

**TÜRK HAVA YOLLARI ANONİM
ORTAKLIĐI AND ITS SUBSIDIARIES**

Condensed Consolidated Interim
Financial Statements As At and For
The Six-Month Period
Ended 30 June 2016



Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.
No:29 Beykoz 34805 İstanbul
Tel +90 (216) 681 90 00
Fax +90 (216) 681 90 90
www.kpmg.com.tr

Independent Auditors' Report on Review of Interim Financial Information

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Türk Hava Yolları Anonim Ortaklığı ("the Company) and its Subsidiaries (collectively referred to as the "Group") as at 30 June 2016, the condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Hatice Nesrin Tuncer, SMMM
Partner
19 August 2016
Istanbul, Turkey

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 June 2016

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

| ASSETS | Notes | Reviewed | Audited |
|--|--------------|---------------------|-------------------------|
| | | 30 June 2016 | 31 December 2015 |
| Current Assets | | | |
| Cash and Cash Equivalents | 5 | 1,042 | 900 |
| Financial Investments | 6 | 66 | 62 |
| Trade Receivables | | | |
| -Trade Receivables From Non-Related Parties | | 562 | 361 |
| Other Receivables | | | |
| -Other Receivables from Related Parties | 9 | 3 | 3 |
| -Other Receivables from Non-Related Parties | 10 | 1,066 | 1,382 |
| Derivative Financial Instruments | 28 | 141 | 100 |
| Inventories | | 231 | 216 |
| Prepaid Expenses | | 105 | 74 |
| Current Income Tax Assets | 26 | 11 | 12 |
| Other Current Assets | | 33 | 36 |
| TOTAL CURRENT ASSETS | | 3,260 | 3,146 |
| Non-Current Assets | | | |
| Financial Investments | 6 | 32 | 1 |
| Other Receivables | | | |
| -Other Receivables from Non-Related Parties | 10 | 604 | 1,058 |
| Investments Accounted by Using Equity Method | 3 | 228 | 246 |
| Investment Property | | 1 | 1 |
| Property and Equipment | 11 | 13,390 | 11,415 |
| Intangible Assets | | | |
| - Other Intangible Assets | 12 | 82 | 89 |
| - Goodwill | | 12 | 12 |
| Prepaid Expenses | | 506 | 415 |
| TOTAL NON-CURRENT ASSETS | | 14,855 | 13,237 |
| TOTAL ASSETS | | 18,115 | 16,383 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 June 2016

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

| | | <u>Reviewed</u> | <u>Audited</u> |
|---|--------------|---------------------|-------------------------|
| | <u>Notes</u> | <u>30 June 2016</u> | <u>31 December 2015</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Short Term Borrowings | 7 | 250 | 250 |
| Short-Term Portion of Long-Term Borrowings | 7 and 13 | 956 | 763 |
| Other Financial Liabilities | 8 | 6 | 15 |
| Trade Payables | | | |
| -Trade Payables to Related Parties | 9 | 135 | 132 |
| -Trade Payables to Non-Related Parties | | 591 | 539 |
| Payables Related to Employee Benefits | | 146 | 121 |
| Other Payables | | | |
| -Other Payables to Non-Related Parties | | 76 | 84 |
| Derivative Financial Instruments | 28 | 260 | 568 |
| Deferred Income | 18 | 1,501 | 1,104 |
| Current Tax Provision | 26 | 4 | 10 |
| Short-Term Provisions | | | |
| -Provisions for Employee Benefits | 14 | 64 | 52 |
| -Other Provisions | 14 | 13 | 15 |
| Other Current Liabilities | | 215 | 218 |
| TOTAL CURRENT LIABILITIES | | 4,217 | 3,871 |
| Non- Current Liabilities | | | |
| Long-Term Borrowings | 7 and 13 | 8,541 | 6,636 |
| Other Payables | | | |
| -Other Payables to Non-Related Parties | | 11 | 12 |
| Deferred Income | 18 | 11 | 16 |
| Long-Term Provisions | | | |
| -Provisions for Employee Benefits | 16 | 132 | 119 |
| Deferred Tax Liability | 26 | 761 | 887 |
| TOTAL NON- CURRENT LIABILITIES | | 9,456 | 7,670 |
| Equity | | | |
| Share Capital | 19 | 1,597 | 1,597 |
| Items That Will Not Be Reclassified to Profit or Loss | | | |
| -Actuarial (Losses) on Retirement Pay Obligation | 19 | (6) | (8) |
| Items That Are or May Be Reclassified to Profit or Loss | | | |
| -Foreign Currency Translation Differences | 19 | (80) | (84) |
| -Fair Value (Losses) on Hedging Instruments Entered into for Cash Flow Hedges | 19 | (86) | (327) |
| Restricted Profit Reserves | 19 | 36 | 36 |
| Previous Years Profit | 19 | 3,628 | 2,559 |
| Net (Loss) / Profit for the Period | | (647) | 1,069 |
| TOTAL EQUITY | | 4,442 | 4,842 |
| TOTAL LIABILITIES AND EQUITY | | 18,115 | 16,383 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | | Reviewed | Not Reviewed | Reviewed | Not Reviewed |
|---|--------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| | Notes | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
| <u>PROFIT OR LOSS</u> | | | | | |
| Sales Revenue | 20 | 4,632 | 2,444 | 4,789 | 2,570 |
| Cost of Sales (-) | 21 | (4,290) | (2,221) | (4,035) | (2,122) |
| GROSS PROFIT | | 342 | 223 | 754 | 448 |
| General Administrative Expenses (-) | 22 | (165) | (83) | (135) | (62) |
| Marketing and Sales Expenses (-) | 22 | (663) | (346) | (569) | (302) |
| Other Operating Income | 23 | 81 | 8 | 158 | 99 |
| Other Operating Expenses (-) | 23 | (6) | 1 | (16) | (9) |
| OPERATING (LOSS)/PROFIT BEFORE INVESTMENT ACTIVITIES | | (411) | (197) | 192 | 174 |
| Income from Investment Activities | 24 | 56 | 35 | 34 | 21 |
| Expenses from Investment Activities | 24 | (20) | (20) | - | - |
| Share of Investments' (Loss) / Profit Accounted by Using The Equity Method | 3 | (2) | 22 | 12 | 25 |
| OPERATING (LOSS)/PROFIT | | (377) | (160) | 238 | 220 |
| Financial Income | 25 | 75 | 59 | 443 | 121 |
| Financial Expenses (-) | 25 | (517) | (182) | (109) | (16) |
| (LOSS)/PROFIT BEFORE TAX | | (819) | (283) | 572 | 325 |
| Tax Income (Expense) | | 172 | 57 | (166) | (72) |
| Current Tax Expense | 26 | (14) | (4) | - | - |
| Deferred Tax Income / (Expense) | 26 | 186 | 61 | (166) | (72) |
| (LOSS)/ PROFIT FOR THE PERIOD | | (647) | (226) | 406 | 253 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | | <u>Reviewed</u> | <u>Not Reviewed</u> | <u>Reviewed</u> | <u>Not Reviewed</u> |
|--|--------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| | <u>Notes</u> | <u>1 January - 30 June 2016</u> | <u>1 April - 30 June 2016</u> | <u>1 January - 30 June 2015</u> | <u>1 April - 30 June 2015</u> |
| <u>OTHER COMPREHENSIVE INCOME</u> | | | | | |
| Items That May Be Reclassified Subsequently To Profit or Loss | | 245 | 186 | 110 | 24 |
| Currency Translation Adjustment | | 4 | (4) | (26) | (5) |
| Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges | | 300 | 233 | 166 | 42 |
| Fair Value Gains /(Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges | | 1 | 4 | 4 | (6) |
| Income Tax Relating Items That May Be Reclassified Subsequently to Profit or Loss | | (60) | (47) | (34) | (7) |
| Items That Will Not Be Reclassified Subsequently To Profit or Loss | | 2 | 2 | - | - |
| Actuarial Gains on Retirement Pay Obligation | | 3 | 3 | - | - |
| Income Tax Relating Items That Will Not Be Reclassified Subsequently to Profit or Loss | | (1) | (1) | - | - |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD | | 247 | 188 | 110 | 24 |
| TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD | | (400) | (38) | 516 | 277 |
| Basic (Loss) Earning Per Share (Full US Cents) | 28 | (0.47) | (0.16) | 0.29 | 0.18 |
| Diluted (Loss) Earning Per Share (Full US Cents) | 28 | (0.47) | (0.16) | 0.29 | 0.18 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | Items That Will Not Be Reclassified Subsequently To Profit or Loss | | Items That May Be Reclassified Subsequently To Profit or Loss | | | Retained Earnings | | Total Equity |
|-------------------------------|--|--|---|---|----------------------------|-----------------------|---------------------------|--------------|
| | Share Capital | Actuarial (Losses) Retirement Pay Obligation | Foreign Currency Translation Differences | Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges | Restricted Profit Reserves | Previous Years Profit | Net (Loss) for The Period | |
| As of 31 December 2015 | 1,597 | (8) | (84) | (327) | 36 | 2,559 | 1,069 | 4,842 |
| Transfers | - | - | - | - | - | 1,069 | (1,069) | - |
| Total comprehensive income | - | 2 | 4 | 241 | - | - | (647) | (400) |
| As of 30 June 2016 | 1,597 | (6) | (80) | (86) | 36 | 3,628 | (647) | 4,442 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | Items That Will Not Be Reclassified Subsequently To Profit or Loss | | Items That May Be Reclassified Subsequently To Profit or Loss | | | Retained Earnings | | Total Equity |
|-------------------------------|--|--|---|---|----------------------------|-----------------------|---------------------------|--------------|
| | Share Capital | Actuarial (Losses) Retirement Pay Obligation | Foreign Currency Translation Differences | Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges | Restricted Profit Reserves | Previous Years Profit | Net Profit for The Period | |
| As of 31 December 2014 | 1,597 | (10) | (47) | (185) | 36 | 1,714 | 845 | 3,950 |
| Transfers | - | - | - | - | - | 845 | (845) | - |
| Total comprehensive income | - | - | (26) | 136 | - | - | 406 | 516 |
| As of 30 June 2015 | 1,597 | (10) | (73) | (49) | 36 | 2,559 | 406 | 4,466 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Statement of Cash Flows

