Risk Management

TAV Airports Holding initiated a project in December 2009 to establish an internal Enterprise Risk Management (ERM) system and, subsequently, will implement this system in all TAV Airports subsidiary companies.

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management consists of the management of the following risk areas:
• Financial
• Operational
• Strategic
• Legal and Compliance

FINANCIAL RISK MANAGEMENT

TAV has determined that its risk exposure lies within the following areas:

Credit Risk

Credit risk arises when the counterparty to a financial transaction fails to fulfill its obligations; in practice, it manifests itself as difficulties in collecting receivables.

TAV's financial assets predominantly consist of commercial receivables in the form of cash and cash equivalents, as well as liquid funds. Since the Company works with banks and financial institutions that have high credit ratings, credit risk with respect to liquid funds is limited.

Total value subject to credit risk consists of the net receivables portfolio after provisions and total cash and cash equivalents. The collection process of receivables is dependent on economic conditions. However, TAV Airports Holding does not expect any material losses beyond the current level of provisions set aside for this purpose. The reason for this is the existence of procedures for evaluating the creditworthiness of clients and maintaining collateral compatible with operating conditions, as well as the fact that the Company's client portfolio, for the most part, consists of highly-creditworthy airline companies. Sales in non-aviation operations are made in exchange for cash and/or credit card payments. The Company demands a bank letter of credit or security bond from customers with relatively low credit ratings.

Liquidity Risk

Liquidity risk consists of uncertainties that may arise when meeting the financial obligations for a cash payment and/or a similar financial asset. TAV has adopted the principle of maintaining sufficient liquidity to meet all such obligations under normal, as well as distressed market conditions, avoiding large losses and thus, protecting the Company's reputation.

TAV prices the products and services it offers based on the operation, which guarantees effective management of cash flow and maximum returns on the investments made with funds held. The Company's main principle is to maintain sufficient cash and cash equivalents to meet expected operational and financial expenses. Only the outcomes and effects of extraordinary and unpredictable circumstances-such as natural disasters-fall outside of this scope.

Market Risk

Market risk consists of all changes in exchange rates, interest rates and equity prices under free market conditions that can directly impact the Company's revenues and the market value of the financial instruments in its portfolio. TAV's market risk management aims to keep its risk exposure within acceptable parameters while optimizing potential returns.

TAV manages its market risks by trading derivatives and assuming financial obligations. All such transactions are made in accordance with the policies and principles formulated by the Company's senior management and creditors.

Exchange Rate Risk

Exchange rate risk arises from the potential fluctuations in the value of financial instruments stemming from changes in exchange rates. TAV may be exposed to these fluctuations based on its financial position and cash flows, and the Company manages this risk using the existing financial instruments in the market.

Interest Rate Risk

TAV has adopted the principle of making 75%-100% of its borrowings with fixed interest rates in order to keep its interest rate risk under control. Interest rate swap transactions are utilized for this purpose.

OPERATIONAL RISK MANAGEMENT

Operational risks consist of risks that may arise from the companies' processes, human resources, technology and infrastructure, as well as peripheral external factors. TAV's operational risk management aims to avoid the imposition of restrictions and additional regulations by authorized bodies and institutions, sustain its excellent reputation, avoid financial losses and conduct the Company's business and operations with optimal levels of profitability in the sectors in which it operates.

STRATEGIC RISK MANAGEMENT

Strategic risk management is defined as assessing the opportunities, uncertainties and/or situations that might create risk arising as a result of developments in the sector; preventing damaging developments that might stem from erroneous business decisions and cause losses in the Company's revenues or shareholders' equity; timely identification of opportunities and taking advantage of them in the interest of accomplishing strategic goals.

One of the fundamental functions of strategic risk management is to ensure compliance with strategic goals while overseeing the methods adopted to accomplish these goals. This includes monitoring the allocation of resources and the quality of conduct. In this respect, factors such as the effectiveness of the Company's internal channels of communication, the functioning of its operational systems, the capabilities and skills of its existing management and the adequacy of all of these resources in the face of external economic, technological and other circumstantial factors play a major role.

LEGAL RISK AND COMPLIANCE RISK MANAGEMENT

Legal risk consists of the potential impacts of the changes in the laws and regulations in the countries where the Company operates on operational costs, attractiveness of investments and competitive power.

Compliance risk represents the losses the Company may be exposed to as a result of a breach of laws and regulations in effect, rules and accepted standards in operations and practices. Violating principles of compliance may lead to financial losses, missed business opportunities and even the loss of TAV Airports Holding's reputation as a result of lawsuits.