

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

Consolidated Financial Statements  
For The Year Ended 31 December 2015  
with Independent Auditor's Report



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## Independent Auditors' Report

To the Board of Directors of  
Türk Hava Yolları Anonim Ortaklığı

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board ("IASB"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by IASB.

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

Hatice Nesrin Tuncer  
Partner

29 February 2016  
İstanbul, Turkey

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

<b>ASSETS</b>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	6	900	635
Financial Investments	7	62	87
Trade Receivables			
-Trade Receivables From Non-Related Parties	11	361	456
Other Receivables			
-Other Receivables from Related Parties	10	3	3
-Other Receivables from Non-Related Parties	13	1,382	1,196
Derivative Financial Instruments	38	100	152
Inventories	14	216	195
Prepaid Expenses	15	74	60
Current Income Tax Assets	36	12	8
Other Current Assets	28	36	39
<b>TOTAL CURRENT ASSETS</b>		<b>3,146</b>	<b>2,831</b>
<b>Non-Current Assets</b>			
Financial Investments	7	1	1
Other Receivables			
-Other Receivables from Non-Related Parties	13	1,058	1,059
Investments Accounted by Using Equity Method	4	246	227
Investment Property	16	1	36
Property and Equipment	17	11,415	9,201
Intangible Assets			
- Other Intangible Assets	18	89	71
- Goodwill	19	12	12
Prepaid Expenses	15	415	308
<b>TOTAL NON-CURRENT ASSETS</b>		<b>13,237</b>	<b>10,915</b>
<b>TOTAL ASSETS</b>		<b>16,383</b>	<b>13,746</b>

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

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

**Consolidated Balance Sheet as at 31 December**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Current Liabilities</b>			
Short Term Borrowings	8	250	-
Short-Term Portion of Long-Term Borrowings	8 and 20	763	613
Other Financial Liabilities	9	15	19
Trade Payables			
-Trade Payables to Related Parties	10	132	148
-Trade Payables to Non-Related Parties	11	539	514
Payables Related to Employee Benefits	12	121	128
Other Payables			
-Other Payables to Non-Related Parties	13	84	71
Derivative Financial Instruments	38	568	427
Deferred Income	15	13	10
Passenger Flight Liabilities	27	1,091	1,398
Current Tax Provision	36	10	1
Short-Term Provisions			
-Provisions for Employee Benefits	23	52	58
-Other Provisions	23	15	16
Other Current Liabilities	28	218	264
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,871</b>	<b>3,667</b>
<b>Non- Current Liabilities</b>			
Long-Term Borrowings	8 and 20	6,636	5,318
Trade Payables			
- Trade Payables to Non-Related Parties		-	1
Other Payables			
-Other Payables to Non-Related Parties	13	12	14
Deferred Income	15	16	14
Long-Term Provisions			
-Provisions for Employee Benefits	25	119	127
Deferred Tax Liability	36	887	655
<b>TOTAL NON- CURRENT LIABILITIES</b>		<b>7,670</b>	<b>6,129</b>
<b>Equity</b>			
Share Capital	29	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	29	( 8)	( 10)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	29	( 84)	( 47)
-Fair Value (Losses) on Hedging Instruments Entered into for Cash Flow Hedges	29	( 327)	( 185)
Restricted Profit Reserves	29	36	36
Previous Years Profit	29	2,559	1,714
Net Profit for the Year		1,069	845
<b>TOTAL EQUITY</b>		<b>4,842</b>	<b>3,950</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>16,383</b>	<b>13,746</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year Ended 31 December**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<b><u>PROFIT OR LOSS</u></b>	<b><u>Notes</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Sales Revenue	30	10,522	11,070
Cost of Sales (-)	31	( 8,420)	( 9,030)
<b>GROSS PROFIT</b>		<b><u>2,102</u></b>	<b><u>2,040</u></b>
General Administrative Expenses (-)	32	( 272)	( 273)
Marketing and Sales Expenses (-)	32	( 1,148)	( 1,126)
Other Operating Income	33	244	80
Other Operating Expenses (-)	33	( 31)	( 45)
<b>OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES</b>		<b><u>895</u></b>	<b><u>676</u></b>
Income from Investment Activities	34	102	96
Expenses from Investment Activities	34	( 1)	( 24)
Share of Investments' Profit / Loss Accounted by Using The Equity Method	4	80	75
<b>OPERATING PROFIT</b>		<b><u>1,076</u></b>	<b><u>823</u></b>
Financial Income	35	532	419
Financial Expenses (-)	35	( 201)	( 196)
<b>PROFIT BEFORE TAX</b>		<b><u>1,407</u></b>	<b><u>1,046</u></b>
<b>Tax Expense</b>		<b><u>( 338)</u></b>	<b><u>( 201)</u></b>
Current Tax Expense	36	( 12)	( 5)
Deferred Tax Expense	36	( 326)	( 196)
<b>PROFIT FOR THE YEAR</b>		<b><u>1,069</u></b>	<b><u>845</u></b>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
<b>Items That May Be Reclassified Subsequently To Profit or Loss</b>		<b>( 179)</b>	<b>( 153)</b>
Currency Translation Adjustment		( 37)	( 15)
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		( 179)	( 175)
Fair Value Gains/(Loss) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		1	3
Income Tax Relating to Items That May Be Reclassified Subsequently to Profit or Loss		36	34
<b>Items That Will Not Be Reclassified Subsequently To Profit or Loss</b>		<b>2</b>	<b>( 4)</b>
Actuarial Gains/(Losses) on Retirement Pay Obligation		3	( 5)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently to Profit or Loss		( 1)	1
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>( 177)</u></b>	<b><u>( 157)</u></b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>892</u></b>	<b><u>688</u></b>
<b>Basic Earning Per Share (Full US Cents)</b>	37	<b>0.77</b>	<b>0.61</b>
<b>Diluted Earning Per Share (Full US Cents)</b>	37	<b>0.77</b>	<b>0.61</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2015**  
(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			
Share Capital	Actuarial (Losses) on Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Year	Total Equity	
As of 31 December 2014	1,597	(10)	(47)	(185)	36	1,714	845	3,950
Transfers	-	-	-	-	-	845	(845)	-
Total comprehensive income /(loss)	-	2	(37)	(142)	-	-	1,069	892
As of 31 December 2015	1,597	(8)	(84)	(327)	36	2,559	1,069	4,842

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2014**  
(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			
Share Capital	Actuarial (Losses) on Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Year	Total Equity	
As of 31 December 2013	1,597	(6)	(32)	(47)	36	1,357	357	3,262
Transfers	-	-	-	-	-	357	(357)	-
Total comprehensive income /(loss)	-	(4)	(15)	(138)	-	-	845	688
As of 31 December 2014	1,597	(10)	(47)	(185)	36	1,714	845	3,950

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



# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

## Consolidated Statement of Cash Flows

### For the Year Ended 31 December

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

	Notes	2015	2014
Profit for the Year		1.069	845
<b>Adjustments to reconcile cash flows generated from operating activities:</b>			
Adjustments for Depreciation and Amortization	17 and 18	924	743
Adjustments for Provisions for Employee Benefits	25	24	33
Adjustments for Provisions, Net	23	9	35
Adjustments for Interest Income	34 and 35	(27)	(36)
(Gain)/Loss on Sales of Fixed Assets	34	(2)	2
Share of Investments' (Profit) Accounted for Using The Equity Method	4	(80)	(75)
Adjustments for Interest Expense	35	163	165
Change in Manufacturers' Credit		5	(2)
Unrealized Foreign Exchange Translation Differences		(397)	(622)
Tax Expense	36	338	201
Change in Provision for Doubtful Receivables	39	6	3
Adjustment in Fair Value of Investment Property	34	(4)	(3)
Change in Fair Value of Derivative Instruments	35	14	14
<b>Operating profit before working capital changes</b>		<b>2.042</b>	<b>1.303</b>
Adjustments for Change in Trade Receivables		90	77
Adjustments for Change in Other Short and Long Term Receivables		(294)	(229)
Adjustments for Change in Inventories		(21)	(35)
Adjustments for Change in Other Receivables Related to Operations		3	14
Adjustments for Change in Other Current and Non- Current Assets and Prepaid Expenses		(121)	(133)
Adjustments for Change in Short Term and Long Term Trade Payables		8	(19)
Adjustments for Change in Short Term and Long Term Payables Related to Operations and Deferred Income		(41)	(39)
Adjustments for Change in Short-Term Provisions for Employee Benefits		(1)	4
Adjustments for Change in Passenger Flight Liabilities		(307)	197
<b>Cash Flows Generated From Operating Activities</b>		<b>1.358</b>	<b>1.140</b>
Payment of Retirement Pay Liabilities	25	(9)	(15)
Taxes (Paid)/Received	36	(4)	-
<b>Net Cash Generated From Operating Activities</b>		<b>1.345</b>	<b>1.125</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds From Sale of Property Equipment and Intangible Assets		11	191
Net Book Value of Incident Aircraft (net of leasing liability)		12	-
Interest Received		26	43
Payments for Property and Equipment and Intangible Assets (*)	17 and 18	(738)	(471)
Prepayments for the Purchase of Aircrafts		109	(131)
Change in Financial Investments,Net		25	(74)
Dividends Received		28	19
<b>Net Cash Used In Investing Activities</b>		<b>( 527)</b>	<b>( 423)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Financial Lease Liabilities		(678)	(544)
Proceeds From Short-Term Borrowings		250	-
Interest Paid		(121)	(153)
Decrease in Other Financial and Derivative Liabilities		( 4)	3
<b>Net Cash Used In Financing Activities</b>		<b>( 553)</b>	<b>( 694)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>265</b>	<b>8</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>635</b>	<b>627</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>900</b>	<b>635</b>

(\*) 2,481 USD portion of property and equipment and intangible assets purchases in total of 3,219 USD for the year ended 31 December 2015 was financed through finance leases. (31 December 2014: 1,641 USD portions of property and equipment and intangible assets purchases in total of 2,112 USD was financed through finance leases.)