For the Six-Month Period Ended 30 June 2016

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

| | | <u>Reviewed</u> | <u>Reviewed</u> |
|---|--------------|------------------------------------|------------------------------------|
| | <u>Notes</u> | <u>1 January- 30 June 2016</u> | <u>1 January- 30 June 2015</u> |
| Profit (loss) | | (647) | 406 |
| Adjustments to Reconcile Profit (Loss) | | | |
| Adjustments for Depreciation and Amortisation Expense | 11 and 12 | 556 | 425 |
| Adjustments for Provisions Related with Employee Benefits | 16 | 25 | 22 |
| Adjustments for (Reversal of) Provisions for Payables | 14 | (1) | 3 |
| Adjustments for Free Provisions for Probable Risks | | (2) | - |
| Adjustments for Interest Income | 24 and 25 | (45) | (13) |
| Adjustments for Interest Expense | 25 | 92 | 79 |
| Adjustments For Unrealised Foreign Exchange Losses / (Gains) | | 430 | (350) |
| Adjustments for Manufacturers' Credits | | 1 | 3 |
| Adjustments for Fair Value Losses / (Gains) on Derivative Financial Instruments | | (47) | 11 |
| Adjustments for Undistributed Profits of Associates | 3 | 2 | (12) |
| Adjustments for Tax (Income) / Expenses | 26 | (172) | 166 |
| Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets | 24 | 20 | (1) |
| Adjustments for Losses / (Gains) Arised from Sale of Other Non-Current Assets | | 14 | - |
| Changes in Working Capital | | 226 | 739 |
| Increase in Trade Receivables from Non-Related Parties | | (197) | (99) |
| Decrease in Other Non-Related Party Receivables Related with Operations | | 271 | 62 |
| Adjustments for Increase in Inventories | | (15) | (67) |
| Adjustments for Increase in Prepaid Expenses | | (122) | (81) |
| Increase / (Decrease) in Trade Payables to Related Parties | | 3 | (22) |
| Increase in Trade Payables to Non-Related Parties | | 52 | 42 |
| Adjustments for Increase / (Decrease) in Payables Due to Employee Benefits | | 25 | (16) |
| Decrease in Other Operating Payables to Non-Related Parties | | (10) | (8) |
| Increase in Deferred Income | | 389 | 498 |
| Decrease / (Increase) in Other Assets Related with Operations | | 3 | (5) |
| Cash Flows From (Used in) Operations | | 625 | 1,043 |
| Payments for Provisions Related with Employee Benefits | 16 | (7) | (5) |
| Income taxes refund (paid) | 26 | 1 | 2 |
| Net Cash From (Used in) Operating Activities | | 619 | 1,040 |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | | |
| Cash Receipts Proceed from sales of property, plant and equipment | | 1 | 22 |
| Cash Payments From Purchasing of property, plant and equipment | 11 and 12 | (654) | (362) |
| Cash Payments From Purchasing of Other Long-Term Assets | | (35) | (143) |
| Other Cash Advances and Loans | | 512 | 121 |
| Dividends Received | | 23 | 28 |
| Interest Received | | 32 | 11 |
| Net Cash Flows From Investing Activities | | (121) | (323) |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | | | |
| Proceeds from Loans | | 127 | - |
| Payments of finance lease liabilities | | (413) | (283) |
| Interest Paid | | (61) | (68) |
| Other Outflows of Cash | | (9) | (13) |
| Net Cash Flows From Financing Activities | | (356) | (364) |
| Net Change in Cash and Cash Equivalents | | 142 | 353 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 900 | 635 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 5 | 1,042 | 988 |

(* USD 1,905 portion of property and equipment and intangible assets purchases in total of USD 2,559 for the period ended 30 June 2016 was financed through finance leases. (30 June 2015: USD 1,503 portion of property and equipment and intangible assets purchases in total of USD 1,865 was financed through finance leases.)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2016

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 30 June 2016 and 31 December 2015, the shareholders and their respective shareholdings in the Company are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--|---------------------|-------------------------|
| Republic of Turkey Prime Ministry Privatization Administration | % 49.12 | % 49.12 |
| Other (publicly held) | % 50.88 | % 50.88 |
| Total | <u>% 100.00</u> | <u>% 100.00</u> |

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 30 June 2016 are 30,081 (31 December 2015: 27,676). The average number of employees working for the Group for the period ended 30 June 2016 and 2015 are 29,024 and 25,365 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL.

The Company’s stocks have been traded on Borsa İstanbul (BIST) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 30 June 2016 and 31 December 2015:

| <u>Name of the Company</u> | <u>Principal Activity</u> | <u>Ownership Rate</u> | | <u>Country of Registration</u> |
|---|----------------------------------|-----------------------|-------------------------|--------------------------------|
| | | <u>30 June 2016</u> | <u>31 December 2015</u> | |
| THY Teknik A.Ş. (THY Teknik) (*) | Aircraft Maintenance Services | 100% | 100% | Turkey |
| THY Aydın Çıldır Havalimanı İşletme A.Ş. (THY Aydın Çıldır) | Training & Airport Operations | 100% | 100% | Turkey |

(*) In the Extraordinary General Assembly Meeting of THY Teknik A.Ş. dated 22 May 2015, it was decided to merge with THY Habom A.Ş. The merge was carried out under legal structure of THY Teknik A.Ş. by transferring all assets, liabilities, rights and obligations. The merge was registered and published on at 10 June 2015.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. COMPANY ORGANIZATION AND ITS OPERATIONS (cont'd)

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Company as of 30 June 2016 and 31 December 2015:

| Company Name | Country of Registration and Operations | Ownership Share | Voting Power | Principal Activity |
|---|--|--------------------|-----------------|-------------------------------|
| Güneş Ekspres Havacılık A.Ş. (Sun Express) | Turkey | 50% | 50% | Aircraft Transportation |
| THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO) | Turkey | 50% | 50% | Catering Services |
| P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)□ | Turkey | 49% | 49% | Maintenance Services |
| TGS Yer Hizmetleri A.Ş. (TGS) | Turkey | 50% | 50% | Ground Services |
| THY OPET Havacılık Yakıtları A.Ş. (THY Opet)□ | Turkey | 50% | 50% | Aviation Fuel Services |
| Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich) | Turkey | 40% | 40% | Maintenance Services |
| Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk) | Turkey | 50% | 50% | Cabin Interior Products |
| TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) | Turkey | 50% | 50% | Cabin Interior Products |
| Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Türkbine Teknik) | Turkey | 50% | 50% | Maintenance Services |
| Vergi İade Aracılık A.Ş. | Turkey | 30% | 30% | VAT Return and Consultancy |

The Group owns 49%, 40% and 30% equity shares of TEC, Goodrich and Vergi İade Aracılık A.Ş. respectively. However, based on the contractual arrangements between the Group and the other respective investors, decisions about the relevant activities of the arrangements require both the Group and the other respective investor agreement. Thus, the Group concluded that it has joint control over TEC, Goodrich and Vergi İade Aracılık A.Ş..

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2016 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Statement of Compliance (cont'd)

Board of Directors has approved the condensed consolidated interim financial statements as of 30 June 2016 on 19 August 2016. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

Basis of Preparation

The condensed consolidated interim financial statements, except for investment property and derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Adjustment of Financial Statements in Hyperinflationary Periods

As of 1 January 2005, "IAS 29: Financial Reporting in Hyperinflationary Economies" was no longer applied henceforward.

Functional and Reporting Currency

Functional currency

The condensed consolidated interim financial statements of the Group are presented in US Dollars, which is the presentation currency of the Company.

Although the currency of the country in which the Company is domiciled is Turkish Lira (TL), the Company's functional currency is determined as US Dollar. US Dollar is used to a significant extent in, and has a significant impact on the operations of the Company and reflects the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company uses the US Dollar in measuring items in its financial statements and as the reporting currency. All currencies other than the currency selected for measuring items in the consolidated financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in US Dollar have been premeasured in US Dollar in accordance with the relevant provisions of IAS 21 (the Effects of Changes in Foreign Exchange Rates).

Except where otherwise indicated, all values are rounded the nearest million (US Dollar 000,000).

Basis of Consolidation

- a. The condensed consolidated interim financial statements include the accounts of the parent company, THY, its Subsidiaries and its Joint Ventures on the basis set out in sections (b) below. Financial statements of the subsidiaries and affiliates are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

- b. The Group has ten joint ventures (Note: 1). These joint ventures are economical activities whereby decisions about strategic finance and operating policy are jointly made by the consensus of the Group and other investors. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method. Under the equity method, joint ventures are initially recognized at cost and adjusted to recognize any distributions received impairments in the joint ventures and the Company's share of the profit or loss after the date of acquisition. Joint ventures' losses that exceed the Group's share are not recognized, unless the Company has incurred legal or constructive obligations on behalf of the joint venture.

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control occurs when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.2 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these condensed consolidated interim financial statements as at 30 June 2016 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2015.

2.3 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed consolidated interim financial statements as at 30 June 2016 are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2015.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Standards and Interpretations

Standards issued but not yet effective and not early adopted

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

IFRS 9 - Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 9 Financial Instruments – Hedge Accounting and amendments to TFRS 9, TFRS 7 and TAS 39 - IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The standard is the result of a joint project and IASB and FASB which replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Standards and Interpretations (cont'd)

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

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 7 – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 Determination of Fair Values

Various accounting policies and explanations of the Group necessitate to determinate the fair value of both financial and non-financial assets and liabilities. If applicable, additional information about assumptions used for determination of fair value are presented in notes particular to assets and liabilities.

Evaluation methods in terms of levels are described as follows:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.
- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.
- Level 3: Variables which are not related to observable market variable for assets and liabilities (unobservable variables).

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-------------------------|---------------------|-------------------------|
| Sun Express | 64 | 90 |
| Turkish DO&CO | 62 | 54 |
| TGS | 38 | 40 |
| TEC | 32 | 26 |
| THY Opet | 23 | 28 |
| TCI | 4 | 3 |
| Turkbine Teknik | 2 | 2 |
| Uçak Koltuk | 2 | 2 |
| Goodrich | 1 | 1 |
| Vergi İade Aracılık (*) | - | - |
| | <u>228</u> | <u>246</u> |

(*) The Group's share in its shareholders' equity is less than USD 1.

