

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

Condensed Consolidated Interim  
Financial Statements As At and For  
The Three-Month Period  
Ended 31 March 2017

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Balance Sheet as at 31 March 2017**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	Not Reviewed	Audited
		31 March 2017	31 December 2016
<b>Current Assets</b>			
Cash and Cash Equivalents	5	1,535	1,466
Financial Investments	6	231	349
Trade Receivables			
-Trade Receivables From Related Parties	9	1	-
-Trade Receivables From Non-Related Parties		533	379
Other Receivables			
-Other Receivables from Related Parties	9	3	3
-Other Receivables from Non-Related Parties	10	678	843
Derivative Financial Instruments	28	127	197
Inventories		224	217
Prepaid Expenses		120	98
Current Income Tax Assets	26	19	23
Other Current Assets		54	26
<b>TOTAL CURRENT ASSETS</b>		<b>3,525</b>	<b>3,601</b>
<b>Non-Current Assets</b>			
Financial Investments	6	47	47
Other Receivables			
-Other Receivables from Non-Related Parties	10	542	516
Investments Accounted by Using Equity Method	3	243	247
Investment Property		1	1
Property and Equipment	12	13,547	13,476
Intangible Assets			
- Other Intangible Assets	13	70	73
- Goodwill		12	12
Prepaid Expenses		486	518
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,948</b>	<b>14,890</b>
<b>TOTAL ASSETS</b>		<b>18,473</b>	<b>18,491</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Balance Sheet as at 31 March 2017**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		<u>Not Reviewed</u>	<u>Audited</u>
	<u>Notes</u>	<u>31 March 2017</u>	<u>31 December 2016</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Short Term Borrowings	7	1,401	1,357
Short-Term Portion of Long-Term Borrowings	7 and 14	1,095	1,064
Other Financial Liabilities	8	20	4
Trade Payables			
-Trade Payables to Related Parties	9	119	129
-Trade Payables to Non-Related Parties		527	487
Payables Related to Employee Benefits		133	143
Other Payables			
-Other Payables to Non-Related Parties		88	93
Derivative Financial Instruments	28	139	146
Deferred Income	11	1,115	796
Current Tax Provision	26	11	2
Short-Term Provisions			
-Provisions for Employee Benefits	15	45	44
-Other Provisions	15	18	17
Other Current Liabilities		205	215
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,916</b>	<b>4,497</b>
<b>Non- Current Liabilities</b>			
Long-Term Borrowings	7 and 14	7,911	7,822
Other Payables			
-Other Payables to Non-Related Parties		14	11
Deferred Income	11	4	6
Long-Term Provisions			
-Provisions for Employee Benefits	17	107	113
Deferred Tax Liability	26	850	955
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>8,886</b>	<b>8,907</b>
<b>Equity</b>			
Share Capital	19	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	19	( 11)	( 11)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	( 104)	( 106)
-Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges	19	( 25)	20
Restricted Profit Reserves	19	36	36
Previous Years Profit	19	3,551	3,628
Net (Loss) for the Period		( 373)	( 77)
<b>TOTAL EQUITY</b>		<b>4,671</b>	<b>5,087</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>18,473</b>	<b>18,491</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income**  
**For the Three-Month Period Ended 31 March 2017**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		<u>Not Reviewed</u>	<u>Not Reviewed</u>
		1 January -	1 January -
	<u>Notes</u>	31 March 2017	31 March 2016
<b><u>PROFIT OR LOSS</u></b>			
Sales Revenue	20	1,980	2,188
Cost of Sales (-)	21	( 1,863)	( 2,069)
<b>GROSS PROFIT</b>		<b>117</b>	<b>119</b>
General Administrative Expenses (-)	22	( 69)	( 82)
Marketing and Sales Expenses (-)	22	( 257)	( 317)
Other Operating Income	23	47	74
Other Operating Expenses (-)	23	( 10)	( 8)
<b>OPERATING (LOSS) BEFORE INVESTMENT ACTIVITIES</b>		<b>( 172)</b>	<b>( 214)</b>
Income from Investment Activities	24	27	21
Share of Investments' (Loss) Accounted by Using The Equity Method	3	( 2)	( 24)
<b>OPERATING (LOSS)</b>		<b>( 147)</b>	<b>( 217)</b>
Financial Income	25	15	16
Financial Expenses (-)	25	( 322)	( 335)
<b>(LOSS) BEFORE TAX</b>		<b>( 454)</b>	<b>( 536)</b>
<b>Tax Income</b>		<b>81</b>	<b>115</b>
Current Tax Expense	26	( 11)	( 10)
Deferred Tax Income	26	92	125
<b>(LOSS) FOR THE PERIOD</b>		<b>( 373)</b>	<b>( 421)</b>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
<b>Items That May Be Reclassified Subsequently To Profit or Loss</b>		<b>( 43)</b>	<b>59</b>
Currency Translation Adjustment		2	8
Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges		( 52)	67
Fair Value (Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		( 4)	( 3)
Income / (Expense) Tax Relating Items That May Be Reclassified Subsequently to Profit or Loss		11	( 13)
<b>OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD</b>		<b>( 43)</b>	<b>59</b>
<b>TOTAL COMPREHENSIVE (EXPENSE) FOR THE PERIOD</b>		<b>( 416)</b>	<b>( 362)</b>
<b>Basic (Loss) Per Share (Full US Cents)</b>	27	( 0.27)	( 0.31)
<b>Diluted (Loss) Per Share (Full US Cents)</b>	27	( 0.27)	( 0.31)

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

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

**Condensed Consolidated Interim Statement of Changes in Equity For the Three-Month Period Ended 31 March 2017**

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

	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		Total Equity
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net (Loss) for The Period	
<b>As of 31 December 2016</b>	<b>1,597</b>	<b>(11)</b>	<b>(106)</b>	<b>20</b>	<b>36</b>	<b>3,628</b>	<b>(77)</b>	<b>5,087</b>
Transfers	-	-	-	-	-	(77)	77	-
Total comprehensive income	-	-	2	(45)	-	-	(373)	(416)
<b>As of 31 March 2017</b>	<b>1,597</b>	<b>(11)</b>	<b>(104)</b>	<b>(25)</b>	<b>36</b>	<b>3,551</b>	<b>(373)</b>	<b>4,671</b>