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2015**

(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 31 December 2015 and 2014, the shareholders and their respective shareholdings in the Company are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Republic of Turkey Prime Ministry Privatization Administration	% 49.12	% 49.12
Other (publicly held)	% 50.88	% 50.88
Total	% 100.00	% 100.00

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 December 2015 are 27,676 (31 December 2014: 25,126). The average number of employees working for the Group for the year ended 31 December 2015 and 2014 are 26,391 and 24,244 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 31 December 2015 and 2014:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>31 December 2015</u>	<u>31 December 2014</u>	
THY Teknik A.Ş. (THY Teknik) (*)	Aircraft Maintenance Services	100%	100%	Turkey
THY Habom A.Ş. (THY Habom) (Note:3)	Aircraft Maintenance Services	-	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 Consolidated Financial Statements****For the Year Ended 31 December 2015**

(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 31 December 2015 and 2014:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

Board of Directors approved the consolidated financial statements as of 31 December 2015 on 29 February 2016. General Assembly and the related regulatory bodies have the authority to modify the consolidated financial statements.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2015

(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)

#### **Basis of Preparation**

The consolidated 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. Methods used for fair value measurement are disclosed in Note: 2.3.8 and Note: 2.3.14.

#### **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 consolidated 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 consolidated 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.
- 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.

## **TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

#### **For the Year Ended 31 December 2015**

(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)**

#### **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 consolidated financial statements as at 31 December 2015 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2014.

### **2.3 Summary of Significant Accounting Policies**

#### **2.3.1 Revenue**

##### *Rendering of services:*

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (unflown) are recorded as passenger flight liabilities.

The Group develops estimates using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2015**

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

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

**2.3 Summary of Significant Accounting Policies (cont'd)**

**2.3.1 Revenue (cont'd)**

*Rendering of services (cont'd):*

Aircraft maintenance and infrastructure support services are recognized on accrual basis at the fair value of the amount obtained or to be obtained based on the assumptions that delivery is realized, the income can be reliably determined and the inflow of the economic benefits related with the transaction to the Group is probable.

*Dividend and interest income:*

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income generated from equity investments is recognized as shareholders gain the dividend rights.

**2.3.2 Inventories**

Inventories consist of non-repairable spare parts, consumables and supplies such as flight equipment and purchased merchandises.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Average cost method is applied in the calculation of cost of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

**2.3.3 Property and Equipment**

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

Assets under construction are carried at cost less any impairment loss, if any. Legal fees are also included in cost. Borrowing costs are capitalized for assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

Assets acquired under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2015**

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

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)****2.3 Summary of Significant Accounting Policies (cont'd)****2.3.3 Property and Equipment (cont'd)**

The Group has classified the cost of assets that are acquired directly or through finance leases into the following parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; a) fuselage, b) overhaul maintenance for the fuselage, c) engine and d) overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life.

They are capitalized subsequent to overhaul maintenance for the fuselage and engines and are depreciated over the shorter of the next maintenance period or the remaining period of the aircraft's useful life.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The useful lives and residual values used for property and equipment are as follows:

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25 and 50	-
- Aircrafts and Engines	20	10%
- Cargo Aircraft and Engines	20	10%
- Overhaul Maintenance for Aircrafts' Fuselage	6	-
- Overhaul Maintenance for Engines	3-8	-
- Overhaul Maintenance for Spare Engines	3-13	-
- Components	7	-
- Repairable Spare Parts	3 and 7	-
- Simulators	20	10%
- Machinery and Equipment	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipment	4-15	-
- Leasehold Improvements	Lease period/5 years	-

**2.3.4 Leases**

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

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

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

## **TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**

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

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

### **2.3 Summary of Significant Accounting Policies (cont'd)**

#### **2.3.4 Leases (cont'd)**

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

#### **2.3.5 Intangible Assets**

Intangible assets include rights, information systems and software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Rights and other intangible assets are depreciated over their useful life of 3 and 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with indefinite useful life, as there are no time restrictions on them.

#### Goodwill

Goodwill that arises upon acquisition of subsidiaries is presented in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.1. Goodwill is measured at cost less accumulated impairment losses.

#### **2.3.6 Impairment on Assets**

The carrying amounts of the Group's assets are reviewed at each reporting date and (for assets with indefinite useful lives, whenever there is an indication of impairment) to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted in profit or loss.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount is recognized as income in the consolidated financial statements and cannot exceed the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

Group considers aircrafts, spare engines and simulators together ("Aircrafts") as cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively. In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used for determination of recoverable amounts. Net selling price for the aircrafts is determined according to second hand prices in international price guides. The differences between net book values of these assets and recoverable amounts are recognized as impairment gains or losses under income and expenses from investment activities.



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### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2015

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### 2.3.8 Financial Instruments

Financial assets and liabilities are recognized in the consolidated financial statements when the Group is a legal party to these financial instruments.

##### (a) *Financial assets*

Financial investments are recognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Investments are recorded or deleted from records on the date of trading activity based on an agreement providing a requirement for investment instrument delivery in compliance with the duration determined by related market.

Financial assets are classified into the following specified categories: financial assets as “at fair value through profit or loss”, “available-for-sale” financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### *Financial assets at fair value through profit or loss*

Financial assets are classified as financial assets at fair value through profit or loss where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as derivatives that are not designated and effective hedging instruments.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss.

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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2015**

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

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

**2.3 Summary of Significant Accounting Policies (cont'd)**

**2.3.8 Financial Instruments (cont'd)**

*(a) Financial assets (cont'd)*

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate a shorter period.

Income is recognized on an effective interest basis for available-for-sale financial assets and loans and receivables.

Loans and receivables

Trade, loan and other receivables are initially recorded at fair value less any transaction costs. At subsequent periods, loans and receivables are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets at amortized cost, the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously recognized or written off are credited against the allowance account and are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

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### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2015

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.8 Financial Instruments (cont'd)

##### (a) Financial assets (cont'd)

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments with their maturities equal or less than three months from date of acquisition, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

##### (b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below.

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or loans, borrowings and payables.

##### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value, and at each reporting period revalued at fair value as of balance sheet date. Changes in fair value are recognized in profit and loss.

##### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The major source of interest rate risk is finance lease liabilities. The Group's policy is to convert some financial liabilities with fixed interest rates into financial liabilities with floating interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in USD. The derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments is directly accounted in profit or loss.

The Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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#### For the Year Ended 31 December 2015

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.8 Financial Instruments (cont'd)

##### (b) Financial liabilities (cont'd)

##### Derivative financial instruments and hedge accounting (cont'd)

The Group applies hedge accounting since 2009 to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in interest rates. The Group also enters into derivative financial instruments to hedge against jet fuel price risks. The Group applies hedge accounting to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in jet fuel prices.

Use of derivative financial instruments is managed according to the Group policy approved by the Board of Directors and compliant with the risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivative financial instruments are calculated according to the fair value at contract date and again are calculated in the following reporting period at fair value base. The effective portions of changes in the fair value of derivatives which are designated as cash flow hedge are recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivatives is recognized in profit or loss.

#### 2.3.9 Foreign Currency Transactions

Transactions in foreign currencies are translated into US Dollar at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated the rates prevailing at the date when fair value determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising on settlement and translation of foreign currency items are included in profit or loss.

The closing and average US Dollar-TL exchange rates as at 31 December 2015, 2014 and 2013 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2015	2.9076	2.7191
Year ended 31 December 2014	2.3189	2.1865
Year ended 31 December 2013	2.1343	1.9033

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2015

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.9 Foreign Currency Transactions (cont'd)

The closing and average US Dollar - Euro exchange rates as at 31 December 2015, 2014 and 2013 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2015	1/ 1.0929	1/ 1.1102
Year ended 31 December 2014	1/ 1.2164	1/ 1.3282
Year ended 31 December 2013	1/ 1.3759	1/ 1.3287

#### 2.3.10 Earnings per Share

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

#### 2.3.11 Events After the Balance Sheet Date

Events after the balance sheet date are those events, which occur between the balance sheet date and the date when the consolidated financial statements are authorized for issue.

If adjustment is necessary for such events, the Group's consolidated financial statements are adjusted to reflect such events.

#### 2.3.12 Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Onerous Contracts

Present liabilities arising from onerous contracts are calculated and accounted for as provision. It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract.

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

### **2.3 Summary of Significant Accounting Policies (cont'd)**

#### **2.3.13 Segmental Information**

There are two main operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Company management uses the operating profit calculated according to IFRS while evaluating the performance of the segments.

#### **2.3.14 Investment Property**

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

When an investment property is transferred from investment property measured at fair value (whether to own-use properties or to inventories), the transfer is accounted for at fair value. The fair value at the date of transfer is then deemed to be the property's cost for subsequent accounting under IAS 2 or IAS 16. Any difference between the carrying amount of the property before transfer and its fair value on the date of transfer is recognized in profit or loss in the same way as any other change in the fair value of investment property.

#### **2.3.15 Taxation and Deferred Tax**

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

Income tax expense represents the sum of the current tax and deferred tax expenses.

##### *Current tax*

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

##### *Deferred Tax*

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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

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

### 2.3 Summary of Significant Accounting Policies (cont'd)

#### 2.3.15 Taxation and Deferred Tax (cont'd)

##### Deferred Tax (cont'd)

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

##### Current and deferred tax for the year

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, where the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

#### 2.3.16 Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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### **Notes to the Consolidated Financial Statements**

#### **For the Year Ended 31 December 2015**

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

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

### **2.3 Summary of Significant Accounting Policies (cont'd)**

#### **2.3.16 Government Grants (cont'd)**

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

#### **2.3.17 Employee Benefits / Retirement Pay Provision**

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

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses. Actuarial gains and losses are accounted as other comprehensive income.

#### **2.3.18 Share Capital and Dividends**

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

#### **2.3.19 Manufacturers' Credits**

Manufacturers' credits are received against acquisition or lease of aircraft and engines. The Group records these credits as a reduction to the cost of the owned and amortizes them over the related asset's remaining economic life. Manufacturers' credits related to operating leases are recorded as deferred revenue and amortized over the lease term.

#### **2.3.20 Maintenance and Repair Cost**

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and finance leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft. For aircraft held under operating leases the Company is contractually committed to either return the aircraft in a certain condition or to compensate the lessor upon return of the aircraft. The estimated airframes and engine maintenance costs are accrued and charges to profit or loss over the lease term, based on the present value of the estimated future cost of the major airframe overhaul, engine maintenance calculated by reference to hours or order operated during the year.