Financial information for Sun Express as of 30 June 2016 and 2015 are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|-------------------------|-----------------------------|
| Total assets | 1,072 | 813 |
| Total liabilities | 943 | 633 |
| Shareholders'equity | 129 | 180 |
| Group's share in joint venture's shareholders' equity | 64 | 90 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Sun Express as of 30 June 2016 and 2015 are as follows (cont'd):

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Revenue | 432 | 266 | 487 | 321 |
| (Loss) / profit for the period | (53) | 9 | (15) | 14 |
| Group's share in joint venture's (loss) /profit for the period | (28) | 3 | (8) | 7 |

Financial information for Turkish DO&CO as of 30 June 2016 and 2015 are as follows:

| | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Total assets | 203 | 174 |
| Total liabilities | 80 | 66 |
| Shareholders'equity | 123 | 108 |
| Group's share in joint venture's shareholders' equity | 62 | 54 |

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Revenue | 181 | 94 | 186 | 99 |
| Profit for the period | 18 | 10 | 18 | 9 |
| Group's share in joint venture's profit for the period | 9 | 5 | 9 | 5 |

Financial information for TGS as of 30 June 2016 and 2015 are as follows:

| | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Total assets | 142 | 139 |
| Total liabilities | 67 | 59 |
| Shareholders'equity | 75 | 80 |
| Group's share in joint venture's shareholders' equity | 38 | 40 |

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Revenue | 134 | 72 | 120 | 63 |
| Profit for the period | 10 | 5 | 9 | 7 |
| Group's share in joint venture's profit for the period | 5 | 3 | 5 | 4 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for THY Opet as of 30 June 2016 and 2015 are as follows:

| | | | 30 June 2016 | 31 December 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Total assets | | | 223 | 213 |
| Total liabilities | | | 177 | 157 |
| Shareholders'equity | | | 46 | 56 |
| Group's share in joint venture's shareholders' equity | | | 23 | 28 |
| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
| Revenue | 611 | 324 | 941 | 527 |
| Profit for the period | 15 | 15 | 8 | 16 |
| Group's share in joint venture's profit for the period | 7 | 7 | 4 | 8 |

Financial information for TEC as of 30 June 2016 and 2015 are as follows:

| | | | 30 June 2016 | 31 December 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Total assets | | | 143 | 151 |
| Total liabilities | | | 77 | 97 |
| Shareholders'equity | | | 66 | 54 |
| Group's share in joint venture's shareholders' equity | | | 32 | 26 |
| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
| Revenue | 157 | 88 | 111 | 53 |
| Profit for the period | 11 | 6 | 6 | 3 |
| Group's share in joint venture's profit for the period | 5 | 3 | 3 | 1 |

Financial information for Turbine Teknik as of 30 June 2016 and 2015 are as follows:

| | | | 30 June 2016 | 31 December 2015 |
|---|--|--|-------------------------|-----------------------------|
| Total assets | | | 4 | 5 |
| Total liabilities | | | - | - |
| Shareholders'equity | | | 4 | 5 |
| Group's share in joint venture's shareholders' equity | | | 2 | 2 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Turkbine Teknik as of 30 June 2016 and 2015 are as follows (cont'd):

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Revenue | - | - | 1 | - |
| Profit for the period | - | - | - | - |
| Group's share in joint venture's profit for the period | - | - | - | - |

Financial information for TCI as of 30 June 2016 and 2015 are as follows:

| | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Total assets | 13 | 11 |
| Total liabilities | 5 | 6 |
| Shareholders'equity | 8 | 5 |
| Group's share in joint venture's shareholders' equity | 4 | 3 |

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Revenue | 5 | 2 | 2 | 1 |
| (Loss) for the period | (1) | - | (2) | - |
| Group's share in joint venture's (loss) for the period | - | - | (1) | - |

Financial information for Uçak Koltuk as of 30 June 2016 and 2015 are as follows:

| | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Total assets | 16 | 17 |
| Total liabilities | 12 | 13 |
| Shareholders'equity | 4 | 4 |
| Group's share in joint venture's shareholders' equity | 2 | 2 |

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Revenue | 4 | 3 | 3 | 2 |
| (Loss) for the period | (1) | 1 | (1) | - |
| Group's share in joint venture's (loss) for the period | - | 1 | - | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Goodrich as of 30 June 2016 and 2015 are as follows:

| | 30 June | | 31 December | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 2016 | | 2015 | |
| Total assets | 5 | | 4 | |
| Total liabilities | 2 | | 2 | |
| Shareholders'equity | 3 | | 2 | |
| Group's share in joint venture's shareholders' equity | 1 | | 1 | |
| | 1 January - | 1 April - | 1 January - | 1 April - |
| | 30 June 2016 | 30 June 2016 | 30 June 2015 | 30 June 2015 |
| Revenue | 5 | 3 | 4 | 3 |
| Profit for the period | 1 | 1 | - | - |
| Group's share in joint venture's profit for the period | - | - | - | - |

Share of investments' profit / (loss) accounted by using the equity method are as follows:

| | 1 January - | | 1 April - | |
|---------------|---------------------|-----------|---------------------|-----------|
| | 30 June 2016 | | 30 June 2015 | |
| Sun Express | (28) | 3 | (8) | 7 |
| Turkish DO&CO | 9 | 5 | 9 | 5 |
| TGS | 5 | 3 | 5 | 4 |
| THY Opet | 7 | 7 | 4 | 8 |
| TEC | 5 | 3 | 3 | 1 |
| TCI | - | - | (1) | - |
| Uçak Koltuk | - | 1 | - | - |
| | <u>(2)</u> | <u>22</u> | <u>12</u> | <u>25</u> |

4. SEGMENTAL REPORTING

Group management makes decisions regarding resource allocation to segments based upon the results and the activities of its air transport and aircraft technical maintenance services segments for the purpose of segments' performance evaluation. The Group's main activities can be summarized as follows:

Air Transport ("Aviation")

The Group's aviation activities consist of mainly domestic and international passenger and cargo air transportation.

Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector.

The detailed information about the sales revenue of the Group is given in Note 20.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont'd)

4.1 Total Assets and Liabilities

| | 30 June 2016 | 31 December 2015 |
|---|----------------------|-------------------------|
| Total Assets | <u>17,942</u> | <u>16,200</u> |
| Aviation | 17,942 | 16,200 |
| Technical | 1,197 | 1,198 |
| Total | <u>19,139</u> | <u>17,398</u> |
| Less: Eliminations due to consolidation | <u>(1,024)</u> | <u>(1,015)</u> |
| Total assets in consolidated financial statements | <u><u>18,115</u></u> | <u><u>16,383</u></u> |

| | 30 June 2016 | 31 December 2015 |
|--|----------------------|-------------------------|
| Total Liabilities | <u>13,581</u> | <u>11,438</u> |
| Aviation | 13,581 | 11,438 |
| Technical | 445 | 508 |
| Total | <u>14,026</u> | <u>11,946</u> |
| Less: Eliminations due to consolidation | <u>(353)</u> | <u>(405)</u> |
| Total liabilities in consolidated financial statements | <u><u>13,673</u></u> | <u><u>11,541</u></u> |

4.2 Profit / (Loss) before Tax

Segment Results:

| 1 January - 30 June 2016 | Aviation | Technic | Inter-segment elimination | Total |
|---|---------------------|------------------|--------------------------------------|---------------------|
| Sales to External Customers | 4,555 | 77 | - | 4,632 |
| Inter-Segment Sales | 18 | 433 | (451) | - |
| Revenue | <u>4,573</u> | <u>510</u> | <u>(451)</u> | <u>4,632</u> |
| Cost of Sales (-) | <u>(4,362)</u> | <u>(380)</u> | <u>452</u> | <u>(4,290)</u> |
| Gross Profit | <u>211</u> | <u>130</u> | <u>1</u> | <u>342</u> |
| Administrative Expenses (-) | (114) | (54) | 3 | (165) |
| Marketing and Sales Expenses (-) | (661) | (2) | - | (663) |
| Other Operating Income | 76 | 18 | (13) | 81 |
| Other Operating Expenses (-) | <u>(6)</u> | <u>(9)</u> | <u>9</u> | <u>(6)</u> |
| Operating (Loss) Before Investment Activities | <u>(494)</u> | <u>83</u> | <u>-</u> | <u>(411)</u> |
| Income from Investment Activities | 56 | - | - | 56 |
| Expenses from Investment Activities | (20) | - | - | (20) |
| Share of Investments' (Loss) Accounted by Using The Equity Method | <u>(7)</u> | <u>5</u> | <u>-</u> | <u>(2)</u> |
| Operating (Loss) | <u>(465)</u> | <u>88</u> | <u>-</u> | <u>(377)</u> |
| Financial Income | 81 | - | (6) | 75 |
| Financial Expense (-) | <u>(519)</u> | <u>(4)</u> | <u>6</u> | <u>(517)</u> |
| (Loss) Before Tax | <u><u>(903)</u></u> | <u><u>84</u></u> | <u><u>-</u></u> | <u><u>(819)</u></u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax (cont'd)

Segment Results:

| 1 January - 30 June 2015 | Aviation | Technic | Inter-segment elimination | Total |
|--|-----------------|----------------|--------------------------------------|--------------|
| Sales to External Customers | 4,708 | 81 | - | 4,789 |
| Inter-Segment Sales | 20 | 351 | (371) | - |
| Revenue | 4,728 | 432 | (371) | 4,789 |
| Cost of Sales (-) | (4,067) | (339) | 371 | (4,035) |
| Gross Profit | 661 | 93 | - | 754 |
| Administrative Expenses (-) | (89) | (49) | 3 | (135) |
| Marketing and Sales Expenses (-) | (566) | (3) | - | (569) |
| Other Operating Income | 177 | 11 | (30) | 158 |
| Other Operating Expenses (-) | (31) | (12) | 27 | (16) |
| Operating Profit Before Investment Activities | 152 | 40 | - | 192 |
| Income from Investment Activities | 34 | - | - | 34 |
| Expenses from Investment Activities | - | - | - | - |
| Share of Investments' Profit Accounted by Using The Equity Method | 9 | 3 | - | 12 |
| Operating Profit | 195 | 43 | - | 238 |
| Financial Income | 442 | 7 | (6) | 443 |
| Financial Expense (-) | (109) | (6) | 6 | (109) |
| Profit Before Tax | 528 | 44 | - | 572 |