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

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

**Condensed Consolidated Interim Statement of Changes in Equity For the Three-Month Period Ended 31 March 2016**

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

	Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		Total Equity	
	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period		
<b>Share Capital</b>								
<b>As of 31 December 2015</b>	<b>1,597</b>	<b>(8)</b>	<b>(84)</b>	<b>(327)</b>	<b>36</b>	<b>2,559</b>	<b>1,069</b>	<b>4,842</b>
Transfers	-	-	-	-	-	1,069	(1,069)	-
Total comprehensive income	-	-	8	51	-	-	(421)	(362)
<b>As of 31 March 2016</b>	<b>1,597</b>	<b>(8)</b>	<b>(76)</b>	<b>(276)</b>	<b>36</b>	<b>3,628</b>	<b>(421)</b>	<b>4,480</b>

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

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

**Condensed Consolidated Interim Statement of Cash Flows**

**For the Three-Month Period Ended 31 March 2017**

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

	Notes	<u>Not Reviewed</u> <u>1 January -</u> <u>31 March 2017</u>	<u>Not Reviewed</u> <u>1 January -</u> <u>31 March 2016</u>
(Loss) / profit for the period		(373)	(421)
<b>Adjustments to Reconcile Profit (Loss)</b>			
Adjustments for Depreciation and Amortisation Expense	12 and 13	257	270
Adjustments for Provisions Related with Employee Benefits	15 and 17	3	12
Adjustments for (Reversal of) Provisions for Payables	15	(1)	-
Adjustments for Free Provisions for Probable Risks		(2)	-
Adjustments for Interest Income	24 and 25	(17)	(17)
Adjustments for Interest Expense	25	50	50
Adjustments For Unrealised Foreign Exchange Loss		189	299
Adjustments for Manufacturers' Credits		1	-
Adjustments for Fair Value Losses on Derivative Financial Instruments		10	8
Adjustments for Undistributed Profits of Associates	3	2	24
Adjustments for Tax Income	26	(81)	(115)
Adjustments for Gains Arised From Sale of Tangible Assets	24	(1)	-
Adjustments for Losses Arised from Sale of Other Non-Current Assets		4	5
<b>Operating Profit Before Changes in Working Capital</b>		<b>41</b>	<b>115</b>
Increase in Trade Receivables from Non Related Parties		(152)	(124)
Decrease in Other Non-Related Party Receivables Related with Operations		31	76
Adjustments for (Increase) / Decrease in Inventories		(7)	1
Adjustments for Decrease / (Increase) in Prepaid Expenses		10	(49)
Decrease in Trade Payables to Related Parties		(10)	(27)
Increase in Trade Payables to Non-Related Parties		40	3
Adjustments for (Decrease) / Increase in Payables Due to Employee Benefits		(6)	68
(Decrease) / Increase in Other Operating Payables to Non-Related Parties		(3)	8
Increase in Deferred Income		307	153
Increase in Other Assets Related with Operations		(28)	(6)
<b>Cash Flows From Operations</b>		<b>223</b>	<b>218</b>
Payments for Provisions Related with Employee Benefits	17	(10)	(3)
Income taxes refund (paid)	26	4	4
<b>Net Cash From Operating Activities</b>		<b>217</b>	<b>219</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>			
Cash Receipts Proceed from sales of property, plant and equipment		5	-
Cash Payments From Purchasing of Property, Plant and Equipment (*)	12 and 13	(199)	(234)
Cash Receipts From Purchasing of Other Long-Term Assets		118	31
Other Cash Advances and Loans		109	262
Interest Received		16	16
<b>Net Cash Flows From Investing Activities</b>		<b>49</b>	<b>75</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>			
Proceeds from Loans		39	130
Payments of finance lease liabilities		(223)	(197)
Interest Paid		(29)	(31)
Other Outflows of Cash		16	6
<b>Net Cash Flows Used in Financing Activities</b>		<b>(197)</b>	<b>(92)</b>
<b>Net Change in Cash and Cash Equivalents</b>		<b>69</b>	<b>202</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>1,466</b>	<b>900</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	5	<b>1,535</b>	<b>1,102</b>

(\*) USD 134 portion of property and equipment and intangible assets purchases in total of USD 333 for the year ended 31 March 2017 was financed through finance leases. (31 March 2016: USD 760 portion of property and equipment and intangible assets purchases in total of USD 993 was financed through finance leases.)

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

### Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Three-Month Period Ended 31 March 2017

(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 March 2017 and 31 December 2016, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Turkey Wealth Fund (*)	% 49.12	-
Republic of Turkey Prime Ministry Privatization Administration (*)	-	% 49.12
Other (publicly held)	% 50.88	% 50.88
Total	<u>% 100.00</u>	<u>% 100.00</u>

(\*) 49.12% share of the Group owned by Republic of Turkey Prime Ministry Privatisation Administration has been transferred to Sovereign Wealth Fund of Turkey as of February 3rd, 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Prime Ministry Privatisation Administration, is a state owned entity being affiliated to the Republic of Turkey Prime Ministry. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 March 2017 are 30,438 (31 December 2016: 30,541). The average number of employees working for the Group for the period ended 31 March 2017 and 2016 are 30,453 and 28,293 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mahallesi, Havaalanı Caddesi No: 3/1  
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 March 2017 and 31 December 2016:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>31 March 2017</u>	<u>31 December 2016</u>	
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	Turkey
THY Aydın Çıldır Havalimanı İşletme A.Ş. (THY Aydın Çıldır)	Training & Airport Operations	100%	100%	Turkey



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 2017**  
(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 March 2017 and 31 December 2016:

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

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

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

**2.1 Basis of Presentation**

**Statement of Compliance**

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

The condensed consolidated interim financial statements as at and for the three-month period ended 31 March 2017 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

Board of Directors has approved the condensed consolidated interim financial statements as of 31 March 2017 on 5 May 2017. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 2017**  
(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 condensed consolidated interim financial statements, except for investment property and derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

**Adjustment of Financial Statements in Hyperinflationary Periods**

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

**Functional and Reporting Currency**

*Functional currency*

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

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

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

**Basis of Consolidation**

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

## **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 condensed consolidated interim financial statements as at and for the period ended 31 March 2017 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2016.

