part of the balance sheet two items stand out as taking significant shares of total liabilities and equity. The first one is previous year's profit which takes around 20% shares of total liabilities and equity. And the second one is share capital which takes over 6% shares of total liabilities and equity.

The horizontal analysis of assets on Table 5 showed that there was significant change both in total of current and non-current assets. Most outstanding changed was observed on cash and cash equivalents under current assets, and equity accounting (Investments Accounted for Using Equity Method) under non-current assets when the value of items are taken into

consideration in 2019 and 2020. Equity accounting is not significant in the total assets as the vertical analysis showed on table 2 but cash and cash equivalents under current assets takes over 7% shares of total assets.

As it is shown on Table 6 by horizontal analysis of liabilities and equity, most significant change was observed on long-term and short-term borrowings within the liabilities. And noticeable change was observed in total equity by horizontal analysis on Table 6.

5.2 Assessment of the financial performance of the company

The financial performance of the company was analysed by vertical and horizontal analysis of the Statement of profit or loss (the Income statement) for years from 2017 to 2020. The net profit has changed over the years. In 2017, 2018 and 2019 the financial result was profit, there was a significant loss in 2020.

The horizontal analysis in Table 7 showed that the biggest changes was observed on revenue, marketing and sales expenses, cost of sales and share of investments by equity accounting (Share of Investments' Loss / Profit Accounted by Using the Equity Method). The revenue was showing an increase as 17.3% in 2018 and 2.9% 2019 but it was decreased significantly by 49.1% in 2020. It was observed that there was a significant change as decrease on cost of sales by 41.6% in 2020, nevertheless it was seen a significant decrease in gross profit in 2020 by 84.5%. Decrease on cost of sales was mainly affected by the decrease in fuel expenses.

Also, the horizontal analysis showed that there was a continuous change by decreasing in 2018 and 2019 on financial expenses. While financial income was showing an increase in years 2018 and 2019 respectively 130.4% and 7.8% but it showed significant changed by showing 48.2% decrease in 2020.

The vertical analysis of revenues on table 9 showed that passenger revenue was the most significant item as it had over 80% of shares from the total revenue in 2017,2018 and 2019

while cargo revenue took over 12% of shares. But it showed significant decreased in 2020 and took over 50% shares, while cargo revenue took over 40% of shares from the total revenue. And the most significant item on vertical analysis of the cost of sales in table 10 was fuel expenses which was taking over 35% of shares from 2017 till 2019 while the item personnel expenses was taking over 13%. But it showed a decrease in 2020 and took just over 25% shares, almost the same as personnel expenses.

5.3 The most significant factors influencing the profit

Factors influencing the profit can be internal and/or external. It is important to take into account the industry specifics as well as the main factors affecting the profit of the company are related to the overall industry challenges.

The profit is affected by the development of revenues and expenses. The revenues of the company are primarily gained from passenger revenue and cargo revenue. There was a continuous increase in passenger revenue and cargo revenue between years 2017 and 2019. The increase of revenues gave the company to investing into joint ventures and acquiring new ones and investing more on its flight network. The most significant expenses influencing the profit are fuel and personnel expenses. Regarding the fuel prices, airline industry competitiveness is highly dependent on the fuel prices because ticket fares are directly affected by fuel price changes. So, it can be inferred that the demand for air transportation decreases when fuel prices increase. In other words, there is a negative relationship between fuel prices and air transportation. In addition, fuel prices are comparatively higher in Turkey due to higher taxation on fuels. Hence, a combination of higher fuel price and higher taxes on fuels are significant factors affecting the profitability of firms operating in this sector.

As it can be seen on financial statements of the company for 2020, the biggest factor that influence the profit is the external factor which has impact on global aviation industry. The aviation industry became one of the major industries affected by the global pandemic caused by covid-19 which was started in the end of 2019. The bans and restrictions

imposed by countries and governments due to the pandemic have dealt an economic blow to airline companies and caused significant profit loss. As passenger traffic almost came to a standstill, companies had to cancel almost all of their domestic and international flights. It showed that the profit in aviation industry is highly influenced by external factors which causes global crisis.

5.4 Possible financial problem areas

There are some possible problem areas which may affect the company's performance.

- Long-term debts from borrowings; the risk is related to the possible increase of interest rates, credit risk and the ability to pay back.
- Country specific; the risk is related to the change in national laws, licensing requirements, influence of the state on fuel prices.
- Operation issue due to political and economic influence; Regional measures, such as the European emission trading system (ETS), nationwide political measures, such as flight taxes, and compensation programs by airlines, sanctions from other countries.
- Operation issue due to public perception about the industry; design weaknesses, performance and safety issues of an aircraft. The risk is associated with the public perception regarding the environmental impact of the industry.

6 Conclusion

The aim of this bachelor thesis was to assess the financial performance and position of a chosen Turkish company by analyzing financial statements of the company with focus on the representation and changes of the reported liabilities, assets, revenues and expenses for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit.