4.3 Investment Operations

| 1 January - 30 June 2016 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|--------------|
| Purchase of property and equipment and intangible assets | 2,474 | 85 | - | 2,559 |
| Current period depreciation and amortization change | 496 | 60 | - | 556 |
| Investments accounted by using the equity method | 191 | 37 | - | 228 |

| 1 January - 30 June 2015 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|--------------|
| Purchase of property and equipment and intangible assets | 1,791 | 74 | - | 1,865 |
| Current period depreciation and amortization change | 375 | 50 | - | 425 |
| Investments accounted by using the equity method | 160 | 30 | - | 190 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

5. CASH AND CASH EQUIVALENTS

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-------------------------|---------------------|-------------------------|
| Cash | 3 | 2 |
| Banks – Time deposits | 901 | 823 |
| Banks – Demand deposits | 135 | 69 |
| Other liquid assets | 3 | 6 |
| | <u>1,042</u> | <u>900</u> |

Details of the time deposits as of 30 June 2016 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>30 June 2016</u> |
|---------------|-----------------|----------------------|-----------------|---------------------|
| 1,009 | TL | 8.70% - 10.97% | September 2016 | 352 |
| 149 | USD | 1.00% - 2.13% | July 2016 | 150 |
| 360 | EUR | 1.03% - 1.52% | September 2016 | 399 |
| | | | | <u>901</u> |

Details of the time deposits as of 31 December 2015 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>31 December 2015</u> |
|---------------|-----------------|----------------------|-----------------|-------------------------|
| 498 | TL | 9.32% - 11.87% | March 2016 | 172 |
| 26 | USD | 1.64% - 1.72% | January 2016 | 26 |
| 571 | EUR | 1.27% - 1.56% | March 2016 | 625 |
| | | | | <u>823</u> |

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--|---------------------|-------------------------|
| Time deposits with maturity more than 3 months | 66 | 62 |

Time deposit with maturity of more than 3 months as of 30 June 2016 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>30 June 2016</u> |
|---------------|-----------------|----------------------|-----------------|---------------------|
| 190 | TL | 9.87% - 9.99% | October 2016 | 66 |

Time deposit with maturity of more than 3 months as of 31 December 2015 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>31 December 2015</u> |
|---------------|-----------------|----------------------|-----------------|-------------------------|
| 56 | EUR | 1.35% - 1.48% | April 2016 | 62 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

6. FINANCIAL INVESTMENTS (cont'd)

Long-term financial investments are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-------------------------------------|---------------------|-------------------------|
| Debt to securities/held to maturity | | |
| - Eurobonds | 31 | - |
| Other | 1 | 1 |
| | <u>32</u> | <u>1</u> |

Details of Eurobonds as of 30 June 2016 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>30 June 2016</u> |
|---------------|-----------------|----------------------|---------------------------|---------------------|
| 31 | USD | 4.75% - 6.88% | June 2019 - February 2025 | <u>31</u> |

Other long-term financial investments are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-----------------------------|---------------------|-------------------------|
| Sita Inc. | 1 | 1 |
| Star Alliance Gmbh | < 1 | < 1 |
| Emek İnşaat ve İşletme A.Ş. | < 1 | < 1 |
| UATP Inc. | < 1 | < 1 |
| | <u>1</u> | <u>1</u> |

Long-term financial investments are accounted at cost since they are not traded in an active market.

Details of the long-term financial investments of the Group at 30 June 2016 are as follows:

| <u>Company Name</u> | <u>Country of Registration and Operations</u> | <u>Ownership Share</u> | <u>Voting Power</u> | <u>Principal Activity</u> |
|--------------------------------|---|----------------------------|-------------------------|---|
| Sita Inc. | Netherlands | Less than 0.1% | Less than 0.1% | Information & Telecommunication Services |
| Star Alliance Gmbh | Germany | 5.55% | 5.55% | Coordination Between Star Alliance Member Airlines |
| UATP Inc. | USA | 4% | 4% | Payment Intermediation Between Passengers and Airlines |
| Emek İnşaat ve İşletme A.Ş. | Turkey | 0.3% | 0.3% | Construction |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS

Short term borrowings are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-----------------------|---------------------|-------------------------|
| Short term borrowings | 250 | 250 |

Short term borrowings as of 30 June 2016 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>30 June 2016</u> |
|---------------|-----------------|----------------------|-----------------|---------------------|
| 250 | USD | 0.94% | September 2016 | 250 |

Short term borrowings as of 31 December 2015 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>31 December 2015</u> |
|---------------|-----------------|----------------------|-----------------|-------------------------|
| 250 | USD | 0.69% | March 2016 | 250 |

Short term portions of long term borrowings are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--------------------------------------|---------------------|-------------------------|
| Finance lease obligations (Note: 13) | 943 | 763 |
| Bank borrowings | 13 | - |
| | <u>956</u> | <u>763</u> |

Long term borrowings are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--------------------------------------|---------------------|-------------------------|
| Finance lease obligations (Note: 13) | 8,427 | 6,636 |
| Bank borrowings | 114 | - |
| | <u>8,541</u> | <u>6,636</u> |

Details of bank borrowings as of 30 June 2016 is as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---------------------|---------------------|-------------------------|
| Less than 1 year | 13 | - |
| Between 1 – 5 years | 107 | - |
| Over 5 years | 7 | - |
| | <u>127</u> | <u>-</u> |

Cost of the bank borrowings 5.5 year term denominated in 115 million EURO is bearing annual interest rate of Euribor + 2.45%.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

8. OTHER FINANCIAL LIABILITIES

Short-term other financial liabilities of the Group are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-----------------------------|---------------------|-------------------------|
| Other financial liabilities | <u>6</u> | <u>15</u> |

Other financial liabilities consist of overnight interest-free borrowings from banks obtained for settlement of monthly tax and social security premium payments.

9. RELATED PARTY TRANSACTIONS

Other short-term receivables from related parties are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|-------------------|---------------------|-------------------------|
| Turkish DO&CO (*) | <u>3</u> | <u>3</u> |

(*) The amounts are dividend receivables of 2015.

Short-term trade payables to related parties that are accounted by using the equity method are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---------------|---------------------|-------------------------|
| THY Opet | 52 | 54 |
| Turkish DO&CO | 32 | 28 |
| TEC | 21 | 19 |
| Sun Express | 16 | 19 |
| TGS | 14 | 11 |
| Goodrich | - | 1 |
| | <u>135</u> | <u>132</u> |

Transactions with related parties for the period ended 30 June 2016 and 2015 are as follows:

a) Sales to related parties:

| | <u>1 January - 30 June 2016</u> | <u>1 April - 30 June 2016</u> | <u>1 January - 30 June 2015</u> | <u>1 April - 30 June 2015</u> |
|----------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Sun Express | 15 | 7 | 19 | 8 |
| TEC | 9 | 4 | 11 | 7 |
| TGS | 2 | 1 | 3 | 2 |
| Sun Express Deutschland | 2 | 1 | - | - |
| Turkish DO&CO | 1 | 1 | 1 | 1 |
| | <u>29</u> | <u>14</u> | <u>34</u> | <u>18</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with related parties for the period ended 30 June 2016 and 2015 are as follows (cont'd):

b) Purchases from related parties:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| THY Opet | 528 | 283 | 774 | 425 |
| Turkish DO&CO | 168 | 87 | 165 | 85 |
| TEC | 130 | 80 | 73 | 28 |
| TGS | 128 | 68 | 105 | 55 |
| Sun Express | 120 | 63 | 123 | 66 |
| Goodrich | 3 | 2 | 2 | 1 |
| Sita Inc | 1 | 1 | - | - |
| | <u>1,078</u> | <u>584</u> | <u>1,242</u> | <u>660</u> |

Transactions between the Group and THY Opet are related to the supply of aircraft fuel; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and Sun Express are related to wet lease and seat sales operations; transactions between the Group and TGS are related to ground services and transactions between the Group and TEC are related to engine maintenance services. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 2 (1 January-30 June 2015: USD 2).

10. OTHER RECEIVABLES

Other short-term receivables from non-related parties as of 30 June 2016 and 31 December 2015 are as follows:

| | 30 June 2016 | 31 December 2015 |
|---|---------------------|-------------------------|
| Predelivery payments made for aircrafts | 819 | 1,139 |
| Receivables from technical purchases | 115 | 133 |
| Bank deposits with transfer limitations (*) | 66 | 59 |
| Value added tax receivables | 52 | 38 |
| Receivables from pilots for flight training | 11 | 11 |
| Receivables from employees | 1 | 1 |
| Other receivables | 2 | 1 |
| | <u>1,066</u> | <u>1,382</u> |

(*) As of 30 June 2016, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Egypt, Argentina, Algeria, Greece, Nigeria, Ukraine, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique and Benin.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

10. OTHER RECEIVABLES (cont'd)

Other long-term receivables from non-related parties as of 30 June 2016 and 31 December 2015 are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--|---------------------|-------------------------|
| Predelivery payments made for aircrafts | 211 | 392 |
| Receivables related to investment certificates | 211 | 172 |
| Interest and commodity swap agreement deposits | 92 | 418 |
| Receivables from pilots for flight training | 69 | 58 |
| Deposits and guarentees given | 15 | 12 |
| Bank deposits with transfer limitations (*) | 6 | 5 |
| Other receivables | - | 1 |
| | <u>604</u> | <u>1,058</u> |

(*) As of 30 June 2016, the balance of this account includes bank deposits in Syria.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

11. PROPERTY AND EQUIPMENT

| | Land, Land improvements and buildings | Technical equipments simulators and vehicles | Other equipments, and fixtures | Aircrafts | Spare engines | Components and repairable spare parts | Leasehold improvements | Construction in progress | Total |
|--|---|---|--------------------------------------|-----------|------------------|--|---------------------------|-----------------------------|--------|
| <u>Cost</u> | | | | | | | | | |
| Opening balance at 1 January 2016 | 216 | 318 | 169 | 13,926 | 546 | 488 | 472 | 152 | 16,287 |
| Additions | - | 17 | 14 | 2,179 | 43 | 72 | 15 | 216 | 2,556 |
| Transfer (*) | - | - | 1 | 29 | 32 | - | (5) | (58) | (1) |
| Disposals | - | (1) | (12) | (393) | (26) | (34) | - | - | (466) |
| Closing balance at 30 June 2016 | 216 | 334 | 172 | 15,741 | 595 | 526 | 482 | 310 | 18,376 |
| <u>Accumulated Depreciation</u> | | | | | | | | | |
| Opening balance at 1 January 2016 | 56 | 146 | 104 | 4,100 | 195 | 172 | 99 | - | 4,872 |
| Depreciation charge | 5 | 15 | 12 | 438 | 21 | 36 | 18 | - | 545 |
| Disposals | - | (1) | (12) | (373) | (25) | (20) | - | - | (431) |
| Closing balance at 30 June 2016 | 61 | 160 | 104 | 4,165 | 191 | 188 | 117 | - | 4,986 |
| Net book value 30 June 2016 | 155 | 174 | 68 | 11,576 | 404 | 338 | 365 | 310 | 13,390 |
| Net book value 31 December 2015 | 160 | 172 | 65 | 9,826 | 351 | 316 | 373 | 152 | 11,415 |

(*) Tangible assets amounting to USD 1 are transferred to intangible assets.