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

The accounting policies used in preparation of condensed consolidated interim financial statements as at 31 March 2017 are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2016.

### **2.4 New and Revised Standards and Interpretations**

#### **Standards issued but not yet effective and not early adopted**

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

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

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

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

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

##### **IFRS 15 Revenue from Contracts with Customers**

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

##### **IFRS 16 Leases**

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

##### **IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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

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

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

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

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

##### **IAS 40 – Transfers of Investment Property**

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

##### **Improvements to IFRSs**

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. 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 2014-2016 Cycle***

###### ***IFRS 1 “First Time Adoption of International Financial Reporting Standards”***

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of ‘Annual Improvements to IFRSs 2012-2014 Cycle’ related to disclosures for financial instruments, employee benefits and consolidated financial statements.

###### ***IFRS 12 “Disclosure of Interests in Other Entities”***

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

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

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

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

**Improvements to IFRSs (cont'd)**

*Annual Improvements to IFRSs 2014-2016 Cycle (cont'd)*

*IAS 28 "Investments in Associates and Joint Ventures"*

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

**2.5 Determination of Fair Values**

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

Evaluation methods in terms of levels are described as follows:

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

**3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD**

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

	<u>31 March 2017</u>	<u>31 December 2016</u>
Sun Express	57	77
Turkish DO&CO	56	57
TEC	48	43
TGS	32	31
THY Opet	41	30
Uçak Koltuk	5	5
TCI	3	3
Goodrich	1	1
Vergi İade Aracılık (*)	-	-
	<u>243</u>	<u>247</u>

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

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

Financial information for Sun Express as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	1,057	972
Total liabilities	943	818
Shareholders'equity	114	154
Group's share in joint venture's shareholders' equity	57	77
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	162	166
(Loss) for the period	(38)	(62)
Group's share in joint venture's (loss) for the period	(19)	(31)

Financial information for Turkish DO&CO as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	170	175
Total liabilities	58	62
Shareholders'equity	112	113
Group's share in joint venture's shareholders' equity	56	57
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	63	87
Profit for the period	5	8
Group's share in joint venture's profit for the period	3	4

Financial information for TEC as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	191	168
Total liabilities	94	79
Shareholders'equity	97	89
Group's share in joint venture's shareholders' equity	48	43
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	99	69
Profit for the period	5	5
Group's share in joint venture's profit for the period	2	2

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

Financial information for TGS as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	114	115
Total liabilities	53	53
Shareholders'equity	61	62
Group's share in joint venture's shareholders' equity	32	31
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	51	62
Profit for the period	1	5
Group's share in joint venture's profit for the period	1	2

Financial information for THY Opet as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	582	458
Total liabilities	501	399
Shareholders'equity	81	59
Group's share in joint venture's shareholders' equity	41	30
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	331	287
Profit for the period	23	-
Group's share in joint venture's profit for the period	11	-

Financial information for Uçak Koltuk as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	19	19
Total liabilities	9	9
Shareholders'equity	10	10
Group's share in joint venture's shareholders' equity	5	5
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	2	1
(Loss) for the period	(1)	(2)
Group's share in joint venture's (loss) for the period	-	(1)



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

Financial information for TCI as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	10	11
Total liabilities	4	4
Shareholders'equity	6	7
Group's share in joint venture's shareholders' equity	3	3
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	2	3
(Loss) for the period	(1)	(1)
Group's share in joint venture's (loss) for the period	-	-

Financial information for Goodrich as of 31 March 2017 and 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total assets	6	5
Total liabilities	3	2
Shareholders'equity	3	3
Group's share in joint venture's shareholders' equity	1	1
	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Revenue	4	2
Profit/ (loss) for the period	-	-
Group's share in joint venture's profit / (loss) for the period	-	-

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

	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Sun Express	(19)	(31)
Turkish DO&CO	3	4
TEC	2	2
TGS	1	2
THY Opet	11	-
Uçak Koltuk	-	(1)
	<u>(2)</u>	<u>(24)</u>

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**4. SEGMENTAL REPORTING**

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

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

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

**4.1 Total Assets and Liabilities**

Total Assets	<b>31 March 2017</b>	<b>31 December 2016</b>
Aviation	18,380	18,335
Technical	1,292	1,258
Total	19,672	19,593
Less: Eliminations due to consolidation	(1,199)	(1,102)
Total assets in consolidated financial statements	18,473	18,491
Total Liabilities	<b>31 March 2017</b>	<b>31 December 2016</b>
Aviation	13,782	13,389
Technical	461	455
Total	14,243	13,844
Less: Eliminations due to consolidation	(441)	(440)
Total liabilities in consolidated financial statements	13,802	13,404

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

**4.2 Profit / (Loss) before Tax**

Segment Results:

<b>1 January - 31 March 2017</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	1,937	43	-	1,980
Inter-Segment Sales	9	187	(196)	-
Revenue	1,946	230	(196)	1,980
Cost of Sales (-)	(1,883)	(176)	196	(1,863)
Gross Profit	63	54	-	117
Administrative Expenses (-)	(47)	(23)	1	(69)
Marketing and Sales Expenses (-)	(256)	(1)	-	(257)
Other Operating Income	48	12	(13)	47
Other Operating Expenses (-)	(15)	(7)	12	(10)
Operating (Loss) Before Investment Activities	(207)	35	-	(172)
Income from Investment Activities	27	-	-	27
Share of Investments' (Loss) Accounted by Using The Equity Method	(4)	2	-	(2)
Operating (Loss)	(184)	37	-	(147)
Financial Income	18	-	(3)	15
Financial Expense (-)	(322)	(3)	3	(322)
(Loss) Before Tax	(488)	34	-	(454)