#### **2.3.21 Frequent Flyer Program**

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s).



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

### **2.3 Summary of Significant Accounting Policies (cont'd)**

#### **2.3.21 Frequent Flyer Program (cont'd)**

The amount deferred as a liability is measured based on the fair value of the awarded miles. The fair value is measured on the basis of the value of the awards for which they could be redeemed. The amount deferred is recognized as revenue on redemption of the points including a portion of the points that the Group does not expect to be redeemed by the customers ("breakage").

The Group also sells mileage credits to participating partners in "Miles and Smiles" program. Revenue is recognized when transportation is provided.

### **2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements**

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are given below:

#### *The Determination of Impairment on Long Term Assets:*

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Note 2.3.6.

#### *Calculation of the Liability for Frequent Flyer Program:*

As explained in Note 2.3.21, Group has a FFP program called "Miles and Smiles" for its members. In the calculation of the liability historical statistics are used for miles earned from flights.

#### *Useful Lives and Salvage Values of Tangible Assets:*

Group has allocated depreciation over tangible assets by taking into consideration the useful lives and salvage values explained in Note 2.3.3.

#### *Deferred Tax:*

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. There are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future in the Group. Based on available evidence, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

#### *Corporate Tax Law 32/A and the effects of Resolution issued on "Government Assistance for Investments" by the Council of Ministers:*

An incentive standard that reconstitutes government assistance for investments initiated effective from 28 February 2009 with the clause 32/A of the Corporate Tax Law by the 9<sup>th</sup> article of the 5838 numbered Law in order to support investments through taxes on income.

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

### **2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgments (cont'd)**

*Corporate Tax Law 32/A and the effects of Resolution issued on “Government Assistance for Investments” by the Council of Ministers (cont'd):*

The new investment system becomes effective upon the issuance of the Council of Ministers’ resolution “Government Assistance for Investments” No: 2009/15199 on 14 July 2009. Apart from the previous “investment incentive” application, which provides the deduction of certain portion of investment expenditures against corporate tax base, the new support system aims to provide incentive support to companies by deducting “contribution amount”, which is calculated by applying the “contribution rate” prescribed in the Council of Ministers’ resolution over the related investment expenditure, against the corporate tax imposed on the related investment to the extent the amount reaches to the corresponding “contribution amount”.

The Group obtained an Incentive Certificate dated 28 December 2010 and numbered 99256 for the finance lease aircrafts that joined its fleet between 2010 and 2014 (except December) from the related authority. For the related aircraft investment, 20% contribution rate and 50% corporate tax discount rate apply. Additionally, for the aircrafts to be joined the fleet from December 2014, the Group obtained another Incentive Certificate dated 18 December 2014 and numbered 117132, of which the 15% contribution rate and 50% corporate tax discount rate apply.

The total contribution amount resulting from these investment certificates as of 31 December 2015 is 1,219 USD (31 December 2014: 1,109 USD). Until the contribution amount is fully consumed by reduction from future corporate taxes, the corporate income attributable to related investments will be taxed by 10% rate instead of 20% rate, due to 50% corporate tax discount rate applicable.

There is no clear guidance in regards to the accounting for government tax incentives on investments in IAS 12 “Income Tax” and IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. Since the use of “contribution amount” depends on future earnings from the related investment over many years, the Group management considers that the accounting for the related investment contribution will be more appropriate if the grant is classified as profit or loss on a systematic and rational basis over the useful life of the related assets.

### **2.5 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*

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, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2015

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

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

### 2.5 New and Revised Standards and Interpretations (cont'd)

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

##### IFRS 9 Financial Instruments (cont'd)

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 the consolidated financial position or performance of the Group.

##### IFRS 15 Revenue from Contracts with customers

The standard 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 standard on the consolidated financial position or performance of the Group.

##### Clarification of acceptable methods of depreciation and amortization (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 “Property, Plant and Equipment” explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 “Intangible Assets” introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The amendments are effective for annual periods beginning on after 1 January 2016, and are to be applied prospectively. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

##### Accounting for acquisition of interests in joint operations (Amendments to IFRS 11)

The amendments clarify whether IFRS 3 “Business Combinations” applies when an entity acquires an interest in a joint operation that meets that standard’s definition of a business. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

##### IFRS 14 Regulatory Deferral Accounts

IASB has started a comprehensive project for Rate Regulated Activities in 2012. As part of the project, IASB published an interim standard to ease the transition to IFRS for rate regulated entities. The standard permits first time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances.

The interim standard is effective for financial reporting periods beginning on or after 1 January 2016, although early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

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

### **2.5 New and Revised Standards and Interpretations (cont'd)**

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

##### *Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)*

The amendments address the conflict between the existing guidance on consolidation and equity accounting. The amendments require the full gain to be recognized when the assets transferred meet the definition of a “business” under IFRS 3 “Business Combinations”. The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

##### *Equity method in separate financial statements (Amendments to IAS 27)*

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

##### *Disclosure Initiative (Amendments to IAS 1)*

The narrow-focus amendments to IAS 1 “Presentation of Financial Statements” clarify, rather than significantly change, existing IAS 1 requirements. In most cases the amendments respond to overly prescriptive interpretations of the wording in IAS 1. The amendments relate to the following: Materiality, order of the notes, subtotals, accounting policies and disaggregation.

The amendments apply for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

##### *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*

Due to difficulties associated with the fair value measurement of bearer plants that are no longer undergoing biological transformation bearer plants are now in the scope of IAS 16 “Property, Plant and Equipment” for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 “Agriculture”.

The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the Year Ended 31 December 2015

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

### 2.5 New and Revised Standards and Interpretations (cont'd)

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

##### Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

Before the amendment, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the amendment, intermediate investment entities are not permitted to be consolidated. So where an investment entity's internal structure uses intermediates, the financial statements will provide less granular information about investment performance – i.e. less granular fair values of, and cash flows from, the investments making up the underlying investment portfolio.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

#### Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2012–2014 Cycle. The amendments are effective as of 1 January 2016. Earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

#### Annual Improvements to IFRSs – 2012–2014 Cycle

##### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendments clarify the requirements of IFRS 5 when an entity changes the method of disposal of an asset (or disposal group) and no longer meets the criteria to be classified as held-for-distribution.

##### IFRS 7 Financial Instruments: Disclosures

IFRS 7 is amended to clarify when servicing arrangement are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*.

##### IAS 19 Employee Benefits

IAS 19 has been amended to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

##### IAS 34 Interim Financial Reporting

IAS 34 has been amended to clarify that certain disclosure, if they are not included in the notes to interim financial statements, may be disclosed “elsewhere in the interim financial report” – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report).

## **TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

#### **For the Year Ended 31 December 2015**

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

### **2.6 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. BUSINESS COMBINATIONS**

### **Acquisition of 100% shares of MNG Teknik Uçak Bakım Hizmetleri Anonim Şirketi and merger with Habom Havacılık Bakım Onarım ve Modifikasyon A.Ş. (Habom)**

The share purchase agreement for the acquisition of all shares of MNG Teknik Uçak Bakım Hizmetleri Anonim Şirketi ("MNG Teknik") by Türk Hava Yolları Anonim Ortaklığı was signed between parties on 22 May 2013 having obtained the approval of the Competition Authority.

In the Extraordinary General Assembly Meeting of MNG Teknik dated 29 August 2013, it was decided to merge with Habom, which is under common control.

This merger was carried out under legal structure of MNG Teknik via transfer of all assets, liabilities, rights and obligations of Habom to MNG Teknik. As a result of the merger, the company's title was registered as THY Habom A.Ş. on 13 September 2013.

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

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**3. BUSINESS COMBINATIONS (cont'd)**

**Acquisition of 100% shares of MNG Teknik Uçak Bakım Hizmetleri Anonim Şirketi and merger with Habom Havacılık Bakım Onarım ve Modifikasyon A.Ş. (Habom) (cont'd)**

	<b>Pre- acquisition value</b>	<b>Fair value adjustment</b>	<b>Acquisition value</b>
Property and equipment	53	2	55
Intangible assets	-	15	15
Trade and other receivables	2	-	2
Other current assets	3	-	3
Cash and cash equivalents	-	-	-
Financial debts	(41)	-	(41)
Trade and other payables	(14)	-	(14)
Other liabilities	(7)	-	(7)
Deferred tax liabilities	-	(1)	(1)
<b>Identifiable assets and liabilities</b>	<b>(4)</b>	<b>16</b>	<b>12</b>
<b>Goodwill arising from acquisition</b>			<b>12</b>
Cash consideration paid			24
Cash and cash equivalents acquired			-
<b>Net cash outflow arising from acquisition</b>			<b>24</b>

Under IFRS 3, intangible assets recognised arising from the acquisition of MNG Teknik is stated below:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Company licenses	10	10
Rent contract	5	5
<b>Total intangible assets recognized at the acquisition</b>	<b>15</b>	<b>15</b>

The incremental cash flows and change in cash flows methods are used in determining the fair values of company licenses and lease contract, respectively. Substitute cost method is used in determining the fair value of property and equipment. Pre-acquisition values are calculated in accordance with IFRS just before the acquisition date.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
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**4. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD**

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Sun Express	90	61
Turkish DO&CO	54	52
TGS	40	42
THY Opet	28	40
TEC	26	22
Turkbine Teknik	2	4
TCI	3	4
Uçak Koltuk	2	1
Goodrich	1	1
Vergi İade Aracılık (*)	-	-
	<b>246</b>	<b>227</b>

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

Financial information for Sun Express as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	813	631
Total liabilities	633	510
Shareholders'equity	180	121
Group's share in joint venture's shareholders' equity	90	61

  

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	1,226	1,330
Profit for the year	72	57
Group's share in joint venture's profit for the year	36	28

Financial information for Turkish DO&CO as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	174	172
Total liabilities	66	69
Shareholders'equity	108	103
Group's share in joint venture's shareholders' equity	54	52

  

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	377	371
Profit for the year	34	33
Group's share in joint venture's profit for the year	17	17



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2015**

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

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

Financial information for TGS as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	139	140
Total liabilities	59	56
Shareholders'equity	80	84
Group's share in joint venture's shareholders' equity	40	42
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	257	270
Profit for the year	25	25
Group's share in joint venture's profit for the year	13	13

By the protocol and capital increase dated on 17 September 2009, 50% of TGS' capital, which has a nominal value of 4 USD, was acquired by HAVAŞ for 77 USD and a share premium at an amount of 73 USD has arisen in the TGS's capital. Because the share premium is related to the 5-year service contract between the Company and TGS, the Company's portion (50%) of the share premium under the shareholders' equity of TGS was recognized as 'Deferred Income' to be amortized during the contract period and amortization was completed at the end of 2014.