As at 30 June 2016, carrying value of the aircrafts and spare engines acquired through finance leases is USD 11,267 (31 December 2015: USD 9,432)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

11. PROPERTY AND EQUIPMENT (cont'd)

| | Land improvements and buildings | Technical equipments simulators and vehicles | Other equipments, and fixtures | Aircrafts | Spare engines | Components and repairable spare parts | Leasehold improvements | Construction in progress | Total |
|--|---------------------------------------|---|--------------------------------------|-----------|------------------|--|---------------------------|-----------------------------|--------|
| <u>Cost</u> | | | | | | | | | |
| Opening balance at 1 January 2015 | 164 | 284 | 144 | 11,301 | 459 | 346 | 446 | 111 | 13,255 |
| Additions | 3 | 7 | 9 | 1,659 | 49 | 57 | 8 | 66 | 1,858 |
| Transfers | 6 | - | 1 | 37 | - | - | - | (44) | - |
| Disposals | - | (2) | (2) | (3) | - | (20) | - | - | (27) |
| Closing balance at 30 June 2015 | 173 | 289 | 152 | 12,994 | 508 | 383 | 454 | 133 | 15,086 |
| <u>Accumulated Depreciation</u> | | | | | | | | | |
| Opening balance at 1 January 2015 | 47 | 125 | 90 | 3,430 | 163 | 132 | 67 | - | 4,054 |
| Depreciation charge | 4 | 11 | 10 | 331 | 15 | 29 | 15 | - | 415 |
| Disposals | - | (2) | (1) | (3) | - | (1) | - | - | (7) |
| Closing balance at 30 June 2015 | 51 | 134 | 99 | 3,758 | 178 | 160 | 82 | - | 4,462 |
| Net book value 30 June 2015 | 122 | 155 | 53 | 9,236 | 330 | 223 | 372 | 133 | 10,624 |

As of 30 June 2015, carrying value of the aircrafts and spare engines acquired through finance leases is USD 8,799.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. OTHER INTANGIBLE ASSETS

| | Slot Rights and Acquired Technical Licenses | Other Rights | Other Intangible Assets | Total |
|--|--|-------------------------|--|--------------|
| <u>Cost</u> | | | | |
| Opening balance at 1 January 2016 | 44 | 137 | 5 | 186 |
| Additions | - | 3 | - | 3 |
| Disposals | - | (2) | - | (2) |
| Transfers | - | 1 | - | 1 |
| Closing balance at 30 June 2016 | <u>44</u> | <u>139</u> | <u>5</u> | <u>188</u> |
| <u>Accumulated Amortization</u> | | | | |
| Opening balance at 1 January 2016 | - | 96 | 1 | 97 |
| Amortization charge | - | 11 | - | 11 |
| Disposals | - | (2) | - | (2) |
| Closing balance at 30 June 2016 | <u>-</u> | <u>105</u> | <u>1</u> | <u>106</u> |
| Net book value at 30 June 2016 | <u>44</u> | <u>34</u> | <u>4</u> | <u>82</u> |
| Net book value at 31 December 2015 | <u>44</u> | <u>41</u> | <u>4</u> | <u>89</u> |

| | Slot Rights and Acquired Technical Licenses | Other Rights | Other Intangible Assets | Total |
|--|--|-------------------------|--|--------------|
| <u>Cost</u> | | | | |
| Opening balance at 1 January 2015 | 23 | 121 | 5 | 149 |
| Additions | - | 7 | - | 7 |
| Disposals | - | (2) | - | (2) |
| Closing balance at 30 June 2015 | <u>23</u> | <u>126</u> | <u>5</u> | <u>154</u> |
| <u>Accumulated Amortization</u> | | | | |
| Opening balance at 1 January 2015 | - | 77 | 1 | 78 |
| Amortization charge | - | 10 | - | 10 |
| Disposals | - | (1) | - | (1) |
| Closing balance at 30 June 2015 | <u>-</u> | <u>86</u> | <u>1</u> | <u>87</u> |
| Net book value at 30 June 2015 | <u>23</u> | <u>40</u> | <u>4</u> | <u>67</u> |

The Group considers slot rights and licenses obtained by purchase of MNG Teknik and included in other rights above amounting to USD 10 at cost as intangible assets having indefinite useful lives since they do not have expiry dates and usable in the foreseeable future.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

13. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|----------------------------|--------------------------------|
| Less than 1 year | 1,093 | 896 |
| Between 1 – 5 years | 4,281 | 3,419 |
| Over 5 years | 4,995 | 3,898 |
| | <u>10,369</u> | <u>8,213</u> |
| Less: Future interest expenses | (999) | (814) |
| Principal value of future rentals stated in financial statements | <u>9,370</u> | <u>7,399</u> |
| | <u>30 June 2016</u> | <u>31 December 2015</u> |
| Interest Range: | | |
| Floating rate obligations | 5,215 | 4,038 |
| Fixed rate obligations | 4,155 | 3,361 |
| | <u>9,370</u> | <u>7,399</u> |

The Group leased certain of its aircrafts and spare engines under finance leases. The lease term is 10-12 years. The Group has options to purchase related assets for an insignificant amount at the end of lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased asset.

As of 30 June 2016, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.81% (31 December 2015: 3.13%) for the fixed rate obligations and 1.02% (31 December 2015: 1.06%) for the floating rate obligations.

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 30 June 2016 and 31 December 2015 are as follows:

Short-term provision for employee benefits is as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--------------------------------|----------------------------|--------------------------------|
| Provisions for unused vacation | 64 | 52 |

Changes in the provisions for the periods ended 30 June 2016 and 2015 are set out below:

| | <u>1 January - 30 June 2016</u> | <u>1 January - 30 June 2015</u> |
|--|--|--|
| Provisions at the beginning of the year | 52 | 58 |
| Provisions for the current period | 12 | 9 |
| Foreign currency translation differences | - | (8) |
| Provisions at the end of the period | <u>64</u> | <u>59</u> |

The Group recognizes an obligation for unused vacation days based on salaries of employees at the end of each reporting period.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Other short-term provision is as follows:

| | 30 June 2016 | 31 December 2015 |
|-----------------------------|---------------------|-------------------------|
| Provisions for legal claims | <u>13</u> | <u>15</u> |

Changes in the provisions for legal claims for the periods ended 30 June 2016 and 2015 are set out below:

| | 1 January - 30 June 2016 | 1 January - 30 June 2015 |
|--|-------------------------------------|-------------------------------------|
| Provisions at the beginning of the year | <u>15</u> | <u>16</u> |
| Provisions for the current period | 2 | 5 |
| Provisions released | (3) | (2) |
| Foreign currency translation differences | <u>(1)</u> | <u>(3)</u> |
| Provisions at the end of the period | <u><u>13</u></u> | <u><u>16</u></u> |

The Group recognizes provisions for lawsuits against itself due to its operations. The law suits against the Group are usually reemployment law suits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. These amounts have not been discounted since the effect is not material. It is expected that provision amount will be paid within one year.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2016

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

15. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letter of guarantees given as of 30 June 2016 is USD 595 (31 December 2015: USD 316).

| | 30 June 2016 | | 31 December 2015 | |
|---|---|---------------------------|---|---------------------------|
| | Original currency amount | USD equivalent | Original currency amount | USD equivalent |
| A. Total amounts of GPM given on the behalf of its own legal entity | - | 595 | - | 316 |
| -Collaterals | | | | |
| TL | 31 | 11 | 27 | 9 |
| EUR | 31 | 34 | 11 | 13 |
| USD | 546 | 546 | 291 | 291 |
| Other | - | 4 | - | 3 |
| B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation | - | - | - | - |
| C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations | - | - | - | - |
| D. Total amounts of other GPM given | - | - | - | - |
| i. Total amount of GPM given on behalf of the Parent | - | - | - | - |
| ii. Total amount of GPM given on behalf of other group companies not covered in B and C | - | - | - | - |
| iii. Total amount of GPM given on behalf of third parties not covered in C | - | - | - | - |
| | | <u>595</u> | | <u>316</u> |

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 30 June 2016 (31 December 2015: 0%)

b) Operational lease obligations: The breakdown of operational lease obligations related to aircrafts is as follows:

| | 30 June 2016 | 31 December 2015 |
|---------------------|---------------------|-------------------------|
| Less than 1 year | 324 | 286 |
| Between 1 – 5 years | 698 | 738 |
| More than 5 years | 339 | 176 |
| | <u>1,361</u> | <u>1,200</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

15. COMMITMENTS (cont'd)

c) Other operational lease debts :

The Group has operational lease agreements for 15 years related to the land for the aircraft maintenance hangar and building and another operational lease agreement for 23 years related to the land for the aircraft maintenance hangar. The liabilities of the Group related to these lease agreements are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---------------------|---------------------|-------------------------|
| Less than 1 year | 5 | 5 |
| Between 1 – 5 years | 22 | 21 |
| More than 5 years | 33 | 37 |
| | <u>60</u> | <u>63</u> |

d) Aircraft purchase commitments:

To be delivered between the years 2013-2021, the Group signed a contract for 259 aircrafts with a list price value of 34.7 billion US Dollars (full). 2 of these aircrafts were delivered in 2013, 10 were delivered in 2014, 33 were delivered in 2015 and 33 were delivered in the first six-month period of 2016. The Group has made an advance payment of 1 billion US Dollars (full) relevant to these purchases as of 30 June 2016.