<b>1 January - 31 March 2016</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	2,153	35	-	2,188
Inter-Segment Sales	9	216	(225)	-
Revenue	2,162	251	(225)	2,188
Cost of Sales (-)	(2,114)	(180)	225	(2,069)
Gross Profit	48	71	-	119
Administrative Expenses (-)	(56)	(28)	2	(82)
Marketing and Sales Expenses (-)	(316)	(1)	-	(317)
Other Operating Income	72	8	(6)	74
Other Operating Expenses (-)	(7)	(5)	4	(8)
Operating Profit Before Investment Activities	(259)	45	-	(214)
Income from Investment Activities	21	-	-	21
Share of Investments' Profit Accounted by Using The Equity Method	(26)	2	-	(24)
Operating Profit	(264)	47	-	(217)
Financial Income	19	-	(3)	16
Financial Expense (-)	(335)	(3)	3	(335)
Profit Before Tax	(580)	44	-	(536)

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

**4.3 Investment Operations**

<b>1 January - 31 March 2017</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	305	28	-	333
Current period depreciation and amortization change	223	34	-	257
Investments accounted by using the equity method	193	50	-	243
<b>1 January - 31 March 2016</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	956	37	-	993
Current period depreciation and amortization change	240	30	-	270
Investments accounted by using the equity method	193	33	-	226

**5. CASH AND CASH EQUIVALENTS**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Cash	3	2
Banks – Time deposits	1,409	1,357
Banks – Demand deposits	117	99
Other liquid assets	6	8
	<b>1,535</b>	<b>1,466</b>

Details of the time deposits as of 31 March 2017 are as follows:

<b>Amount</b>	<b>Currency</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>31 March 2017</b>
220	TL	9.37% - 11.31%	April 2017	60
1,022	USD	2.46% - 3.24%	May 2017	1,027
298	EUR	1.44% - 1.90%	June 2017	322
				<b>1,409</b>

Details of the time deposits as of 31 December 2016 are as follows:

<b>Amount</b>	<b>Currency</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>31 December 2016</b>
1,284	TL	7.43% - 10.12%	January 2017	370
764	USD	1.85% - 3.16%	March 2017	766
209	EUR	1.60% - 1.97%	March 2017	221
				<b>1,357</b>

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**6. FINANCIAL INVESTMENTS**

Short-term financial investments are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Time deposits with maturity more than 3 months	231	349

Time deposit with maturity of more than 3 months as of 31 March 2017 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2017</u>
83	USD	3.12% - 3.20%	October 2017	83
138	EUR	1.72% - 1.85%	August 2017	148
				<u>231</u>

Time deposit with maturity of more than 3 months as of 31 December 2016 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2016</u>
123	USD	3.03% - 3.12%	May 2017	123
214	EUR	1.64% - 1.90%	June 2017	226
				<u>349</u>

Long-term financial investments are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Debt to securities/held to maturity		
- Eurobonds	46	46
Other	1	1
	<u>47</u>	<u>47</u>

Details of Eurobonds as of 31 March 2017 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2017</u>
46	USD	6.88% - 8.50%	February 2025 - May 2040	46

Details of Eurobonds as of 31 December 2016 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2016</u>
46	USD	4.75% - 8.50%	June 2019 - March 2026	46

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

Other long-term financial investments are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Sita Inc.	1	1
Star Alliance Gmbh	< 1	< 1
Emek İnşaat ve İşletme A.Ş.	< 1	< 1
UATP Inc.	< 1	< 1
	<u>1</u>	<u>1</u>

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

Details of the long-term financial investments of the Group at 31 March 2017 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	7.76%	7.76%	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

**7. BORROWINGS**

Short term borrowings are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Short term borrowings	1,401	1,357

Short term borrowings as of 31 March 2017 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2017</u>
1,305	EUR	0.50% - 0.75%	April 2017 - October 2017	<u>1,401</u>

Short term borrowings as of 31 December 2016 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2016</u>
250	USD	1.02%	January 2017	250
1,050	EUR	0.50% - 0.75%	October 2017	<u>1,107</u>
				<u>1,357</u>

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**7. BORROWINGS (cont'd)**

Short term portions of long term borrowings are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Finance lease obligations (Note: 14)	1,069	1,038
Bank borrowings	26	26
	<u>1,095</u>	<u>1,064</u>

Long term borrowings are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Finance lease obligations (Note: 14)	7,820	7,726
Bank borrowings	91	96
	<u>7,911</u>	<u>7,822</u>

Details of bank borrowings as of 31 March 2017 and 31 December 2016 is as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Less than 1 year	26	26
Between 1 – 5 years	91	96
	<u>117</u>	<u>122</u>

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

**8. OTHER FINANCIAL LIABILITIES**

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

	<u>31 March 2017</u>	<u>31 December 2016</u>
Other financial liabilities	20	4

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

**9. RELATED PARTY TRANSACTIONS**

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

	<u>31 March 2017</u>	<u>31 December 2016</u>
Sun Express	1	-

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

	<u>31 March 2017</u>	<u>31 December 2016</u>
Turkish DO&CO (*)	3	3

(\*) The amounts are dividend receivables of 2015.

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**9. RELATED PARTY TRANSACTIONS (cont'd)**

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

	<u>31 March 2017</u>	<u>31 December 2016</u>
THY Opet	50	43
Turkish DO&CO	28	33
TEC	27	19
TGS	12	14
Goodrich	1	1
TCI	1	-
Sun Express	-	19
	<u>119</u>	<u>129</u>

Transactions with related parties for the period ended 31 March 2017 and 2016 are as follows:

a) Sales to related parties:

	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Sun Express	7	8
TEC	2	5
TGS	1	1
Sun Express Deutschland	-	1
	<u>10</u>	<u>15</u>

Purchases from related parties:

	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
THY Opet	281	245
TEC	67	50
TGS	50	60
Turkish DO&CO	50	81
Sun Express	40	57
Goodrich	2	1
	<u>490</u>	<u>494</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 USD1 (1 January-31 March 2016: USD 1).