Financial information for THY Opet as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	213	303
Total liabilities	157	223
Shareholders'equity	56	80
Group's share in joint venture's shareholders' equity	28	40
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	1,825	2,743
Profit for the year	26	36
Group's share in joint venture's profit for the year	13	18

Financial information for TEC as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	151	129
Total liabilities	97	84
Shareholders'equity	54	45
Group's share in joint venture's shareholders' equity	26	22
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	240	195
Profit for the year	10	1
Group's share in joint venture's profit for the year	5	1

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

Financial information for Turbine Teknik as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	5	6
Total liabilities	-	(1)
Shareholders' equity	5	7
Group's share in joint venture's shareholders' equity	2	4
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	1	1
(Loss) for the year	-	(1)
Group's share in joint venture's profit/(loss) for the year	-	-

Financial information for TCI as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	11	13
Total liabilities	6	5
Shareholders' equity	5	8
Group's share in joint venture's shareholders' equity	3	4
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	9	3
(Loss) for the year	(8)	(3)
Group's share in joint venture's (loss) for the year	(4)	(2)

Financial information for Uçak Koltuk as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	17	11
Total liabilities	13	9
Shareholders' equity	4	2
Group's share in joint venture's shareholders' equity	2	1
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	7	5
Profit/ (loss) for the year	1	(1)
Group's share in joint venture's profit/(loss) for the year	-	-

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

Financial information for Goodrich as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	4	3
Total liabilities	2	2
Shareholders'equity	2	1
Group's share in joint venture's shareholders' equity	1	1
	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Revenue	10	8
Profit for the year	1	-
Group's share in joint venture's profit/(loss) for the year	-	-

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

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Sun Express	36	28
Turkish DO&CO	17	17
TGS	13	13
THY Opet	13	18
TEC	5	1
TCI	(4)	(2)
	<b>80</b>	<b>75</b>

**5. 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 30.

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

**Notes to the Consolidated Financial Statements**

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**5. SEGMENTAL REPORTING (cont'd)**

**5.1 Total Assets and Liabilities**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total Assets		
Aviation	16,200	13,677
Technical	1,198	1,110
Total	17,398	14,787
Less: Eliminations due to consolidation	(1,015)	(1,041)
Total assets in consolidated financial statements	16,383	13,746

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total Liabilities		
Aviation	11,438	9,732
Technical	508	477
Total	11,946	10,209
Less: Eliminations due to consolidation	(405)	(413)
Total liabilities in consolidated financial statements	11,541	9,796

**5.2 Profit/ (Loss) Before Tax**

Segment Results:

<b>1 January - 31 December 2015</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	10,334	188	-	10,522
Inter-Segment Sales	38	762	(800)	-
Revenue	10,372	950	(800)	10,522
Cost of Sales (-)	(8,519)	(701)	800	(8,420)
Gross Profit	1,853	249	-	2,102
Administrative Expenses (-)	(181)	(98)	7	(272)
Marketing and Sales Expenses (-)	(1,144)	(4)	-	(1,148)
Other Operating Income	264	30	(50)	244
Other Operating Expenses (-)	(55)	(19)	43	(31)
Operating Profit Before Investment Activities	737	158	-	895
Income from Investment Activities	102	-	-	102
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Profit Accounted by Using The Equity Method	76	4	-	80
Operating Profit	914	162	-	1,076
Financial Income	537	8	(13)	532
Financial Expense (-)	(200)	(14)	13	(201)
Profit Before Tax	1,251	156	-	1,407

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**5. SEGMENTAL REPORTING (cont'd)**

**5.2 Profit/ (Loss) Before Tax (cont'd)**

Segment Results:

<b>1 January - 31 December 2014</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	10,867	203	-	11,070
Inter-Segment Sales	38	624	(662)	-
Revenue	10,905	827	(662)	11,070
Cost of Sales (-)	(9,006)	(674)	650	(9,030)
Gross Profit	1,899	153	(12)	2,040
Administrative Expenses (-)	(181)	(109)	17	(273)
Marketing and Sales Expenses (-)	(1,122)	(5)	1	(1,126)
Other Operating Income	83	13	(16)	80
Other Operating Expenses (-)	(46)	(9)	10	(45)
Operating Profit Before Investment Activities	633	43	-	676
Income from Investment Activities	96	-	-	96
Expenses from Investment Activities	(24)	-	-	(24)
Share of Investments' Profit Accounted by Using The Equity Method	75	-	-	75
Operating Profit	780	43	-	823
Financial Income	429	-	(10)	419
Financial Expense (-)	(197)	(9)	10	(196)
Profit Before Tax	1,012	34	-	1,046

**5.3 Investment Operations**

<b>1 January - 31 December 2015</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	2,995	224	-	3,219
Current year depreciation and amortization change	816	108	-	924
Investments accounted by using the equity method	215	31	-	246

  

<b>1 January - 31 December 2014</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	1,934	178	-	2,112
Current year depreciation and amortization change	668	75	-	743
Investments accounted by using the equity method	199	28	-	227

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2015**

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**6. CASH AND CASH EQUIVALENTS**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Cash	2	2
Banks – Time deposits	823	503
Banks – Demand deposits	69	114
Other liquid assets	6	16
	<b>900</b>	<b>635</b>

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

<b>Amount</b>	<b>Currency</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>31 December 2015</b>
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
				<b>823</b>

Details of the time deposits as of 31 December 2014 are as follows:

<b>Amount</b>	<b>Currency</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>31 December 2014</b>
365	TL	8.90% - 14.50%	February 2015	158
72	USD	0.80% - 3.20%	January 2015	72
223	EUR	0.50% - 2.90%	February 2015	273
				<b>503</b>

**7. FINANCIAL INVESTMENTS**

Short-term financial investments are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Time deposits with maturity more than 3 months	62	87

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

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

Time deposit with maturity of more than 3 months as of 31 December 2014 is as follows:

<b>Amount</b>	<b>Currency</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>31 December 2014</b>
200	TL	10.54%	April 2015	87

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**7. FINANCIAL INVESTMENTS (cont'd)**

Long-term financial investments are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
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 31 December 2015 are as follows:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
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

**8. BORROWINGS**

Short term borrowings are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Short term borrowings	<u>250</u>	<u>-</u>

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

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

Short term portions of long term borrowings are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Finance lease obligations (Note: 20)	<u>763</u>	<u>613</u>

Long term borrowings are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Finance lease obligations (Note: 20)	<u>6,636</u>	<u>5,318</u>

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**9. OTHER FINANCIAL LIABILITIES**

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Other financial liabilities	15	19

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

**10. RELATED PARTY TRANSACTIONS**

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Turkish DO&CO (*)	3	3

(\*) The amounts are dividend receivables of 2014 and 2013 respectively as of 31 December 2015 and 31 December 2014.

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
THY Opet	54	82
Turkish DO&CO	28	27
Sun Express	19	14
TGS	11	15
TEC	19	10
Goodrich	1	-
	132	148

Transactions with related parties for the year ended 31 December 2015 and 2014 are as follows:

a) Sales to related parties:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Sun Express	36	69
TEC	24	14
TGS	5	16
THY Opet	1	1
Turkish DO&CO	2	1
Turkbine Teknik Gaz	-	1
	68	102



## 10. RELATED PARTY TRANSACTIONS (cont'd)

b) Purchases from related parties:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
THY Opet	1,551	2,268
Turkish DO&CO	339	332
Sun Express	250	317
TGS	214	215
TEC	184	180
Goodrich	7	-
	<u>2,545</u>	<u>3,312</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 4 USD (1 January-31 December 2014: 4 USD).

## 11. TRADE RECEIVABLES AND PAYABLES

Trade receivables from non-related parties as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade receivables	433	523
Allowance for doubtful receivables	(72)	(67)
	<u>361</u>	<u>456</u>

Provision for doubtful receivables has been determined based on past experience for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 39.

Trade payables to non-related parties as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade payables	539	513
Other trade payables	-	1
	<u>539</u>	<u>514</u>

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**12. PAYABLES RELATED TO EMPLOYEE BENEFITS**

Payables related to employee benefits as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Salary accruals	98	105
Social security premiums payable	23	23
	<u>121</u>	<u>128</u>

**13. OTHER RECEIVABLES AND PAYABLES**

Other short-term receivables from non-related parties as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Predelivery payments made for aircrafts	1,139	990
Receivables from technical purchases	133	124
Bank deposits with transfer limitations (*)	59	20
Value added tax receivables	38	48
Receivables from pilots for flight training	11	12
Receivables from employees	1	1
Other receivables	1	1
	<u>1,382</u>	<u>1,196</u>

(\*) As of 31 December 2015, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Egypt, Argentina, Algeria, Greece, Nigeria and Ukraine.

Other long-term receivables from non-related parties as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Predelivery payments made for aircrafts	392	650
Interest and commodity swap agreement deposits	418	192
Receivables related to investment certificates	172	140
Receivables from pilots for flight training	58	59
Deposits and guarantees given	12	11
Bank deposits with transfer limitations (*)	5	6
Other receivables	1	1
	<u>1,058</u>	<u>1,059</u>

(\*) As of 31 December 2015, the balance of this account includes bank deposits in Syria.