The financial performance of the company can be assessed by analyzing the company's statement of profit or loss the financial position can be assessed by analyzing the balance sheet of the company. The statement of profit or loss reports the company's expenses, revenues and profit for a given period of time. The balance sheet shows assets, equity and liabilities of the company at a given date. Financial analyses are very important for assessing the overall health of the company with the consideration of industry and country specific.

The thesis deals with an important Turkish company which operates in aviation industry, Turkish Airlines. Turkish Airlines operates scheduled services to 315 destinations in Europe, Asia, Africa, and the Americas, making it the largest mainline carrier in the world by number of passenger destinations. The published annual reports of the company were used for the practical part and the conclusions of the thesis. The thesis analyzed the financial years of 2017, 2018, 2019 and 2020. The company had a changing profit or loss over the years, the financial result was continuous profit throughout monitored years of 2017, 2018 and 2019 but it showed significant loss in 2020 due to global pandemic which caused by Covid-19.

The analysis of the financial position of the company showed that the most significant assets are the non-current assets, mainly the property and equipment (with right of use assets) along with third party receivables items. Non-current assets take more than 80% of total assets. The most significant items under the Equity and liabilities are long-term and short-term borrowings, and share capital. Share capital was affected by the retained earnings of the company, which was affected by the profit or loss of the previous years.

Borrowings were showing an increase over the monitored years, even though the company achieved profit in the monitored years of 2017, 2018 and 2020.

The analysis of the financial performance of the company showed that the main revenue of the company is from the passenger and cargo revenue which was increasing during the monitored years of 2017, 2018 and 2019 but the passenger revenue showed significant decrease in 2020. Even the cargo revenue was showed an increase, total revenue was decreased significantly due to decrease of passenger revenue in 2020. The most significant expenses are the cost of sales, financial expenses and marketing and sales expenses. The cost of sales was the biggest expense in terms of value in the monitored years. It is mainly influenced by fuel and personnel expenses.

The most significant factors influencing the profit are revenues and also external factors that influences the whole aviation industry globally such as fuel price and global crises. The passenger and cargo revenue, which takes over 50% of total revenue of the company, has significant effect on the profit. And the fuel expense is also one of the most significant factors that influence the profit. Airline industry competitiveness is highly dependent on the fuel prices because ticket fares are directly affected by fuel price changes. As another external factor global crises influence the profit of the company. The bans and restrictions imposed by countries and governments due to the global crisis cause significant profit loss of companies in aviation industry as it was seen during the covid-19 pandemic.

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8 Appendix

Appendix 1 Consolidated Balance Sheet as at 31 December 2020

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Balance Sheet as at 31 December 2020
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	31 December 2020	31 December 2019
Non-Current Assets			
Financial Investments	6	75	90
Other Receivables			
-Third Parties	12	1,200	1,276
Investments Accounted for Using Equity Method	3	256	369
Property and Equipment	15	4,145	3,643
Right of Use Assets	15	14,777	13,618
Intangible Assets			
- Other Intangible Assets	16	89	82
- Goodwill	17	12	12
Prepaid Expenses	14	798	864
TOTAL NON-CURRENT ASSETS		21,352	19,954
Current Assets			
Cash and Cash Equivalents	5	1,811	2,075
Financial Investments	6	18	400
Trade Receivables			
-Related Parties	9	18	-
-Third Parties	10	619	540
Other Receivables			
-Related Parties	9	6	28
-Third Parties	12	1,095	1,053
Derivative Financial Instruments	34	2	52
Inventories	13	305	290
Prepaid Expenses	14	141	149
Current Income Tax Assets	32	38	43
Other Current Assets	24	125	140
TOTAL CURRENT ASSETS		4,178	4,770
TOTAL ASSETS		25,530	24,724

Appendix 2 Consolidated Balance Sheet as at 31 December 2020

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Balance Sheet as at 31 December 2020

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

LIABILITIES	Notes	31 December 2020	31 December 2019
Equity			
Share Capital	25	1,597	1,597
Items That Will Not Be Reclassified to			
Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	25	(48)	(38)
Items That Are or May Be Reclassified to			
Profit or Loss			
-Foreign Currency Translation Differences	25	(201)	(184)
-Fair Value Gains on Hedging Instruments	25		
Entered into for Cash Flow Hedges		(450)	171
-Gains on Remeasuring FVOCI	25	2	(1)
Restricted Profit Reserves	25	72	67
Previous Years Profit	25	5,246	4,463
Net (Loss) / Profit for the Year		(836)	788
Equity of the Parent		5,382	6,863
Non-Controlling Interests		1	1
TOTAL EQUITY		5,383	6,864
Non- Current Liabilities			
Long-Term Borrowings	7 and 18	2,681	1,721
Long Term Lease Liabilities	7 and 18	9,579	8,545
Other Payables			
-Third Parties	12	22	37
Deferred Income	14	109	120
Long-Term Provisions			
-Provisions for Employee Benefits	22	134	135
-Other Provisions		49	45
Deferred Tax Liability	32	1,119	1,293
TOTAL NON-CURRENT LIABILITIES		13,693	11,896
Current Liabilities			
Short Term Borrowings	7	1,527	1,241
Short-Term Portion of Long-Term Borrowings	7 and 18	1,186	491
Short Term Portion of Lease Liabilities	7 and 18	1,728	1,374
Other Financial Liabilities	8	17	19
Trade Payables			
-Related Parties	9	141	172
-Third Parties	10	720	958
Payables Related to Employee Benefits	11	90	160
Other Payables			
-Third Parties	12	88	98
Derivative Financial Instruments	34	64	70
Deferred Income	14	614	1,071
Short-Term Provisions			
-Provisions for Employee Benefits	20	16	39
-Other Provisions	20	10	13
Other Current Liabilities	24	253	258
TOTAL CURRENT LIABILITIES		6,454	5,964
TOTAL LIABILITIES AND EQUITY		25,530	24,724