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**10. OTHER RECEIVABLES**

Other short-term receivables from non-related parties as of 31 March 2017 and 31 December 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Predelivery payments made for aircrafts	487	596
Receivables from technical purchases	74	130
Bank deposits with transfer limitations (*)	62	62
Value added tax receivables	41	39
Receivables from pilots for flight training	11	10
Receivables from employees	-	1
Other receivables	3	5
	<u>678</u>	<u>843</u>

(\*) As of 31 March 2017, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Sudan, Egypt, Algeria, Nigeria, Ukraine, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique and Benin.

Other long-term receivables from non-related parties as of 31 March 2017 and 31 December 2016 are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Receivables related to investment certificates	221	211
Predelivery payments made for aircrafts	207	207
Receivables from pilots for flight training	69	67
Interest and commodity swap agreement deposits	25	11
Deposits and guarentees given	14	15
Bank deposits with transfer limitations (*)	6	5
	<u>542</u>	<u>516</u>

(\*) As of 31 March 2017, the balance of this account includes bank deposits in Syria.

**11. DEFERRED INCOME**

Deferred income is as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Passenger flight liabilities	1,102	785
Other short-term deferred income	13	11
	<u>1,115</u>	<u>796</u>

Passenger flight liability is as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Flight liability generating from ticket sales	915	578
Flight liability generating from Frequent flyer program	187	207
	<u>1,102</u>	<u>785</u>

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**11. DEFERRED INCOME (cont'd)**

Short-term deferred income is as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Advances received	8	5
Unearned bank protocol revenue accruals	5	6
	<u>13</u>	<u>11</u>

Long-term deferred income is as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(27)	(26)
Unearned bank protocol revenue accruals	-	1
	<u>4</u>	<u>6</u>

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**12. 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 2017	218	367	176	16,279	608	539	500	235	18,922
Additions	-	3	2	237	21	24	1	45	333
Transfer (*)	4	-	3	23	-	-	-	(31)	(1)
Disposals	-	-	(1)	(48)	(16)	(12)	-	-	(77)
Closing balance at 31 March 2017	222	370	180	16,491	613	551	501	249	19,177
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2017	66	177	112	4,549	204	203	135	-	5,446
Depreciation charge	3	7	6	196	10	22	9	-	253
Disposals	-	-	-	(48)	(13)	(8)	-	-	(69)
Closing balance at 31 March 2017	69	184	118	4,697	201	217	144	-	5,630
Net book value 31 March 2017	153	186	62	11,794	412	334	357	249	13,547
Net book value 31 December 2016	152	190	64	11,730	404	336	365	235	13,476

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

As of 31 March 2017, carrying value of the aircrafts and spare engines acquired through finance leases is USD 11,523 (31 December 2016: USD 11,439)

Depreciation expenses are recognized in cost of sales is amounting to USD 242 (31 March 2016: USD 252), general administrative expenses is amounting to USD 14 (31 March 2016: USD 16) and marketing and sales expenses is amounting to USD 1 (31 March 2016: USD 2).

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**12. 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 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	-	13	6	836	39	31	-	67	992
Transfers	-	-	-	22	-	-	-	(23)	(1)
Disposals	-	-	(1)	(38)	(11)	(14)	-	-	(64)
Closing balance at 31 March 2016	216	331	174	14,746	574	505	472	196	17,214
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	3	7	6	210	11	18	9	-	264
Disposals	-	-	(1)	(38)	(11)	(9)	-	-	(59)
Closing balance at 31 March 2016	59	153	109	4,272	195	181	108	-	5,077
Net book value 31 March 2016	157	178	65	10,474	379	324	364	196	12,137

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**13. 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 2017	44	140	5	189
Transfers	-	1	-	1
Closing balance at 31 March 2017	<u>44</u>	<u>141</u>	<u>5</u>	<u>190</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2017	-	115	1	116
Amortization charge	-	4	-	4
Closing balance at 31 March 2017	<u>-</u>	<u>119</u>	<u>1</u>	<u>120</u>
Net book value at 31 March 2017	<u>44</u>	<u>22</u>	<u>4</u>	<u>70</u>
Net book value at 31 December 2016	<u>44</u>	<u>25</u>	<u>4</u>	<u>73</u>
	<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 2016	44	137	5	186
Additions	-	1	-	1
Disposals	-	1	-	1
Closing balance at 31 March 2016	<u>44</u>	<u>139</u>	<u>5</u>	<u>188</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	6	-	6
Closing balance at 31 March 2016	<u>-</u>	<u>102</u>	<u>1</u>	<u>103</u>
Net book value at 31 March 2016	<u>44</u>	<u>37</u>	<u>4</u>	<u>85</u>

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

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**14. LEASING TRANSACTIONS**

Maturities of finance lease obligations are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Less than 1 year	1,222	1,189
Between 1 – 5 years	3,631	3,491
Over 5 years	4,930	4,969
	<u>9,783</u>	<u>9,649</u>
Less: Future interest expenses	(894)	(885)
Principal value of future rentals stated in financial statements	<u>8,889</u>	<u>8,764</u>
	<u>31 March 2017</u>	<u>31 December 2016</u>
Interest Range:		
Floating rate obligations	5,099	4,942
Fixed rate obligations	3,790	3,822
	<u>8,889</u>	<u>8,764</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 March 2017, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.80% ( 31 December 2016: 2.81%) for the fixed rate obligations and 1.23% (31 December 2016: 1.15% ) for the floating rate obligations.