Other short-term payables to non-related parties are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Taxes and funds payable	61	51
Deposits and guarantees received	15	12
Payables to insurance companies	6	6
Other liabilities	2	2
	<u>84</u>	<u>71</u>

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**13. OTHER RECEIVABLES AND PAYABLES (cont'd)**

Other long-term payables to non-related parties are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Deposits and guarantees received	12	14

**14. INVENTORIES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Spare parts	167	148
Other inventories	66	59
	233	207
Provision for impairment (-)	(17)	(12)
	216	195

The change in the value of provision for impairment for the years ended 31 December 2015 and 2014 is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Provision at the beginning of the year	12	7
Charges during the year	5	5
Provision at the end of the year	17	12

**15. PREPAID EXPENSES AND DEFERRED INCOME**

Short-term prepaid expenses are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Prepaid advertising expenses	22	10
Prepaid operating lease expenses	17	12
Prepaid sales commissions	12	12
Advances given for purchases	12	15
Other prepaid expenses	11	11
	74	60

Long-term prepaid expenses are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Prepaid engine maintenance expenses	356	228
Prepaid aircraft financing expenses	43	26
Advances given for fixed asset purchases	10	48
Other prepaid expenses	6	6
	415	308

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**15. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)**

Short-term deferred income is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Advances received	3	7
Unearned bank protocol revenue accruals	7	2
Other income accruals	3	1
	<u>13</u>	<u>10</u>

Long-term deferred income is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Gross manufacturer's credits	31	33
Accumulated depreciation of manufacturer's credit	(23)	(20)
Unearned bank protocol revenue accruals	8	1
	<u>16</u>	<u>14</u>

**16. INVESTMENT PROPERTY**

	<b>1 January- 31 December 2015</b>	<b>1 January- 31 December 2014</b>
Opening balance	36	36
Foreign currency translation difference	(7)	(3)
Valuation gain (Note: 34)	4	3
Transfer to property and equipment (Note:17)	(32)	-
Closing balance	<u>1</u>	<u>36</u>

Valuation is performed by independent valuation firms, authorized by Turkish Capital Markets Board, with reference to market prices for similar properties. The Group does not have any rent income or operating expenses from investment property. Determination of fair value of investment property is within the scope of Level 2 in terms of valuation technique.

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**17. 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
<b><u>Cost</u></b>									
Opening balance at 1 January 2015	164	284	144	11,301	459	346	446	111	13,255
Additions	14	36	32	2,715	87	172	26	98	3,180
Transfers	6	-	1	50	-	-	-	(57)	-
Transfers from investment property (Note:16)	32	-	-	-	-	-	-	-	32
Disposals	-	(2)	(8)	(140)	-	(30)	-	-	(180)
Closing balance at 31 December 2015	216	318	169	13,926	546	488	472	152	16,287
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2015	47	125	90	3,430	163	132	67	-	4,054
Depreciation charge	9	23	21	724	32	63	32	-	904
Disposals	-	(2)	(7)	(54)	-	(23)	-	-	(86)
Closing balance at 31 December 2015	56	146	104	4,100	195	172	99	-	4,872
Net book value 31 December 2015	160	172	65	9,826	351	316	373	152	11,415

As at 31 December 2015, carrying value of the aircrafts and spare engines acquired through finance leases is 9,432 USD (31 December 2014: 7,379 USD)

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**17. 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
<b><u>Cost</u></b>									
Opening balance at 1 January 2014	116	230	161	9,883	365	263	98	559	11,675
Additions	48	65	22	1,706	77	100	58	26	2,102
Transfers (*)	-	-	2	161	-	-	290	(474)	(21)
Transfers between accounts	-	(5)	5	(26)	26	-	-	-	-
Disposals	-	(6)	(46)	(423)	(9)	(17)	-	-	(501)
Closing balance at 31 December 2014	164	284	144	11,301	459	346	446	111	13,255
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2014	44	109	117	3,102	115	103	42	-	3,632
Depreciation charge	3	22	18	589	32	41	25	-	730
Transfers between accounts	-	(1)	1	(21)	21	-	-	-	-
Disposals	-	(5)	(46)	(240)	(5)	(12)	-	-	(308)
Closing balance at 31 December 2014	47	125	90	3,430	163	132	67	-	4,054
Net book value 31 December 2014	117	159	54	7,871	296	214	379	111	9,201

(\*) Tangible assets amounting to 21 USD are transferred to intangible assets.

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**18. OTHER INTANGIBLE ASSETS**

	<b>Slot Rights and Acquired Technical Licenses</b>	<b>Other Rights</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<b><u>Cost</u></b>				
Opening balance at 1 January 2015	23	121	5	149
Additions	21	18	-	39
Disposals	-	(2)	-	(2)
Closing balance at 31 December 2015	44	137	5	186
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2015	-	77	1	78
Amortization charge	-	20	-	20
Disposals	-	(1)	-	(1)
Closing balance at 31 December 2015	-	96	1	97
Net book value at 31 December 2015	44	41	4	89
	<b>Slot Rights and Acquired Technical Licenses</b>	<b>Other Rights</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<b><u>Cost</u></b>				
Opening balance at 1 January 2014	23	90	5	118
Additions	-	10	-	10
Transfers	-	21	-	21
Closing balance at 31 December 2014	23	121	5	149
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2014	-	65	-	65
Amortization charge	-	12	1	13
Closing balance at 31 December 2014	-	77	1	78
Net book value at 31 December 2014	23	44	4	71

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

**19. GOODWILL**

The goodwill amounting to 12 USD is recognized from the acquisition of MNG Teknik has been recognized in the consolidated financial statements. In 2015, an impairment test has been implemented by the Company and no impairment has been noted on the net book value of goodwill.

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**20. LEASING TRANSACTIONS**

Maturities of finance lease obligations are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Less than 1 year	896	736
Between 1 – 5 years	3,419	2,848
Over 5 years	3,898	3,067
	<u>8,213</u>	<u>6,651</u>
Less: Future interest expenses	(814)	(720)
Principal value of future rentals stated in financial statements	<u>7,399</u>	<u>5,931</u>
	<b>31 December 2015</b>	<b>31 December 2014</b>
Interest Range:		
Floating rate obligations	4,038	3,176
Fixed rate obligations	3,361	2,755
	<u>7,399</u>	<u>5,931</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 31 December 2015, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 3.13% ( 31 December 2014: 3.69%) for the fixed rate obligations and 1.06% (31 December 2014: 0.98% ) for the floating rate obligations.

**21. GOVERNMENT GRANTS AND INCENTIVES**

Incentive certificates No: 28.12.2010 / 99256 and No: 18.12.2014 / 117132 were obtained from the related authority for investment of aircrafts. Due to these certificates, the Group will have advantages of reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.3.16 for the accounting of corporate tax effect of the investment certificates.

**22. BORROWING COSTS**

During the year of 2015, there is no capitalized borrowing cost on property and equipment. (31 December 2014: None).

**23. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

Short-term provisions as of 31 December 2015 and 2014 are as follows:

Short-term provision for employee benefits is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Provisions for unused vacation	<u>52</u>	<u>58</u>



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

Changes in the provisions for the years ended 31 December 2015 and 2014 are set out below:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Provisions at the beginning of the year	58	30
Provisions for the current year	7	32
Foreign currency translation differences	(13)	(4)
Provisions at the end of the year	<u>52</u>	<u>58</u>

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

Other short-term provision is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Provisions for legal claims	<u>15</u>	<u>16</u>

Changes in the provisions for legal claims for the years ended 31 December 2015 and 2014 are set out below:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Provisions at the beginning of the year	16	14
Provisions for the current year	6	6
Provisions released	(4)	(3)
Foreign currency translation differences	(3)	(1)
Provisions at the end of the year	<u>15</u>	<u>16</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.

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**24. COMMITMENTS**

- a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letter of guarantees given as of 31 December 2015 is 316 USD (31 December 2014: 58 USD).

	<b>31 December 2015</b>		<b>31 December 2014</b>	
	<b>Original currency amount</b>	<b>USD equivalent</b>	<b>Original currency amount</b>	<b>USD equivalent</b>
A. Total amounts of GPM given on the behalf of its own legal entity	-	316	-	58
-Collaterals				
TL	27	9	27	11
EUR	11	13	8	10
USD	291	291	35	35
Other	-	3	-	2
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>316</u>		<u>58</u>

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 31 December 2015 (31 December 2014: 0%)

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Less than 1 year	286	258
Between 1 – 5 years	738	707
More than 5 years	176	138
	<u>1,200</u>	<u>1,103</u>

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**24. 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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Less than 1 year	5	5
Between 1 – 5 years	21	24
More than 5 years	37	47
	<u>63</u>	<u>76</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 and 33 were delivered in 2015. The Group has made an advance payment of 1.5 billion US Dollars (full) relevant to these purchases as of 31 December 2015.

**25. EMPLOYEE BENEFITS**

Provisions for long-term retirement pay liability as of 31 December 2015 and 2014 is comprised of the following:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Provisions for retirement pay liability	119	127

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 1,408 (full) as of 1 January 2016 (1 January 2015: US Dollar 1,527 (full)).

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.

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**25. 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 31 December 2015 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 2014: 5.50%) and 11.00% interest rate (31 December 2014: 9.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.40% (31 December 2014: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,408 (full) which is in effect since 1 January 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:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Provisions at the beginning of the year	127	117
Service charge for the year	27	28
Interest charges	4	4
Actuarial gains/ (losses)	(3)	5
Payments	(9)	(15)
Foreign currency translation difference	(27)	(12)
Provisions at the end of the year	<u>119</u>	<u>127</u>

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**26. EXPENSES BY NATURE**

Expenses by nature for the years ended 31 December 2015 and 2014 are as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Fuel expenses	2,997	3,806
Personnel expenses	1,640	1,694
Depreciation expenses	924	743
Ground services expenses	619	627
Passenger services and catering expenses	585	558
Aircraft maintenance expenses	516	417
Air traffic control expenses	506	534
Airport expenses	410	408
Commissions and incentives	346	356
Wet lease expenses	285	365
Reservation systems expenses	215	214
Operating lease expenses	211	178
Advertisement and promotion expenses	204	168
Service expenses	64	60
Rent expenses	59	50
IT & communication expenses	41	43
Insurance expenses	32	36
Taxes and duties	31	23
Transportation expenses	29	24
Consultancy expenses	11	12
Utility expenses	10	8
Systems use and associateship expenses	6	5
Membership fees	5	6
Other expenses	94	94
	<b>9,840</b>	<b>10,429</b>

**27. PASSENGER FLIGHT LIABILITIES**

Passenger flight liability is as follows;

	<b>31 December 2015</b>	<b>31 December 2014</b>
Flight liability generating from ticket sales	833	1,203
Flight liability generating from frequent flyer program	258	195
	<b>1,091</b>	<b>1,398</b>

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**28. OTHER ASSETS AND LIABILITIES**

Details of other current assets as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Value added tax receivable	34	38
Personnel and business advances	2	1
	<u>36</u>	<u>39</u>

Other short-term liabilities as of 31 December 2015 and 2014 are as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Accruals for maintenance expenses of aircraft under operating lease	214	258
Accruals for other expenses	3	5
Other liabilities	1	1
	<u>218</u>	<u>264</u>

**29. SHAREHOLDERS' EQUITY**

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

	<b>Class</b>	<b>%</b>	<b>31 December 2015</b>	<b>%</b>	<b>31 December 2014</b>
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			1,380		1,380
Inflation adjustment on share capital (**)			1,124		1,124
Historic capital (***)			<u>2,504</u>		<u>2,504</u>
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.