16. EMPLOYEE BENEFITS

Provisions for long-term retirement pay liability as of 30 June 2016 and 31 December 2015 is comprised of the following:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|---------------------|-------------------------|
| Provisions for retirement pay liability | 132 | 119 |

Provisions for retirement pay liability are recorded as follows:

Under Labor Law effective in Turkey, it is an obligation to make legal retirement pay to employees whose employment is terminated in certain ways. Also, according to Article 60 of Social Security Law numbered 506 which was revised by the laws 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is an obligation to make legal retirement pay to those who entitled to receive retirement pay when leaving their work. Some transfer provisions related to employment conditions prior to retirement are removed from the Law by the revise made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,485 (full) as of 30 June 2016.

Retirement pay liability is not subject to any funding legally. Provisions for retirement pay liability are calculated by estimating the present value of probable liability that will arise due to retirement of employees.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Six-Month Period Ended 30 June 2016**

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

16. EMPLOYEE BENEFITS (cont'd)

IAS 19 (“Employee Benefits”) stipulates the progress of company’s liabilities by use of actuarial valuation methods under defined benefit plans. Actuarial assumptions used in calculation of total liabilities are described as follows:

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 30 June 2016 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.00% annual inflation rate (31 December 2015: 7.00%) and 11.00% interest rate (31 December 2015: 11.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.30% (31 December 2015: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,485 (full) which is in effect since 30 June 2016 is used in the calculation of Group’s provision for retirement pay liability.

Movement in the provisions for retirement pay liability is as follows:

| | 1 January - 30 June 2016 | 1 January - 30 June 2015 |
|---|-------------------------------------|-------------------------------------|
| Provisions at the beginning of the year | 119 | 127 |
| Service charge for the period | 16 | 13 |
| Interest charges | 2 | 2 |
| Actuarial gains | (3) | - |
| Payments | (7) | (5) |
| Foreign currency translation difference | 5 | (18) |
| Provisions at the end of the period | <u>132</u> | <u>119</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

17. EXPENSES BY NATURE

Expenses by nature for the six-month period ended 30 June 2016 and 2015 are as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Fuel expenses | 1,276 | 672 | 1,476 | 791 |
| Personnel expenses | 973 | 480 | 820 | 408 |
| Depreciation expenses | 556 | 286 | 425 | 222 |
| Ground services expenses | 322 | 168 | 301 | 157 |
| Aircraft maintenance expenses | 309 | 166 | 207 | 112 |
| Passenger services and catering expenses | 292 | 150 | 283 | 146 |
| Air traffic control expenses | 249 | 128 | 238 | 126 |
| Airport expenses | 219 | 116 | 195 | 104 |
| Commissions and incentives | 177 | 92 | 175 | 96 |
| Wet lease expenses | 148 | 79 | 137 | 77 |
| Advertisement and promotion expenses | 138 | 85 | 86 | 49 |
| Reservation systems expenses | 128 | 64 | 119 | 60 |
| Operating lease expenses | 110 | 55 | 97 | 47 |
| Service expenses | 38 | 20 | 31 | 16 |
| Rents | 33 | 18 | 26 | 12 |
| Insurance expenses | 24 | 11 | 18 | 9 |
| IT & communication expenses | 22 | 11 | 18 | 8 |
| Taxes and duties | 19 | 7 | 16 | 10 |
| Transportation expenses | 14 | 7 | 14 | 8 |
| Consultancy expenses | 7 | 4 | 6 | 3 |
| Utility expenses | 4 | 2 | 6 | 2 |
| Systems use and associateship expenses | 4 | 2 | 4 | 2 |
| Membership fees | 3 | 2 | 2 | 1 |
| Other expenses | 53 | 25 | 39 | 20 |
| | 5,118 | 2,650 | 4,739 | 2,486 |

18. DEFERRED INCOME

Deferred income is as follows:

| | 30 June 2016 | 31 December 2015 |
|----------------------------------|---------------------|-------------------------|
| Passenger flight liabilities | 1,488 | 1,091 |
| Other short-term deferred income | 13 | 13 |
| | 1,501 | 1,104 |

Passenger flight liability is as follows;

| | 30 June 2016 | 31 December 2015 |
|--|---------------------|-------------------------|
| Flight liability generating from ticket sales | 1,277 | 833 |
| Flight liability generating from Frequent flyer program | 211 | 258 |
| | 1,488 | 1,091 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

18. DEFERRED INCOME (cont'd)

Short-term deferred income is as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|---------------------|-------------------------|
| Unearned bank protocol revenue accruals | 6 | 7 |
| Advances received | 6 | 3 |
| Other income accruals | 1 | 3 |
| | <u>13</u> | <u>13</u> |

Long-term deferred income is as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|---------------------|-------------------------|
| Gross manufacturer's credits | 31 | 31 |
| credit | (25) | (23) |
| Unearned bank protocol revenue accruals | 5 | 8 |
| | <u>11</u> | <u>16</u> |

19. SHAREHOLDERS' EQUITY

The ownership structure of the Group's share capital is as follows:

| | <u>Class</u> | <u>%</u> | <u>30 June</u> | <u>%</u> | <u>31 December</u> |
|--|--------------|----------|----------------|----------|--------------------|
| | | | <u>2016</u> | | <u>2015</u> |
| Republic of Turkey Prime Ministry Privatization Administration | A, C | 49.12 | 678 | 49.12 | 678 |
| Other (publicly held) | A | 50.88 | 702 | 50.88 | 702 |
| Paid-in capital (Turkish Lira) | | | 1,380 | | 1,380 |
| Inflation adjustment on share capital (Turkish Lira) (*) | | | 1,124 | | 1,124 |
| Historic capital (Turkish Lira) (**) | | | <u>2,504</u> | | <u>2,504</u> |
| Historic capital (USD Equivalent) (**) | | | <u>1,597</u> | | <u>1,597</u> |

(*) 1,644 (full) shares belonging to various private shareholders were not taken into consideration when the Group was included to the privatization program in 1984. Subsequently, these shares were registered on behalf of Privatization Administration according to Articles of Association of the Group, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

(**) Inflation adjustment on share capital represents indexation of historical capital payments based on inflation indices until 31 December 2004.

(***) Historic capital amounts are represented in Millions of Turkish Lira.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2016

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

19. SHAREHOLDERS' EQUITY (cont'd)

As of 30 June 2016, the Group's issued and paid-in share capital consists of 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are registered. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

Articles of Association 7: Positive vote of the board member representing class C share with Board's approval is necessary for transfer of shares issued to the name.

Articles of Association 10: The Board of Directors consists of nine members of which one member has to be nominated by the class C shareholder and the rest eight members has to be elected by class A shareholders.

Articles of Association 14: The following decisions of the Board are subject to the positive vote of the class C Shareholder:

- a) Decisions that will negatively affect the Company's mission Defined in Article 3.1. of the Articles of Association,
- b) Suggesting change in the Articles of Association at General Assembly,
- c) Increasing share capital,
- d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- e) Every decision or action which directly or indirectly put the Company under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Company's shares held by Turkish State decrease under 20%.)
- f) Decisions relating to merges and liquidation,
- g) Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

Restricted Profit Reserves

Turkish Commercial Code (TCC) stipulates that the general legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. Additionally, not limited with 20% of paid-in share capital, the general legal reserve is appropriated at the rate of 10% per annum of all cash dividends in excess of 5% of the paid-in share capital. Under TCC, the legal reserves can only be used to offset losses, to sustain business when conditions get worse, to prevent unemployment and are not available for any other usage unless they exceed 50% of paid-in share capital.

Foreign Currency Translation Differences

Currency translation differences under equity arise from Group's joint ventures accounted under equity method which have functional currencies other than USD.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

19. SHAREHOLDERS' EQUITY (cont'd)

Distribution of Dividends

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly in accordance with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with their dividend policy or articles of associations. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on financial statements of the company.

Actuarial Differences on Defined Benefit Plans

As a result of the adoption of IAS 19 (2011), all actuarial differences are recognized immediately in other comprehensive income.

Gains/Losses from Cash Flow Hedges

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

20. REVENUE

Breakdown of gross profit is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Passenger revenue | | | | |
| Scheduled | 4,055 | 2,130 | 4,208 | 2,273 |
| Unscheduled | 16 | 10 | 20 | 14 |
| Total passenger revenue | <u>4,071</u> | <u>2,140</u> | <u>4,228</u> | <u>2,287</u> |
| Cargo revenue | | | | |
| Carried by passenger aircraft | 288 | 159 | 273 | 144 |
| Carried by cargo aircraft | 176 | 94 | 192 | 97 |
| Total cargo revenue | <u>464</u> | <u>253</u> | <u>465</u> | <u>241</u> |
| Total passenger and cargo revenue | <u>4,535</u> | <u>2,393</u> | <u>4,693</u> | <u>2,528</u> |
| Technical revenue | 77 | 42 | 81 | 35 |
| Other revenue | <u>20</u> | <u>9</u> | <u>15</u> | <u>7</u> |
| Net sales | 4,632 | 2,444 | 4,789 | 2,570 |
| Cost of sales (-) | (4,290) | (2,221) | (4,035) | (2,122) |
| Gross profit | <u><u>342</u></u> | <u><u>223</u></u> | <u><u>754</u></u> | <u><u>448</u></u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