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

Short-term provisions as of 31 March 2017 and 31 December 2016 are as follows:

Short-term provision for employee benefits is as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Provisions for unused vacation	45	44

Changes in the provisions for the periods ended 31 March 2017 and 2016 are set out below:

	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Provisions at the beginning of the period	44	52
Provisions for the current period	2	6
Foreign currency translation differences	(1)	1
Provisions at the end of the period	<u>45</u>	<u>59</u>

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

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

Other short-term provision is as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Provisions for legal claims	18	17

Changes in the provisions for legal claims for the periods ended 31 March 2017 and 2016 are set out below:

	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Provisions at the beginning of the period	17	15
Provisions for the current period	2	1
Provisions released	(1)	(2)
Foreign currency translation differences	-	1
Provisions at the end of the period	18	15

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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**16. COMMITMENTS**

- a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letter of guarantees given as of 31 March 2017 is USD 1,283 (31 December 2016: USD 1,040).

	<b>31 March 2017</b>		<b>31 December 2016</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	-	1,283	-	1,040
-Collaterals				
TL	34	9	27	8
EUR	1,134	1,218	930	980
USD	51	51	48	48
Other	-	5	-	4
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>1,283</u>		<u>1,040</u>

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 31 March 2017 (31 December 2016: 0%)

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

	<b>31 March 2017</b>	<b>31 December 2016</b>
Less than 1 year	307	327
Between 1 – 5 years	765	773
More than 5 years	212	178
	<u>1,284</u>	<u>1,278</u>



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**16. COMMITMENTS (cont'd)**

c) Other operational lease debts :

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

	<u>31 March 2017</u>	<u>31 December 2016</u>
Less than 1 year	4	4
Between 1 – 5 years	20	20
More than 5 years	25	29
	<u>49</u>	<u>53</u>

d) Aircraft purchase commitments:

To be delivered between the years 2013-2023, the Group signed a contract for 259 aircrafts with a list price value of 34.7 billion US Dollars (full). 2 of these aircrafts were delivered in 2013, 10 were delivered in 2014, 33 were delivered in 2015, 43 were delivered in 2016 and 1 were delivered in the first three-month period of 2017. The Group has made an advance payment of 709 million US Dollars (full) relevant to these purchases as of 31 March 2017.

**17. EMPLOYEE BENEFITS**

Provisions for long-term retirement pay liability as of 31 March 2017 and 31 December 2016 is comprised of the following:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Provisions for retirement pay liability	107	113

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 1,216 (full) as of 31 March 2017.

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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**17. 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 March 2017 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 2016: 7.00%) and 11.00% interest rate (31 December 2016: 11.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.33% (31 December 2016: 2.45%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,216 (full) which is in effect since 31 March 2017 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 March 2017</b>	<b>1 January - 31 March 2016</b>
Provisions at the beginning of the period	113	119
Service charge for the period	1	6
Interest charges	1	1
Payments	(6)	(3)
Foreign currency translation difference	(2)	4
Provisions at the end of the period	<u>107</u>	<u>127</u>

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**18. EXPENSES BY NATURE**

Expenses by nature for the three-month period ended 31 March 2017 and 2016 are as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Fuel expenses	591	604
Personnel expenses	387	493
Depreciation expenses	257	270
Ground services expenses	135	154
Aircraft maintenance expenses	133	143
Passenger services and catering expenses	114	142
Air traffic control expenses	103	121
Airport expenses	92	103
Commissions and incentives	71	85
Operating lease expenses	70	55
Reservation systems expenses	54	64
Wet lease expenses	41	69
Advertisement and promotion expenses	32	53
Service expenses	18	18
Taxes and duties	16	12
Rents	15	16
Insurance expenses	12	13
IT & communication expenses	11	11
Transportation expenses	7	7
Consultancy expenses	3	3
Utility expenses	2	2
Systems use and associateship expenses	2	2
Membership fees	2	1
Other expenses	21	27
	<b>2,189</b>	<b>2,468</b>

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**19. SHAREHOLDERS' EQUITY**

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

	<b>Class</b>	<b>%</b>	<b>31 March 2017</b>	<b>%</b>	<b>31 December 2016</b>
Turkey Wealth Fund (*)	A	49.12	678	-	-
Republic of Turkey Prime Ministry Privatization Administration (*)	C	-	-	49.12	678
Other (publicly held)	A	50.88	702	50.88	702
Paid-in capital (Turkish Lira)			1,380		1,380
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124
Historic capital (Turkish Lira) (***)			2,504		2,504
Historic capital (USD Equivalent) (***)			1,597		1,597

(\*) 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.

49.12% share of the Group owned by Republic of Turkey Prime Ministry Privatisation Administration has been transferred to Sovereign Wealth Fund of Turkey as of February 3rd, 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Prime Ministry Privatisation Administration, is a state owned entity being affiliated to the Republic of Turkey Prime Ministry. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

(\*\*) 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.

As of 31 March 2017, 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.

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

Articles of Association 14: The following decisions of the Board are subject to the positive vote of the class C Shareholder (cont'd):

- 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 mergers 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.

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.

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**19. SHAREHOLDERS' EQUITY (cont'd)**

**Actuarial Differences on Defined Benefit Plans**

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

**Gains/Losses from Cash Flow Hedges**

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

**20. REVENUE**

Breakdown of gross profit is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Passenger revenue		
Scheduled	1,670	1,925
Unscheduled	5	6
Total passenger revenue	1,675	1,931
Cargo revenue		
Carried by passenger aircraft	137	126
Carried by cargo aircraft	116	85
Total cargo revenue	253	211
Total passenger and cargo revenue	1,928	2,142
Technical revenue	43	35
Other revenue	9	11
Net sales	1,980	2,188
Cost of sales (-)	(1,863)	(2,069)
Gross profit	117	119

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

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
- Europe	514	598
- Far East	504	492
- Middle East	225	277
- America	252	285
- Africa	201	217
Total international flights	1,696	1,869
Domestic flights	232	273
Total passenger and cargo revenue	1,928	2,142