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## **29. SHAREHOLDERS' EQUITY (cont'd)**

As of 31 December 2015, 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.

### **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.

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**29. SHAREHOLDERS' EQUITY (cont'd)****Distribution of Dividends (cont'd)**

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.

**30. REVENUE**

Breakdown of gross profit is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Passenger revenue		
Scheduled	9,310	9,774
Unscheduled	58	84
Total passenger revenue	9,368	9,858
Cargo revenue		
Carried by passenger aircraft	540	554
Carried by cargo aircraft	395	419
Total cargo revenue	935	973
Total passenger and cargo revenue	10,303	10,831
Technical revenue	188	203
Other revenue	31	36
Net sales	10,522	11,070
Cost of sales (-)	(8,420)	(9,030)
Gross profit	2,102	2,040



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**30. REVENUE (cont'd)**

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

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
- Europe	3,166	3,559
- Far East	2,333	2,418
- Middle East	1,335	1,315
- America	1,270	1,195
- Africa	826	915
Total international flights	8,930	9,402
Domestic flights	1,373	1,429
Total passenger and cargo revenue	10,303	10,831

**31. COST OF SALES**

Breakdown of the cost of sales is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Fuel expenses	2,997	3,806
Personnel expenses	1,258	1,274
Depreciation expenses	860	692
Ground services expenses	619	627
Passenger services and catering expenses	585	558
Aircraft maintenance expenses	516	417
Air traffic control expenses	506	534
Airport expenses	410	408
Wet lease expenses	285	365
Operating lease expenses	211	178
Service expenses	33	34
Insurance expenses	30	34
Rent expenses	30	22
Transportation expenses	29	24
Taxes and duties	13	11
Utility expenses	5	4
IT & communication expenses	3	6
Other expenses	30	36
	8,420	9,030

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**32. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES**

Breakdown of general administrative expenses is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Personnel expenses	123	140
Depreciation expenses	58	44
IT & communication expenses	30	28
Service expenses	20	18
Rent expenses	10	10
Systems use and associateship expenses	6	5
Utility expenses	5	4
Consultancy expenses	3	4
Insurance expenses	2	2
Other general administrative expenses	15	18
	<b>272</b>	<b>273</b>

Breakdown of marketing and sales expenses is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Commissions and incentives	346	356
Personnel expenses	259	280
Reservation systems expenses	215	214
Advertisement and promotion expenses	204	168
Rent expenses	19	18
Taxes and duties	18	12
Service expenses	11	8
Consultancy expenses	8	8
IT & communication expenses	8	9
Depreciation expenses	6	7
Membership fees	5	6
Other marketing and sales expenses	49	40
	<b>1,148</b>	<b>1,126</b>

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**33. OTHER OPERATING INCOME / EXPENSES**

Breakdown of other operating income is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Foreign exchange gains from operational activities, net	108	-
Manufacturers' credits	68	19
Insurance, indemnities, penalties income	29	22
Provisions released	10	8
Sales premium from suppliers	7	10
Non- interest income from banks	7	5
Rent income	3	1
Delay interest income	2	-
Rediscount interest income	1	-
TGS share premium (Note: 4)	-	5
Other operating income	9	10
	<b>244</b>	<b>80</b>

Breakdown of other operating expenses is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Provisions	18	14
Indemnity and penalty expenses	4	4
Rediscount interest expenses	-	2
Foreign exchange losses from operational activities, net	-	20
Other operating expenses	9	5
	<b>31</b>	<b>45</b>

**34. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES**

Breakdown of income from investment activities is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Income from investment incentives	64	57
Income from insurance due to aircraft damages	23	-
Interest income from financial investment	8	14
Fair value gain on investment property (Note:16)	4	3
Gain on sale of fixed assets	3	22
	<b>102</b>	<b>96</b>

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**34. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES (cont'd)**

Breakdown of expense from investment activities is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Loss on sale of fixed assets	1	24

**35. FINANCIAL INCOME/ EXPENSES**

Breakdown of financial income is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Foreign exchange gains from financial activities, net	513	397
Interest income	19	22
	<b>532</b>	<b>419</b>

Breakdown of financial expenses is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Finance lease interest expenses	158	156
Fair value losses on derivative financial instruments	14	14
Aircraft financing expenses	15	11
Interest expenses on employee benefits	4	4
Rediscount interest expense from repayments of aircrafts	1	5
Other financial expenses	9	6
	<b>201</b>	<b>196</b>

**36. TAX ASSETS AND LIABILITIES**

Breakdown of assets related to current tax is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Prepaid taxes	12	8

Tax liability is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Provisions for corporate tax	12	5
Prepaid taxes and funds	(2)	(4)
Tax liability	10	1

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**36. TAX ASSETS AND LIABILITIES (cont'd)**

Tax expense is as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Current year tax expense	12	5
Deferred tax expense	326	196
Tax expense	<u>338</u>	<u>201</u>

Tax effect related to other comprehensive income is as follows:

	<b>1 January - 31 December 2015</b>			<b>1 January - 31 December 2014</b>		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	( 37)	-	( 37)	( 15)	-	( 15)
Change in cash flow hedge reserve	( 178)	36	( 142)	( 172)	34	( 138)
Change in actuarial losses from retirement pay obligation	3	( 1)	2	( 5)	1	( 4)
Other comprehensive income	<u>( 212)</u>	<u>35</u>	<u>( 177)</u>	<u>( 192)</u>	<u>35</u>	<u>( 157)</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.

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**36. 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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Fixed assets	(1,138)	(884)
Adjustments for passenger flight liabilities	(75)	(14)
Change in fair value of derivative instruments	94	55
Income and expense for future periods	47	28
Tax loss carried forward	47	24
Accruals for expenses	45	54
Miles accruals	46	32
Provisions for employee benefits	24	25
Provisions for unused vacation	10	12
Other	13	13
Deferred tax liabilities	<u>(887)</u>	<u>(655)</u>

The changes of deferred tax liability for interim periods 1 January – 31 December 2015 and 2014 are as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Opening balance at 1 January	655	518
Deferred tax expense	326	196
Tax income from hedging reserves	(36)	(35)
Tax expenses of actuarial losses on retirement pay obligation	1	(1)
Foreign currency translation difference	(59)	(23)
Deferred tax liability at the end of the year	<u>887</u>	<u>655</u>

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**36. TAX ASSETS AND LIABILITIES (cont'd)**

*Deferred Tax (cont'd)*

Reconciliation with current tax charge for interim periods 1 January – 31 December 2015 and 2014 are as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
<u>Reconciliation of effective tax charge:</u>		
Profit from operations before tax	1,407	1,046
Domestic income tax rate of 20%	281	209
Taxation effects on:		
- income from investment accounted by equity method	(16)	(15)
- income from investment assistance	(13)	(11)
- adjustment for prior year loss	(6)	(21)
- non-deductible expenses	-	1
- foreign currency translation difference	92	38
Tax charge in statement of profit or loss	<u>338</u>	<u>201</u>

**37. 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.

Number of total shares and calculation of earnings per share at 1 January – 31 December 2015 and 2014:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Number of shares outstanding at 1 January (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Number of shares outstanding at 31 December (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Weighted average number of shares outstanding during the year (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Net profit for the year	1,069	845
Basic profit per share (Full US Cents) (*)	0.77	0.61

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

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**38. DERIVATIVE FINANCIAL INSTRUMENTS**

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2015 and 2014 are as follows:

<u>Derivative financial assets</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Cross currency rate swap agreements	77	138
Derivative instruments for fuel prices		
cash flow hedge	14	2
Derivative instruments for interest rate		
cash flow hedge	9	12
	<u>100</u>	<u>152</u>
 <u>Derivative financial liabilities</u>	 <u>31 December 2015</u>	 <u>31 December 2014</u>
Derivative instruments for fuel prices		
cash flow hedge	485	358
Derivative instruments for interest rate		
cash flow hedge	68	68
Cross currency rate swap agreements	15	1
	<u>568</u>	<u>427</u>

**39. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS****(a) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 8, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Group has not changed compared to 2014.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Total debts	7,664	5,951
Less: Cash and cash equivalents and time deposits		
with maturity of more than three months	(962)	(722)
Net debt (A)	6,702	5,229
Total shareholders' equity (B)	4,842	3,950
Total capital stock (A+B)	11,544	9,179
Net debt/total capital stock ratio	0.58	0.57



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

**(b) Financial Risk Factors**

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from different financial risks.

Risk management is carried out in line with policies approved by the Board of Directors. According to risk policy, financial risk is identified and assessed. Working together with Group's operational units, relevant instruments are used to reduce the risk.

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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management*

	Receivables					
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party	Deposits in Banks	Derivative Instruments
31 December 2015						
Maximum credit risk as of balance sheet date (*)	-	361	3	2,440	954	100
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	27	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	244	3	2,440	954	100
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	117	-	-	-	-
-The part under guarantee with collateral etc.	-	12	-	-	-	-
D. Net book value of impaired assets						
-Past due (gross carrying amount)	-	72	-	-	-	-
-Impairment(-)	-	(72)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-

(\*)The guarantees that increase credit reliability are not included in the balance.