Appendix 3 Consolidated Statement of Profit or Loss and Other Comprehensive Income

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2020

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

<u>PROFIT OR LOSS</u>	Notes	31 December 2020	31 December 2019
Revenue	26	6,734	13,229
Cost of Sales (-)	27	(6,378)	(10,928)
GROSS PROFIT		356	2,301
General Administrative Expenses (-)	28	(219)	(299)
Selling and Marketing Expenses (-)	28	(667)	(1,417)
Other Operating Income	29	330	355
Other Operating Expenses (-)	29	(55)	(64)
OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES		(255)	876
Income from Investment Activities	30	190	169
Expenses from Investment Activities	30	(11)	(80)
Share of Investments' (Loss) / Profit Accounted by Using The Equity Method	3	(87)	82
OPERATING (LOSS) / PROFIT		(163)	1,047
Financial Income	31	72	139
Financial Expenses (-)	31	(835)	(310)
(LOSS) / PROFIT BEFORE TAX		(926)	876
Tax Income / (Expense)		90	(88)
Current Tax Expense	32	-	-
Deferred Tax Income / (Expense)	32	90	(88)
NET (LOSS) / PROFIT FOR THE YEAR		(836)	788
<u>OTHER COMPREHENSIVE INCOME</u>			
Items That May Be Reclassified Subsequently To Profit or Loss			
		(635)	152
Currency Translation Adjustment		(17)	(24)
Losses on Remeasuring FVOCI		4	7
Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges		(766)	212
Fair Value (Losses) / Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(11)	6
Related Tax of Other Comprehensive Income		155	(49)
Items That Will Not Be Reclassified Subsequently To Profit or Loss		(10)	(3)
Actuarial Losses on Retirement Pay Obligation		(13)	(4)
Related Tax of Other Comprehensive Income		3	1
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		(645)	149
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		(1,481)	937
Basic (Loss) / Gain Per Share (Full US Cents)	33	(0.61)	0.57
Diluted (Loss) / Gain Per Share (Full US Cents)	33	(0.61)	0.57

Appendix 4 Accounting Standards in Turkey

TAS 1 Presentation of Financial Statements

TAS 2 Inventories

TAS 7 Statement of Cash Flow

TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

TAS 10 Events after the Reporting Period

IAS 12 Income Taxes

TAS 16 Property, Plant, and Equipment

TAS 19 Employee Benefits

TAS 20 Accounting for Government Grants and Disclosure of Government Assistance

TAS 21 The Effects of Changes in Foreign Exchange Rates

TAS 23 Borrowing Costs

TAS 24 Related Party Disclosure

TAS 29 Financial Reporting in Hyperinflationary Economies

TAS 26 Accounting and Reporting by Retirement Benefit Plans

TAS 27 Separate Financial Statements

TAS 28 Investments in Associates and Joint Ventures

TAS 29 Financial Reporting in Hyperinflationary Economies

TAS 32 Financial Instruments: Presentation

TAS 33 Earnings per Share

TAS 34 Interim Financial Reporting

TAS 36 Impairment of Assets

TAS 37 Provisions, Contingent Liabilities, and Contingent Assets

TAS 38 Intangible Assets

TAS 39 Financial Instruments: Recognition and Measurement

TAS 40 Investment Property

TAS 41 Agriculture

TFRS 1 First-time Adoption of International Financial Reporting Standards

TFRS 2 Share-based Payment

TFRS 3 Business Combinations

TFRS 4 Insurance Contracts

TFRS 5 Non-current Assets Held for Sale and Discontinued Operations

TFRS 6 Exploration for and Evaluation of Mineral Resources

TIFRS 7 Financial Instruments: Disclosures
TFRS 8 Operating Segments
TFRS 9 Financial Instruments
TFRS 10 Consolidated Financial Statements
TFRS 11 Joint Arrangements
TFRS 12 Disclosure of Interest in Other Entities
TFRS 13 Fair Value Measurement
TFRS 14 Regulatory Deferral Accounts
TFRS 15 Revenue from Contracts with Customers