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**21. COST OF SALES**

Breakdown of the cost of sales is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Fuel expenses	591	604
Personnel expenses	297	379
Depreciation expenses	242	252
Ground services expenses	135	154
Aircraft maintenance expenses	133	143
Passenger services and catering expenses	114	142
Air traffic control expenses	103	121
Airport expenses	92	103
Operating lease expenses	70	55
Wet lease expenses	41	69
Insurance expenses	11	13
Rents	7	8
Service expenses	7	8
Transportation expenses	7	7
Taxes and duties	3	2
IT & communication expenses	2	1
Utility expenses	1	1
Other expenses	7	7
	<b>1,863</b>	<b>2,069</b>

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

Breakdown of general administrative expenses is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Personnel expenses	27	40
Depreciation expenses	14	16
IT & communication expenses	8	8
Service expenses	8	7
Rents	3	3
Systems use and associateship expenses	2	2
Utility expenses	1	1
Consultancy expenses	1	1
Taxes and duties	1	-
Insurance expenses	1	-
Other general administrative expenses	3	4
	<b>69</b>	<b>82</b>

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

Breakdown of marketing and sales expenses is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Commissions and incentives	71	85
Personnel expenses	63	74
Reservation systems expenses	54	64
Advertisement and promotion expenses	32	53
Taxes and duties	12	10
Rents	5	5
Service expenses	3	3
Consultancy expenses	2	2
Membership fees	2	1
IT & communication expenses	1	2
Depreciation expenses	1	2
Other marketing and sales expenses	11	16
	<u>257</u>	<u>317</u>

**23. OTHER OPERATING INCOME / EXPENSES**

Breakdown of other operating income is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Insurance, indemnities, penalties income	17	10
Manufacturers' credits	10	16
Provisions released	9	4
Foreign exchange gains from operational activities, net	5	35
Non- interest income from banks	2	2
Turnover premium from suppliers	1	-
Rent income	1	1
Delay interest income	1	-
Rediscount interest income	-	1
Other operating income	1	5
	<u>47</u>	<u>74</u>

Breakdown of other operating expenses is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Provisions	5	3
Indemnity and penalty expenses	1	1
Other operating expenses	4	4
	<u>10</u>	<u>8</u>



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

Breakdown of income from investment activities is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Income from investment incentives	18	18
Interest income from financial investment	8	3
Gain on sale of fixed assets	1	-
	<u>27</u>	<u>21</u>

**25. FINANCIAL INCOME/ EXPENSES**

Breakdown of financial income is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Interest income	8	7
Rediscount interest income from repayments of aircrafts	1	7
Other financial incomes	6	2
	<u>15</u>	<u>16</u>

Breakdown of financial expenses is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Foreign exchange losses on financial activities	255	273
Finance lease interest expenses	49	49
Fair value losses on derivative financial instruments	10	9
Aircraft financing expenses	5	3
Interest expenses on employee benefits	1	1
Other financial expenses	2	-
	<u>322</u>	<u>335</u>

**26. TAX ASSETS AND LIABILITIES**

Breakdown of assets related to current tax is as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Prepaid taxes	<u>19</u>	<u>23</u>

Tax liability is as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Provisions for corporate tax	34	23
Prepaid taxes and funds	(23)	(21)
Corporate tax liability	<u>11</u>	<u>2</u>

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

Tax expense is as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Current period tax expense	11	10
Deferred tax (income) / expense	(92)	(125)
Tax income	<u>(81)</u>	<u>(115)</u>

Tax effect related to other comprehensive income is as follows:

	<b>1 January - 31 March 2017</b>			<b>1 January - 31 March 2016</b>		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	2	-	2	8	-	8
Change in cash flow hedge reserve	( 56)	11	( 45)	64	( 13)	51
Change in actuarial losses from retirement pay obligation	-	-	-	-	-	-
Other comprehensive (expense) /income	<u>( 54)</u>	<u>11</u>	<u>( 43)</u>	<u>72</u>	<u>( 13)</u>	<u>59</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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**26. TAX ASSETS AND LIABILITIES (cont'd)**

*Deferred Tax*

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

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

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

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

	<b>31 March 2017</b>	<b>31 December 2016</b>
Fixed assets	(1,482)	(1,423)
Adjustments for passenger flight liabilities	(100)	(88)
Tax loss carried forward	573	409
Income and expense for future periods	53	48
Accruals for expenses	40	42
Miles accruals	32	36
Provisions for employee benefits	19	20
Change in fair value of derivative instruments	3	(10)
Provisions for unused vacation	1	1
Other	11	10
Deferred tax liabilities	<u>(850)</u>	<u>(955)</u>

The changes of deferred tax liability for interim periods 1 January – 31 March 2017 and 2016 are as follows:

	<b>1 January - 31 March 2017</b>	<b>1 January - 31 March 2016</b>
Opening balance at 1 January	955	887
Deferred tax (income) / expense	(92)	(125)
Tax expense / (income) from hedging reserves	(10)	13
Foreign currency translation difference	(3)	4
Deferred tax liability at the end of the period	<u>850</u>	<u>779</u>

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

Reconciliation with current tax charge for interim periods 1 January – 31 March 2017 and 2016 are as follows:

<u>Reconciliation of effective tax charge</u>	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
(Loss) / Profit from operations before tax	(454)	(536)
Domestic income tax rate of 20%	91	107
Taxation effects on:		
- expense from investment certificates	4	4
- foreign currency translation difference	(11)	8
- investments accounted by using the equity method	-	(5)
- adjustment for prior year loss	(3)	1
Tax charge in statement of loss	<u>81</u>	<u>115</u>

**27. EARNINGS PER SHARE**

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

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

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

Number of total shares and calculation of earnings per share at 1 January – 31 March 2017 and 2016:

	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
New bonus shares issued (in full)	-	-
Number of shares outstanding at 31 March (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Weighted average number of shares outstanding during the period (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Net (loss) for the period	(373)	(421)
Basic (loss) per share (Full US Cents) (*)	( 0.27)	( 0.31)