20. REVENUE (cont'd)

Breakdown of total passenger and cargo revenue by geography is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| - Europe | 1,297 | 698 | 1,412 | 774 |
| - Far East | 1,024 | 534 | 1,099 | 579 |
| - Middle East | 561 | 279 | 598 | 315 |
| - America | 616 | 333 | 582 | 330 |
| - Africa | 432 | 215 | 380 | 191 |
| Total international flights | <u>3,930</u> | <u>2,059</u> | <u>4,071</u> | <u>2,189</u> |
| Domestic flights | 605 | 334 | 622 | 339 |
| Total passenger and cargo revenue | <u><u>4,535</u></u> | <u><u>2,393</u></u> | <u><u>4,693</u></u> | <u><u>2,528</u></u> |

21. COST OF SALES

Breakdown of the cost of sales is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Fuel expenses | 1,276 | 672 | 1,476 | 791 |
| Personnel expenses | 749 | 370 | 626 | 312 |
| Depreciation expenses | 521 | 269 | 395 | 210 |
| Ground services expenses | 322 | 168 | 301 | 157 |
| Aircraft maintenance expenses | 309 | 166 | 207 | 112 |
| Passenger services and catering expenses | 292 | 150 | 283 | 146 |
| Air traffic control expenses | 249 | 128 | 238 | 126 |
| Airport expenses | 219 | 116 | 195 | 104 |
| Wet lease expenses | 148 | 79 | 137 | 77 |
| Operating lease expenses | 110 | 55 | 97 | 47 |
| Insurance expenses | 24 | 11 | 18 | 9 |
| Service expenses | 17 | 9 | 17 | 9 |
| Rents | 17 | 9 | 12 | 6 |
| Transportation expenses | 14 | 7 | 14 | 8 |
| Taxes and duties | 5 | 3 | 5 | 3 |
| Utility expenses | 2 | 1 | 3 | 1 |
| IT & communication expenses | 1 | - | - | (1) |
| Other expenses | 15 | 8 | 11 | 5 |
| | <u>4,290</u> | <u>2,221</u> | <u>4,035</u> | <u>2,122</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Personnel expenses | 77 | 37 | 64 | 31 |
| Depreciation expenses | 32 | 16 | 27 | 11 |
| IT & communication expenses | 17 | 9 | 14 | 7 |
| Service expenses | 15 | 8 | 9 | 4 |
| Rents | 6 | 4 | 5 | 2 |
| Systems use and associateship expenses | 4 | 2 | 4 | 2 |
| Utility expenses | 2 | 1 | 3 | 1 |
| Consultancy expenses | 2 | 1 | 2 | 1 |
| Other general administrative expenses | 10 | 5 | 7 | 3 |
| | <u>165</u> | <u>83</u> | <u>135</u> | <u>62</u> |

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES (cont'd)

Breakdown of marketing and sales expenses is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Commissions and incentives | 177 | 92 | 175 | 96 |
| Personnel expenses | 147 | 73 | 130 | 65 |
| Advertisement and promotion expenses | 138 | 85 | 86 | 49 |
| Reservation systems expenses | 128 | 64 | 119 | 60 |
| Taxes and duties | 14 | 4 | 11 | 7 |
| Rents | 10 | 5 | 9 | 4 |
| Service expenses | 6 | 3 | 5 | 3 |
| Consultancy expenses | 5 | 3 | 4 | 2 |
| IT & communication expenses | 4 | 2 | 4 | 2 |
| Depreciation expenses | 3 | 1 | 3 | 1 |
| Membership fees | 3 | 2 | 2 | 1 |
| Other marketing and sales expenses | 28 | 12 | 21 | 12 |
| | <u>663</u> | <u>346</u> | <u>569</u> | <u>302</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Manufacturers' credits | 35 | 19 | 34 | 15 |
| Insurance, indemnities, penalties income | 17 | 7 | 11 | 6 |
| Foreign exchange gains from operational activities, net | 11 | (24) | 94 | 66 |
| Provisions released | 6 | 2 | 6 | 3 |
| Non- interest income from banks | 4 | 2 | 3 | 2 |
| Turnover premium from suppliers | 3 | 2 | 3 | 2 |
| Rent income | 1 | - | 1 | - |
| Rediscount interest income | - | - | - | 1 |
| Other operating income | 4 | - | 6 | 4 |
| | 81 | 8 | 158 | 99 |

Breakdown of other operating expenses is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|--------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Provisions | 4 | 1 | 8 | 6 |
| Indemnity and penalty expenses | 2 | 1 | 2 | 1 |
| Rediscount interest expenses | - | 1 | - | - |
| Other operating expenses | - | (4) | 6 | 2 |
| | 6 | (1) | 16 | 9 |

24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Income from investment incentives | 39 | 21 | 30 | 19 |
| Interest income from financial investment | 17 | 14 | 3 | 1 |
| Gain on sale of fixed assets | - | - | 1 | 1 |
| | 56 | 35 | 34 | 21 |

Breakdown of expense from investment activities is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Loss on sale of fixed assets | 20 | 20 | - | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Fair value gains on derivative financial instruments | 47 | 47 | - | - |
| Interest income | 15 | 8 | 8 | 4 |
| Rediscount interest income from repayments of aircrafts | 13 | 6 | 2 | - |
| Foreign exchange gains from financial activities | - | - | 433 | 117 |
| Other financial incomes | - | (2) | - | - |
| | <u>75</u> | <u>59</u> | <u>443</u> | <u>121</u> |

Breakdown of financial expenses is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Foreign exchange losses on financial activities | 414 | 141 | - | - |
| Finance lease interest expenses | 90 | 41 | 77 | 37 |
| Aircraft financing expenses | 11 | 8 | 10 | 6 |
| Interest expenses on employee benefits | 2 | 1 | 2 | 1 |
| Fair value losses on derivative financial instruments | - | (9) | 13 | (34) |
| Other financial expenses | - | - | 7 | 6 |
| | <u>517</u> | <u>182</u> | <u>109</u> | <u>16</u> |

26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

| | 30 June 2016 | 31 December 2015 |
|---------------|---------------------|-------------------------|
| Prepaid taxes | <u>11</u> | <u>12</u> |

Tax liability is as follows:

| | 30 June 2016 | 31 December 2015 |
|------------------------------|---------------------|-------------------------|
| Provisions for corporate tax | 14 | 12 |
| Prepaid taxes and funds | (10) | (2) |
| Tax liability | <u>4</u> | <u>10</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES (cont'd)

Tax expense is as follows:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Current period tax expense | 14 | 4 | - | - |
| Deferred tax (income) / expense | (186) | (61) | 166 | 72 |
| Tax (income) / expense | <u>(172)</u> | <u>(57)</u> | <u>166</u> | <u>72</u> |

Tax effect related to other comprehensive income is as follows:

| | 1 January - 30 June 2016 | | | 1 January - 30 June 2015 | | |
|---|---------------------------------|----------------|---------------------|---------------------------------|----------------|---------------------|
| | Amount before tax | Tax expense | Amount after tax | Amount tax | Tax expense | Amount after tax |
| Changes in foreign currency translation difference | 4 | - | 4 | (26) | - | (26) |
| Change in cash flow hedge reserve | 301 | (60) | 241 | 170 | (34) | 136 |
| Change in actuarial losses from retirement pay obligation | 3 | (1) | 2 | - | - | - |
| Other comprehensive (expense) /income | <u>308</u> | <u>(61)</u> | <u>247</u> | <u>144</u> | <u>(34)</u> | <u>110</u> |

There is no taxation effect for the changes in foreign currency translation difference that is included in other comprehensive income.

Corporate Tax

The effective tax rate is 20%.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate tax rate is also 20%. Losses can be carried forward for offset against future taxable income for 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for dividend receiving companies who are Turkish residents and Turkish branches of foreign companies. Income withholding tax rate is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax

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

For calculation of deferred tax asset and liabilities, the corporate tax rate of 20% is used.

In Turkey, the companies cannot declare a consolidated tax return; therefore, subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and they are disclosed separately.

Breakdown of the deferred tax assets / (liabilities) is as follows:

| | 30 June 2016 | 31 December 2015 |
|--|---------------------|-------------------------|
| Fixed assets | (1,170) | (1,138) |
| Adjustments for passenger flight liabilities | (107) | (75) |
| Tax loss carried forward | 301 | 47 |
| Income and expense for future periods | 59 | 47 |
| Accruals for expenses | 41 | 45 |
| Miles accruals | 41 | 46 |
| Provisions for employee benefits | 26 | 24 |
| Change in fair value of derivative instruments | 24 | 94 |
| Provisions for unused vacation | 13 | 10 |
| Other | 11 | 13 |
| Deferred tax liabilities | <u>(761)</u> | <u>(887)</u> |

The changes of deferred tax liability for interim periods 1 January – 30 June 2016 and 2015 are as follows:

| | 30 June 2016 | 30 June 2015 |
|---|---------------------|---------------------|
| Opening balance at 1 January | 887 | 655 |
| Deferred tax expense | (186) | 166 |
| Tax expense from hedging reserves | 60 | 33 |
| Foreign currency translation difference | - | (42) |
| Deferred tax liability at the end of the period | <u>761</u> | <u>812</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Reconciliation with current tax charge for interim periods 1 January – 30 June 2016 and 2015 are as follows:

| <u>Reconciliation of effective tax charge</u> | <u>1 January - 30 June 2016</u> | <u>1 April - 30 June 2016</u> | <u>1 January - 30 June 2015</u> | <u>1 April - 30 June 2015</u> |
|--|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| (Loss) / Profit from operations before tax | (819) | (283) | 572 | 325 |
| Domestic (expense) / income tax rate of 20% | (164) | (57) | 114 | 66 |
| Taxation effects on: | | | | |
| - expense from investment certificates | (8) | (4) | (5) | (3) |
| - non-deductible expenses | - | - | 2 | 2 |
| - foreign currency translation difference | 1 | 9 | 63 | 26 |
| - equity method | - | (5) | (2) | (15) |
| - adjustment for prior year loss | (1) | - | (6) | (4) |
| Tax charge in statement of profit or loss | <u>(172)</u> | <u>(57)</u> | <u>166</u> | <u>72</u> |

27. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated financial statements of profit or loss and other comprehensive income is determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus interest”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares are regarded as issued shares. Accordingly, the weighted average number of shares outstanding during the years has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and for each earlier year.