(\*\*)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management (cont'd)*

	Receivables					
	Trade receivables		Other receivables			
31 December 2014	Related Party	Third Party	Related Party	Third Party	Deposits in Banks	Derivative Instruments
Maximum credit risk as of balance sheet date (*)	-	456	3	2,255	704	152
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	22	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	234	3	2,255	704	152
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	222	-	-	-	-
-The part under guarantee with collateral etc.	-	7	-	-	-	-
D. Net book value of impaired assets						
-Past due (gross carrying amount)	-	67	-	-	-	-
-Impairment(-)	-	(67)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-

(\*)The guarantees that increase credit reliability are not included in the balance.

(\*\*)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management (cont'd)*

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

The Group's credit risk is related to its receivables, cash and derivative financial assets. The balance shown in the consolidated balance sheet is the result of the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on previous experience and current economy conditions. Since the customers are diversified, the Group's credit risk is dispersed and there is no material credit risk concentration.

The aging of past due receivables as of 31 December 2015 are as follows:

<b>31 December 2015</b>	<b><u>Receivables</u></b>					<b><u>Total</u></b>
	<b><u>Trade Receivables</u></b>	<b><u>Other Receivables</u></b>	<b><u>Deposits in Banks</u></b>	<b><u>Derivative Instruments</u></b>	<b><u>Other</u></b>	
Past due 1-30 days	52	-	-	-	-	52
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	84	-	-	-	-	84
Past due 1-5 years	18	-	-	-	-	18
Total past due receivables	189	-	-	-	-	189
The part under guarantee with collateral etc.	12	-	-	-	-	12

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

(b) Financial Risk Factors (cont'd)

b.1) *Credit risk management (cont'd)*

The aging of past due receivables as of 31 December 2014 are as follows:

	<b><u>Receivables</u></b>					
<b>31 December 2014</b>	<b><u>Trade Receivables</u></b>	<b><u>Other Receivables</u></b>	<b><u>Deposits in Banks</u></b>	<b><u>Derivative Instruments</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
Past due 1-30 days	49	-	-	-	-	49
Past due 1-3 months	51	-	-	-	-	51
Past due 3-12 months	182	-	-	-	-	182
Past due 1-5 years	7	-	-	-	-	7
Total past due receivables	289	-	-	-	-	289
The part under guarantee with collateral etc.	7	-	-	-	-	7

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**39. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)****(b) Financial Risk Factors (cont'd)*****b.1) Credit risk management (cont'd)***

As of balance sheet date, total amount of cash collateral and letter of guarantee received by Group for past due and not impaired receivable is 12 USD (31 December 2014: 7 USD).

As of the balance sheet date, the Group has no guarantee for past due receivables for which provisions were recognized.

***b.2) Impairment***

Provisions for doubtful trade receivables consist of provisions for receivables in legal dispute and provisions calculated based on experiences on uncollectible receivables.

Changes in provisions for doubtful receivables for the years ended 31 December 2015 and 2014 are as follows:

	<b>1 January - 31 December 2015</b>	<b>1 January - 31 December 2014</b>
Opening Balance	67	66
Charge for the year	12	8
Collections during the year	(6)	(5)
Currency translation adjustment	(1)	(2)
Closing Balance	<u>72</u>	<u>67</u>

***b.3) Liquidity risk management***

The main responsibility for liquidity risk management rests with the Board of Directors. The Board designed an appropriate risk management policy for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities.

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

(b) Financial Risk Factors (cont'd)

*b.3) Liquidity risk management (cont'd)*

**Liquidity risk table:**

**31 December 2015**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	250	250	250	-	-	-
Finance lease obligations	7,399	8,213	221	675	3,419	3,898
Trade payables	671	671	671	-	-	-
Other financial liabilities	15	15	15	-	-	-
<b>Total</b>	<b>8,335</b>	<b>9,149</b>	<b>1,157</b>	<b>675</b>	<b>3,419</b>	<b>3,898</b>

**31 December 2014**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Finance lease obligations	5,931	6,651	167	569	2,848	3,067
Trade payables	663	663	662	-	1	-
Other financial liabilities	19	19	19	-	-	-
<b>Total</b>	<b>6,613</b>	<b>7,333</b>	<b>848</b>	<b>569</b>	<b>2,849</b>	<b>3,067</b>

**31 December 2015**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial (liabilities) / assets, net</b>						
Derivative cash inflows/outflows, net	(468)	(466)	(113)	(261)	(97)	5

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

(b) Financial Risk Factors (cont'd)

*b.3) Liquidity risk management (cont'd)*

**31 December 2014**

		<u>Total cash outflow according to the</u>				
<u>Due date on the contract</u>	<u>Book value</u>	<u>contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial (liabilities) / assets, net</b>						
Derivative cash						
inflows/outflows,net	(275)	(254)	(28)	(126)	(102)	2

*b.4) Market risk management*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are evaluated using sensitivity analysis. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

*b.4.1) Foreign currency risk management*

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:



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

(b) Financial Risk Factors (cont'd)

*b.4) Market risk management (cont'd)*

*b.4.1) 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
<b>4.Current Assets (1+2+3)</b>	<b>1,697</b>	<b>447</b>	<b>933</b>	<b>9</b>	<b>15</b>	<b>293</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	60	4	49	-	-	7
<b>8.Non Current Assets (5+6+7)</b>	<b>60</b>	<b>4</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>7</b>
<b>9.Total Assets (4+8)</b>	<b>1,757</b>	<b>451</b>	<b>982</b>	<b>9</b>	<b>15</b>	<b>300</b>
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	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,530</b>	<b>709</b>	<b>523</b>	<b>217</b>	<b>23</b>	<b>58</b>
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	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>5,042</b>	<b>119</b>	<b>2,372</b>	<b>2,333</b>	<b>216</b>	<b>2</b>
<b>18.Total Liabilities (13+17)</b>	<b>6,572</b>	<b>828</b>	<b>2,895</b>	<b>2,550</b>	<b>239</b>	<b>60</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(4,815)</b>	<b>(377)</b>	<b>(1,913)</b>	<b>(2,541)</b>	<b>(224)</b>	<b>240</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(5,065)</b>	<b>(417)</b>	<b>(2,024)</b>	<b>(2,545)</b>	<b>(229)</b>	<b>150</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

b) Financial Risk Factors (cont'd)

b.4) *Market risk management (cont'd)*

b.4.1) *Foreign currency risk management (cont'd)*

	31 December 2014					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	420	73	115	7	10	215
2a.Monetary Financial Assets	649	268	288	1	3	89
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	393	289	55	2	4	43
<b>4.Current Assets (1+2+3)</b>	<b>1,462</b>	<b>630</b>	<b>458</b>	<b>10</b>	<b>17</b>	<b>347</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	61	2	50	-	-	9
<b>8.Non Current Assets (5+6+7)</b>	<b>61</b>	<b>2</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>9.Total Assets (4+8)</b>	<b>1,523</b>	<b>632</b>	<b>508</b>	<b>10</b>	<b>17</b>	<b>356</b>
10.Trade Payables	449	232	148	2	3	64
11.Financial Liabilities	411	19	282	110	-	-
12a.Other Liabilities, Monetary	427	331	68	21	2	5
12b.Other Liabilities, Non Monetary	74	74	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,361</b>	<b>656</b>	<b>498</b>	<b>133</b>	<b>5</b>	<b>69</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	3,690	-	2,219	1,471	-	-
16a.Other Liabilities, Monetary	13	1	7	-	-	5
16b.Other Liabilities, Non Monetary	127	127	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>3,830</b>	<b>128</b>	<b>2,226</b>	<b>1,471</b>	<b>-</b>	<b>5</b>
<b>18.Total Liabilities (13+17)</b>	<b>5,191</b>	<b>784</b>	<b>2,724</b>	<b>1,604</b>	<b>5</b>	<b>74</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(3,668)</b>	<b>(152)</b>	<b>(2,216)</b>	<b>(1,594)</b>	<b>12</b>	<b>282</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(3,921)</b>	<b>(242)</b>	<b>(2,321)</b>	<b>(1,596)</b>	<b>8</b>	<b>230</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) 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.

		<b>31 December 2015</b>	
		<b>Profit / (Loss)</b>	
		If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(38)		38
2- Part hedged from TL risk (-)	-		-
3- TL net effect (1+2)	(38)		38
4- Euro net asset / liability	(191)		191
5- Part hedged from Euro risk (-)	-		-
6- Euro net effect (4+5)	(191)		191
7- JPY net asset / liability	(254)		254
8- Part hedged from JPY risk (-)	-		-
9- JPY net effect (7+8)	(254)		254
10- CHF net asset / liability	(22)		22
11- Part hedged from CHF risk (-)	-		-
12- CHF net effect (10+11)	(22)		22
13- Other foreign currency net asset / liability	24		(24)
14- Part hedged other foreign currency risk (-)	-		-
15- Other foreign currency net effect (13+14)	24		(24)
TOTAL (3 + 6 + 9 + 12 + 15)	(482)		482

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

Financial Risk Factors (cont'd)

**b.4) Market risk management (cont'd)**

**b.4.1) Foreign currency risk management (cont'd)**

Foreign currency sensitivity (cont'd)

	<b>31 December 2014</b>	
	<b>Profit / (Loss)</b>	
	<b>If foreign currency appreciated 10 %</b>	<b>If foreign currency depreciated 10 %</b>
1- TL net asset / liability	(15)	15
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(15)	15
4- Euro net asset / liability	(222)	222
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(222)	222
7- JPY net asset / liability	(159)	159
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	(159)	159
10- CHF net asset / liability	1	(1)
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	1	(1)
13- Other foreign currency net asset / liability	28	(28)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	28	(28)
<b>TOTAL (3 + 6 + 9 + 12 + 15)</b>	<b>(367)</b>	<b>367</b>

**b.4.2) Interest rate risk management**

The Group has been borrowing at both fixed and variable interest rates. Considering the interest conditions of the current borrowings, the majority of the borrowings are at variable interest rates. In addition to this; under the condition that the cost of financing of aircraft purchases are reasonable, the Group has been trying to increase the amount of the fixed interest rate borrowings in order to create a partial balance between the fixed and variable interest rate borrowings. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, exposure to local interest rate is low.