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

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**28. DERIVATIVE FINANCIAL INSTRUMENTS**

Breakdown of derivative financial assets and liabilities of the Group as of 31 March 2017 and 31 December 2016 are as follows:

<u>Derivative financial assets</u>	<u>31 March 2017</u>	<u>31 December 2016</u>
Derivative instruments for fuel prices		
cash flow hedge	62	154
Cross currency rate swap agreements	59	38
Derivative instruments for interest rate		
cash flow hedge	6	5
	<u>127</u>	<u>197</u>
<u>Derivative financial liabilities</u>	<u>31 March 2017</u>	<u>31 December 2016</u>
Derivative instruments for interest rate		
cash flow hedge	64	73
Cross currency rate swap agreements	49	49
Derivative instruments for fuel prices		
cash flow hedge	26	24
	<u>139</u>	<u>146</u>

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**29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

Foreign currency risk management

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

	31 March 2017					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	419	69	94	2	8	246
2a.Monetary Financial Assets	690	70	552	3	2	63
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	294	126	71	5	5	87
<b>4.Current Assets (1+2+3)</b>	<b>1,403</b>	<b>265</b>	<b>717</b>	<b>10</b>	<b>15</b>	<b>396</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	74	4	61	-	-	9
<b>8.Non Current Assets (5+6+7)</b>	<b>74</b>	<b>4</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>9.Total Assets (4+8)</b>	<b>1,477</b>	<b>269</b>	<b>778</b>	<b>10</b>	<b>15</b>	<b>405</b>
10.Trade Payables	431	287	106	1	2	35
11.Financial Liabilities	715	15	473	207	20	-
12a.Other Liabilities, Monetary	815	629	153	32	1	-
12b.Other Liabilities, Non Monetary	63	63	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>2,024</b>	<b>994</b>	<b>732</b>	<b>240</b>	<b>23</b>	<b>35</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,470	-	4,003	2,277	190	-
16a.Other Liabilities, Monetary	11	7	4	-	-	-
16b.Other Liabilities, Non Monetary	107	107	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>6,588</b>	<b>114</b>	<b>4,007</b>	<b>2,277</b>	<b>190</b>	<b>-</b>
<b>18.Total Liabilities (13+17)</b>	<b>8,612</b>	<b>1,108</b>	<b>4,739</b>	<b>2,517</b>	<b>213</b>	<b>35</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>(7,135)</b>	<b>(839)</b>	<b>(3,961)</b>	<b>(2,507)</b>	<b>(198)</b>	<b>370</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>(7,333)</b>	<b>(799)</b>	<b>(4,093)</b>	<b>(2,512)</b>	<b>(203)</b>	<b>274</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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**29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

*Foreign currency risk management (cont'd)*

	31 December 2016					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	355	95	79	1	6	174
2a.Monetary Financial Assets	946	389	501	5	3	48
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	259	97	63	5	5	89
<b>4.Current Assets (1+2+3)</b>	<b>1,560</b>	<b>581</b>	<b>643</b>	<b>11</b>	<b>14</b>	<b>311</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	62	5	48	-	-	9
<b>8.Non Current Assets (5+6+7)</b>	<b>62</b>	<b>5</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>9.Total Assets (4+8)</b>	<b>1,622</b>	<b>586</b>	<b>691</b>	<b>11</b>	<b>14</b>	<b>320</b>
10.Trade Payables	394	254	105	1	2	32
11.Financial Liabilities	655	4	436	196	19	-
12a.Other Liabilities, Monetary	768	592	143	33	-	-
12b.Other Liabilities, Non Monetary	61	61	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,878</b>	<b>911</b>	<b>684</b>	<b>230</b>	<b>21</b>	<b>32</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,272	-	3,866	2,215	191	-
16a.Other Liabilities, Monetary	9	1	4	-	2	2
16b.Other Liabilities, Non Monetary	113	113	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>6,394</b>	<b>114</b>	<b>3,870</b>	<b>2,215</b>	<b>193</b>	<b>2</b>
<b>18.Total Liabilities (13+17)</b>	<b>8,272</b>	<b>1,025</b>	<b>4,554</b>	<b>2,445</b>	<b>214</b>	<b>34</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>(6,650)</b>	<b>(439)</b>	<b>(3,863)</b>	<b>(2,434)</b>	<b>(200)</b>	<b>286</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>(6,797)</b>	<b>(367)</b>	<b>(3,974)</b>	<b>(2,439)</b>	<b>(205)</b>	<b>188</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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**29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

*Foreign currency risk management (cont'd)*

*Foreign currency sensitivity*

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

	<b>31 March 2017</b>	
	<b>Profit / (Loss)</b>	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u>                    </u>	<u>                    </u>
1- TL net asset / liability	(84)	84
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>(84)</u>	<u>84</u>
4- Euro net asset / liability	(396)	396
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(396)</u>	<u>396</u>
7- JPY net asset / liability	(251)	251
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	<u>(251)</u>	<u>251</u>
10- CHF net asset / liability	(20)	20
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	<u>(20)</u>	<u>20</u>
13- Other foreign currency net asset / liability	37	(37)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>37</u>	<u>(37)</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>(714)</u></u>	<u><u>714</u></u>



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

*Foreign currency risk management (cont'd)*

*Foreign currency sensitivity (cont'd)*

	<b>31 December 2016</b>	
	<b>Profit / (Loss)</b>	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u>                    </u>	<u>                    </u>
1- TL net asset / liability	(44)	44
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>(44)</u>	<u>44</u>
4- Euro net asset / liability	(386)	386
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(386)</u>	<u>386</u>
7- JPY net asset / liability	(243)	243
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	<u>(243)</u>	<u>243</u>
10- CHF net asset / liability	(20)	20
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	<u>(20)</u>	<u>20</u>
13- Other foreign currency net asset / liability	29	(29)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>29</u>	<u>(29)</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>(664)</u></u>	<u><u>664</u></u>

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

None.

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

None.