Earnings per share are calculated by dividing net profit by weighted average number of shares outstanding in the relevant period.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

27. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 1 January – 30 June 2016 and 2015:

| | 1 January - 30 June 2016 | 1 April - 30 June 2016 | 1 January - 30 June 2015 | 1 April - 30 June 2015 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Number of shares outstanding at 1 January (in full) | 138,000,000,000 | 138,000,000,000 | 138,000,000,000 | 138,000,000,000 |
| New bonus shares issued (in full) | - | - | - | - |
| Number of shares outstanding at 30 June (in full) | 138,000,000,000 | 138,000,000,000 | 138,000,000,000 | 138,000,000,000 |
| Weighted average number of shares outstanding during the period (in full) | 138,000,000,000 | 138,000,000,000 | 138,000,000,000 | 138,000,000,000 |
| Net (loss) / profit for period | (647) | (226) | 406 | 253 |
| Basic (loss) / profit per share (Full US Cents) (*) | (0.47) | (0.16) | 0.29 | 0.18 |

(*) Basic and diluted (losses) / earnings per share are the same as there are no dilutive potential ordinary shares.

28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 30 June 2016 and 31 December 2015 are as follows:

| <u>Derivative financial assets</u> | 30 June 2016 | 31 December 2015 |
|--|---------------------|-------------------------|
| Derivative instruments for fuel prices cash flow hedge | 83 | 14 |
| Cross currency rate swap agreements | 49 | 77 |
| Derivative instruments for interest rate cash flow hedge | 9 | 9 |
| | <u>141</u> | <u>100</u> |
| | | |
| <u>Derivative financial liabilities</u> | 30 June 2016 | 31 December 2015 |
| Derivative instruments for fuel prices cash flow hedge | 158 | 485 |
| Derivative instruments for interest rate cash flow hedge | 96 | 68 |
| Cross currency rate swap agreements | 6 | 15 |
| | <u>260</u> | <u>568</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

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

| | 30 June 2016 | | | | | |
|---|-------------------|--------------|----------------|----------------|--------------|------------|
| | USD EQUIVALENT | TL | EUR | JPY | CHF | OTHER |
| 1.Trade Receivables | 460 | 73 | 94 | 3 | 8 | 282 |
| 2a.Monetary Financial Assets | 989 | 427 | 484 | 5 | 3 | 70 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 354 | 189 | 66 | 5 | 5 | 89 |
| 4.Current Assets (1+2+3) | 1,803 | 689 | 644 | 13 | 16 | 441 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | - | - | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 74 | 6 | 60 | - | - | 8 |
| 8.Non Current Assets (5+6+7) | 74 | 6 | 60 | - | - | 8 |
| 9.Total Assets (4+8) | 1,877 | 695 | 704 | 13 | 16 | 449 |
| 10.Trade Payables | 505 | 287 | 144 | 1 | 3 | 70 |
| 11.Financial Liabilities | 691 | 2 | 420 | 249 | 20 | - |
| 12a.Other Liabilities, Monetary | 1,030 | 873 | 111 | 44 | 1 | 1 |
| 12b.Other Liabilities, Non Monetary | 67 | 67 | - | - | - | - |
| 13.Current Liabilities (10+11+12) | 2,293 | 1,229 | 675 | 294 | 24 | 71 |
| 14.Trade Payables | - | - | - | - | - | - |
| 15.Financial Liabilities | 6,565 | - | 3,466 | 2,891 | 208 | - |
| 16a.Other Liabilities, Monetary | 9 | 4 | 5 | - | - | - |
| 16b.Other Liabilities, Non Monetary | - | - | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 6,574 | 4 | 3,471 | 2,891 | 208 | - |
| 18.Total Liabilities (13+17) | 8,867 | 1,233 | 4,146 | 3,185 | 232 | 71 |
| 19.Net asset / liability position of off-balance sheet derivatives (19a-19b) | - | - | - | - | - | - |
| 19a.Off-balance sheet foreign currency derivative assets | - | - | - | - | - | - |
| 19b.Off-balance sheet foreigncurrency derivative liabilities | - | - | - | - | - | - |
| 20.Net foreign currency asset/(liability) position (9-18+19) | (6,990) | (538) | (3,442) | (3,172) | (216) | 378 |
| 21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (7,351) | (666) | (3,568) | (3,177) | (221) | 281 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | - | - | - | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

| | 31 December 2015 | | | | | |
|---|-------------------|--------------|----------------|----------------|--------------|------------|
| | USD EQUIVALENT | TL | EUR | JPY | CHF | OTHER |
| 1.Trade Receivables | 327 | 40 | 111 | 4 | 9 | 163 |
| 2a.Monetary Financial Assets | 994 | 185 | 760 | 1 | 1 | 47 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 376 | 222 | 62 | 4 | 5 | 83 |
| 4.Current Assets (1+2+3) | 1,697 | 447 | 933 | 9 | 15 | 293 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | - | - | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 60 | 4 | 49 | - | - | 7 |
| 8.Non Current Assets (5+6+7) | 60 | 4 | 49 | - | - | 7 |
| 9.Total Assets (4+8) | 1,757 | 451 | 982 | 9 | 15 | 300 |
| 10.Trade Payables | 417 | 220 | 136 | 1 | 2 | 58 |
| 11.Financial Liabilities | 531 | 15 | 305 | 191 | 20 | - |
| 12a.Other Liabilities, Monetary | 515 | 407 | 82 | 25 | 1 | - |
| 12b.Other Liabilities, Non Monetary | 67 | 67 | - | - | - | - |
| 13.Current Liabilities (10+11+12) | 1,530 | 709 | 523 | 217 | 23 | 58 |
| 14.Trade Payables | - | - | - | - | - | - |
| 15.Financial Liabilities | 4,916 | - | 2,367 | 2,333 | 216 | - |
| 16a.Other Liabilities, Monetary | 7 | - | 5 | - | - | 2 |
| 16b.Other Liabilities, Non Monetary | 119 | 119 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 5,042 | 119 | 2,372 | 2,333 | 216 | 2 |
| 18.Total Liabilities (13+17) | 6,572 | 828 | 2,895 | 2,550 | 239 | 60 |
| 19.Net asset / liability position of off-balance sheet derivatives (19a-19b) | - | - | - | - | - | - |
| 19a.Off-balance sheet foreign currency derivative assets | - | - | - | - | - | - |
| 19b.Off-balance sheet foreigncurrency derivative liabilities | - | - | - | - | - | - |
| 20.Net foreign currency asset/(liability) position (9-18+19) | (4,815) | (377) | (1,913) | (2,541) | (224) | 240 |
| 21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (5,065) | (417) | (2,024) | (2,545) | (229) | 150 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | - | - | - | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from EURO, JPY, CHF and TL. The following table details the Group's sensitivity to a 10% increase and decrease in EURO, JPY, CHF and TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss with a same effect on equity.

| | 30 June 2016 | |
|--|--|--|
| | Profit / (Loss) | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| | <u> </u> | <u> </u> |
| 1- TL net asset / liability | (54) | 54 |
| 2- Part hedged from TL risk (-) | - | - |
| 3- TL net effect (1+2) | <u>(54)</u> | <u>54</u> |
| 4- Euro net asset / liability | (344) | 344 |
| 5- Part hedged from Euro risk (-) | - | - |
| 6- Euro net effect (4+5) | <u>(344)</u> | <u>344</u> |
| 7- JPY net asset / liability | (317) | 317 |
| 8- Part hedged from JPY risk (-) | - | - |
| 9- JPY net effect (7+8) | <u>(317)</u> | <u>317</u> |
| 10- CHF net asset / liability | (22) | 22 |
| 11- Part hedged from CHF risk (-) | - | - |
| 12- CHF net effect (10+11) | <u>(22)</u> | <u>22</u> |
| 13- Other foreign currency net asset / liability | 38 | (38) |
| 14- Part hedged other foreign currency risk (-) | - | - |
| 15- Other foreign currency net effect (13+14) | <u>38</u> | <u>(38)</u> |
| TOTAL (3 + 6 + 9 + 12 + 15) | <u><u>(699)</u></u> | <u><u>699</u></u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

| | 31 December 2015 | |
|--|--|--|
| | Profit / (Loss) | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| | <u> </u> | <u> </u> |
| 1- TL net asset / liability | (38) | 38 |
| 2- Part hedged from TL risk (-) | - | - |
| 3- TL net effect (1+2) | <u>(38)</u> | <u>38</u> |
| 4- Euro net asset / liability | (191) | 191 |
| 5- Part hedged from Euro risk (-) | - | - |
| 6- Euro net effect (4+5) | <u>(191)</u> | <u>191</u> |
| 7- JPY net asset / liability | (254) | 254 |
| 8- Part hedged from JPY risk (-) | - | - |
| 9- JPY net effect (7+8) | <u>(254)</u> | <u>254</u> |
| 10- CHF net asset / liability | (22) | 22 |
| 11- Part hedged from CHF risk (-) | - | - |
| 12- CHF net effect (10+11) | <u>(22)</u> | <u>22</u> |
| 13- Other foreign currency net asset / liability | 24 | (24) |
| 14- Part hedged other foreign currency risk (-) | - | - |
| 15- Other foreign currency net effect (13+14) | <u>24</u> | <u>(24)</u> |
| TOTAL (3 + 6 + 9 + 12 + 15) | <u><u>(481)</u></u> | <u><u>481</u></u> |

30. EVENTS AFTER THE BALANCE SHEET DATE

None.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2016

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

31. OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE

Condensed consolidated interim financial statements of the Group are prepared comparatively with the prior period in order to help analyzing financial position and performance. To keep consistency, with current year consolidated interim financial statements, comparative information is reclassified and significant changes are disclosed if necessary. So, the Group has made below reclassifications in the prior year consolidated interim financial statements in order to maintain consistency with current year consolidated interim financial statements.

- Fair value loss of fuel derivative instruments amounting to USD 35, which was disclosed under “Cost of Sales” in the period 1 January – 31 March 2015 is reclassified to fair value gain/ losses on derivative financial instruments, which is disclosed under “Financial Expenses”.
- Fair value gains of fuel derivative instruments amounting to USD 1, which was disclosed under “Cost of Sales” in the interim period 1 January – 30 June 2015 is reclassified to fair value losses on derivative financial instruments, which is disclosed under “Financial Expenses”.