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

## (b) Financial Risk Factors (cont'd)

*b.4) Market risk management (cont'd)**b.4.2) Interest rate risk management (cont'd)*

## Interest Rate Position Table

	<u>31 December 2015</u>	<u>31 December 2014</u>
<u>Instruments with fixed interest rate</u>		
Financial Liabilities	3,361	2,755
<u>Financial Instruments with Variable Interest Rate</u>		
Financial Liabilities	4,038	3,176
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(22)	(16)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(37)	(40)

As indicated in Note 40, the Group fixed the interest rate for 3,073 USD of floating-interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2015.

Interest rate sensitivity

The following sensitivity analysis are done considering the interest rate exposure in the reporting date and possible changes on this rate and are fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the basis for variable interest rates, fluctuate 0.5% and reports the effects to the top management.

Assuming that there is a 0.5% increase in Libor and Euribor interest rates and all other variables are kept constant:

Current profit before tax of the Group for the year will decrease by USD 20 (For the year ended 31 December 2014 profit before tax will decrease by 16 USD). In contrast, if Libor and Euribor interest rate decrease by 0.5%, profits before tax will increase by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in the event of a 0.5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by 48 USD, excluding the deferred tax effect. (For the year ended 31 December 2014 the shareholders' equity of the Group will increase by 43 USD, excluding the deferred tax effect.) In the event of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amounts, excluding the deferred tax effect.

*b.4.3) Fuel prices sensitivity*

As explained in Note 40, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by 88 USD, excluding the deferred tax effect. (For the year ended 31 December 2014, the shareholders' equity of the Group will increase by 78 USD excluding deferred tax effect.)

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

(b) Financial Risk Factors (cont'd)

*b.4) Market risk management (cont'd)*

*b.4.3) Fuel prices sensitivity (cont'd)*

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by 98 USD, excluding the deferred tax effect. (For the year ended 31 December 2014, the shareholders' equity of the Group will decrease by 93 USD, excluding deferred tax effect.)

**40. FINANCIAL INSTRUMENTS**

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- Under standard maturities and conditions, fair values of financial assets and liabilities traded in an active market are determined using quoted market prices.
- Fair values of derivative instruments:
  - Fixed-paid/floating received interest swap contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.
  - Forward fuel purchase contracts and fuel collar contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward fuel prices (from observable forward fuel prices at the end of the reporting period) and contract fuel prices, discounted at a rate that reflects the credit risk of various counterparties.
  - Forward currency contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
  - Cross-currency swap contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward interest rates and forward exchange rates (from observable yield curves and forward exchange rates at the end of the reporting period) and contract interest rates and forward exchange rates, discounted at a rate that reflects the credit risk of various counterparties.

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**40. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

31 December 2015 Balance Sheet	Loans and <u>Receivables</u>	Derivative instruments accounted for <u>hedge accounting</u>	Derivative instruments <u>at fair value through profit/(loss)</u>	Investments available for sale <u>at cost value</u>	Financial liabilities <u>at amortized cost</u>	<u>Book Value</u>	<u>Note</u>
<u>Financial Assets</u>							
Cash and cash equivalents	900	-	-	-	-	900	6
Financial investments and derivative financial instruments	62	70	30	1	-	163	7 and 38
Trade receivables	361	-	-	-	-	361	11
Other receivables	2,443	-	-	-	-	2,443	10 and 13
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	250	250	8
Finance lease obligations	-	-	-	-	7,399	7,399	8
Other financial liabilities and derivative financial instruments	-	532	36	-	15	583	9 and 38
Trade payables	-	-	-	-	671	671	11

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**40. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

31 December 2014 Balance Sheet	Loans and <u>Receivables</u>	Derivative instruments accounted for <u>hedge accounting</u>	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	<u>Book Value</u>	<u>Note</u>
<u>Financial Assets</u>							
Cash and cash equivalents	635	-	-	-	-	635	6
Financial investments and derivative financial instruments	87	119	33	1	-	240	7 and 38
Trade receivables	456	-	-	-	-	456	11
Other receivables	2,258	-	-	-	-	2,258	10 and 13
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	5,931	5,931	8
Other financial liabilities and derivative financial instruments	-	398	29	-	19	446	9 and 38
Trade payables	-	-	-	-	663	663	11



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

**Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2015**

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

**40. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

Fair values of financial assets and liabilities are determined 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).

Financial assets and liabilities, measured at their fair values are classified as below:

		Fair value level as of the reporting date		
		Level 1	Level 2	Level 3
Financial assets	31 December 2015	USD	USD	USD
Derivative instruments at fair value through profit or loss	30	-	30	-
Derivative instruments accounted for hedge accounting	70	-	70	-
<b>Total</b>	<b>100</b>	<b>-</b>	<b>100</b>	<b>-</b>
<u>Financial liabilities</u>				
Derivative instruments at fair value through profit or loss	36	-	36	-
Derivative instruments accounted for hedge accounting	532	-	532	-
<b>Total</b>	<b>568</b>	<b>-</b>	<b>568</b>	<b>-</b>

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

**40. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

		Fair value level as of the reporting date		
		Level 1	Level 2	Level 3
Financial assets	31 December 2014	USD	USD	USD
Derivative instruments at fair value through profit or loss	33	-	33	-
Derivative instruments accounted for hedge accounting	119	-	119	-
<b>Total</b>	<b>152</b>	<b>-</b>	<b>152</b>	<b>-</b>
<u>Financial liabilities</u>				
Derivative instruments at fair value through profit or loss	29	-	29	-
Derivative instruments accounted for hedge accounting	398	-	398	-
<b>Total</b>	<b>427</b>	<b>-</b>	<b>427</b>	<b>-</b>

Derivative Instruments and Hedging Transactions

In order to hedge important operations and cash flows in the future against financial risks, Group entered into interest rate swap contracts to convert some of the fixed-rate finance lease liabilities to floating rate and cross-currency swap contracts to convert Euro-denominated finance lease liabilities to US Dollars. The changes in the fair values of those derivative instruments are directly accounted in the income statement for the period.

The floating-rate financial liabilities of the Group are explained in Note 39 b.4.2. Beginning from September 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group entered into fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities of which maturities are after the second half of 2010 which account for approximately 76% of floating rate USD, JPY and Euro denominated liabilities. Effective part of change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2015**

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

**40. FINANCIAL INSTRUMENTS (cont'd)**Derivative Instruments and Hedging Transactions (cont'd)

In 2010, in order to control risk arising from fluctuations in price of fuel, which is approximately 37% of cost of sales, the Group began hedging transactions for approximately 20% of annual jet fuel consumption. For this purpose, the Group made forward fuel purchase contracts settled on a cash basis. In accordance with the Company's BOD resolution issued on 21 January 2011, hedging rate which was 20% of the monthly consumption would then increase to 50% in 12 months by 2.5% gradual increase every month. In addition, the Company started to use zero cost 4 way collars in 2011 instead of forward fuel purchase contracts to hedge cash flow risk of fuel prices.

The effective portion of fair value of fuel hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2015 and 2014 are as follows:

<b>31 December 2015</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	1	(38)	(37)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	12	(213)	(201)
Collar contracts for hedging against cash flow risk of fuel prices	2	(272)	(270)
Forward currency contracts for hedging purposes	55	(9)	46
Fair values of derivative instruments for hedging purposes	70	(532)	(462)
Cross-currency swap contracts not subject to hedge accounting	17	-	17
Interest rate swap contracts not subject to hedge accounting	8	(30)	(22)
Forward currency contracts not for hedging purposes	5	(6)	(1)
Fair values of derivative instruments not for hedging purposes	30	(36)	(6)
Total	100	(568)	(468)

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

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

**40. FINANCIAL INSTRUMENTS (cont'd)**

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2015 and 2014 are as follows (cont'd):

<b>31 December 2014</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(40)	(40)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	2	(90)	(88)
Collar contracts for hedging against cash flow risk of fuel prices	-	(268)	(268)
Forward currency contracts for hedging purposes	117	-	117
Fair values of derivative instruments for hedging purposes	119	(398)	(279)
Cross-currency swap contracts not subject to hedge accounting	8	(1)	7
Interest rate swap contracts not subject to hedge accounting	12	(28)	(16)
Forward currency contracts not for hedging purposes	13	-	13
Fair values of derivative instruments not for hedging purposes	33	(29)	4
Total	152	(427)	(275)

<b>31 December 2015</b>	<b>Hedging against fuel risk</b>	<b>Hedging against interest risk</b>	<b>Hedging against currency risk</b>	<b>Total</b>
Fair values of derivative instruments for hedging purposes	(471)	(37)	46	(462)
The amount of financial expenses inside hedge funds	-	-	-	-
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	60	-	-	60
Inefficient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	(6)	(6)
Total	(411)	(37)	40	(408)
Deferred tax	82	7	(8)	81
Hedge reserve as of 31 December 2015	(329)	(30)	32	(327)

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2015**

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

**40. FINANCIAL INSTRUMENTS (cont'd)**Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2015 and 2014 are as follows (cont'd):

<b>31 December 2014</b>	<b>Hedging against fuel risk</b>	<b>Hedging against interest risk</b>	<b>Hedging against currency risk</b>	<b>Total</b>
Fair values of derivative instruments for hedging purposes	(356)	(40)	117	(279)
The amount of financial expenses inside hedge funds	-	2	-	2
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	48	-	-	48
Foreign currency translation differences	-	(2)	-	(2)
Total	(308)	(40)	117	(231)
Deferred tax	62	8	(23)	46
Hedge reserve as of 31 December 2014	(246)	(32)	94	(185)

**41. EVENTS AFTER THE BALANCE SHEET DATE**

None.

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

Consolidated 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 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 financial statements in order to maintain consistency with current year consolidated financial statements.

- Fair value loss of fuel derivative instruments amounting to 38 USD, which was disclosed under "Cost of Sales" is reclassified to fair value gain/ losses on derivative financial instruments, which is disclosed under "Financial Expenses" .
- Discount interest income, amounting to 1 USD which was disclosed under "Other Operating Income" is net off with discount interest expense which is disclosed under "Other Operating Expenses".