TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim
Financial Statements As At and For
The Nine-Month Period
Ended 30 September 2017

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

		Not Reviewed	Audited
ASSETS	**Notes**	**30 September 2017**	**31 December 2016**
Current Assets			
Cash and Cash Equivalents	5	2,443	1,466
Financial Investments	6	363	349
Trade Receivables			
-Trade Receivables From Non-Related Parties		572	379
Other Receivables			
-Other Receivables from Related Parties	9	3	3
-Other Receivables from Non-Related Parties	10	422	843
Derivative Financial Instruments	28	93	197
Inventories		213	217
Prepaid Expenses		139	98
Current Income Tax Assets	26	26	23
Other Current Assets		79	26
TOTAL CURRENT ASSETS		**4,353**	**3,601**
Non-Current Assets			
Financial Investments	6	36	47
Other Receivables			
-Other Receivables from Non-Related Parties	10	605	516
Investments Accounted by Using Equity Method	3	332	247
Investment Property		1	1
Property and Equipment	12	12,753	13,476
Intangible Assets			
- Other Intangible Assets	13	67	73
- Goodwill		12	12
Prepaid Expenses		488	518
TOTAL NON-CURRENT ASSETS		**14,294**	**14,890**
TOTAL ASSETS		**18,647**	**18,491**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 30 September 2017
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

LIABILITIES	**Notes**	**Not Reviewed 30 September 2017**	**Audited 31 December 2016**
Current Liabilities			
Short Term Borrowings	7	1,369	1,357
Short-Term Portion of Long-Term Borrowings	7 and 14	989	1,064
Other Financial Liabilities	8	18	4
Trade Payables			
-Trade Payables to Related Parties	9	145	129
-Trade Payables to Non-Related Parties		689	487
Payables Related to Employee Benefits		141	143
Other Payables			
-Other Payables to Related Parties	9	7	-
-Other Payables to Non-Related Parties		115	93
Derivative Financial Instruments	28	104	146
Deferred Income	11	1,073	796
Current Tax Provision	26	16	2
Short-Term Provisions			
-Provisions for Employee Benefits	15	47	44
-Other Provisions	15	21	17
Other Current Liabilities		187	215
TOTAL CURRENT LIABILITIES		**4,921**	**4,497**
Non- Current Liabilities			
Long-Term Borrowings	7 and 14	7,294	7,822
Other Payables			
-Other Payables to Non-Related Parties		15	11
Deferred Income	11	44	6
Long-Term Provisions			
-Provisions for Employee Benefits	17	119	113
Deferred Tax Liability	26	943	955
TOTAL NON-CURRENT LIABILITIES		**8,415**	**8,907**
Equity			
Share Capital	19	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	19	(10)	(11)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	(101)	(106)
-Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges	19	(26)	20
-Gains on Remeasuring Available for Sale Financial Investments	19	1	-
Restricted Profit Reserves	19	36	36
Previous Years Profit	19	3,551	3,628
Net Profit / (Loss) for the Period		263	(77)
TOTAL EQUITY		**5,311**	**5,087**
TOTAL LIABILITIES AND EQUITY		**18,647**	**18,491**

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

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

		Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed
PROFIT OR LOSS	**Notes**	**1 January - 30 September 2017**	**1 July - 30 September 2017**	**1 January - 30 September 2016**	**1 July - 30 September 2016**
Sales Revenue	20	8,203	3,606	7,562	2,930
Cost of Sales (-)	21	(6,328)	(2,356)	(6,625)	(2,335)
GROSS PROFIT		**1,875**	**1,250**	**937**	**595**
General Administrative Expenses (-)	22	(204)	(65)	(242)	(77)
Marketing and Sales Expenses (-)	22	(852)	(297)	(955)	(292)
Other Operating Income	23	167	64	136	55
Other Operating Expenses (-)	23	(30)	(13)	(30)	(24)
OPERATING PROFIT/(LOSS) BEFORE INVESTMENT ACTIVITIES		**956**	**939**	**(154)**	**257**
Income from Investment Activities	24	156	47	88	32
Expenses from Investment Activities	24	(1)	-	(20)	-
Share of Investments' Profit Accounted by Using The Equity Method	3	106	84	47	49
OPERATING PROFIT / (LOSS)		**1,217**	**1,070**	**(39)**	**338**
Financial Income	25	41	10	106	33
Financial Expenses (-)	25	(948)	(229)	(660)	(145)
PROFIT / (LOSS) BEFORE TAX		**310**	**851**	**(593)**	**226**
Tax (Expense) / Income		**(47)**	**(154)**	**130**	**(42)**
Current Tax Expense	26	(39)	(15)	(25)	(11)
Deferred Tax (Expense) / Income	26	(8)	(139)	155	(31)
NET PROFIT / (LOSS) FOR THE PERIOD		**263**	**697**	**(463)**	**184**

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

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

OTHER COMPREHENSIVE INCOME	**Notes**	**Not Reviewed 1 January - 30 September 2017**	**Not Reviewed 1 July - 30 September 2017**	**Not Reviewed 1 January - 30 September 2016**	**Not Reviewed 1 July - 30 September 2016**
Items That May Be Reclassified Subsequently To Profit or Loss		**(40)**	**14**	**260**	**15**
Currency Translation Adjustment		5	4	1	(3)
Gains on Remeasuring Available for Sale Financial Investments		1	-	-	-
Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges		(45)	14	326	26
Fair Value (Losses) / Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(12)	(1)	(2)	(3)
Related Tax of Other Comprehensive Income		11	(3)	(65)	(5)
Items That Will Not Be Reclassified Subsequently To Profit or Loss		**1**	**-**	**2**	**-**
Actuarial Gains on Retirement Pay Obligation		1	-	3	-
Related Tax of Other Comprehensive Income		-	-	(1)	-
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD		**(39)**	**14**	**262**	**15**
TOTAL COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD		**224**	**711**	**(201)**	**199**
Basic Gain / (Loss) Per Share (Full US Cents)	27	0.19	0.51	(0.34)	0.13
Diluted Gain / (Loss) Per Share (Full US Cents)	27	0.19	0.51	(0.34)	0.13

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

(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) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring Available for Sale Financial Investments	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	Total Equity
As of 31 December 2016	**1,597**	**(11)**	**(106)**	**20**	**-**	**36**	**3,628**	**(77)**	**5,087**
Transfers	-	-	-	-	-	-	(77)	77	-
Total comprehensive income	-	1	5	(46)	1	-	-	263	224
As of 30 September 2017	**1,597**	**(10)**	**(101)**	**(26)**	**1**	**36**	**3,551**	**263**	**5,311**

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

(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) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring Available for Sale Financial Investments	Restricted Profit Reserves	Previous Years Profit	Net (Loss) for The Period	Total Equity
As of 31 December 2015	**1,597**	**(8)**	**(84)**	**(327)**	**-**	**36**	**2,559**	**1,069**	**4,842**
Transfers	-	-	-	-	-	-	1,069	(1,069)	-
Total comprehensive income	-	2	1	259	-	-	-	(463)	(201)
As of 30 September 2016	**1,597**	**(6)**	**(83)**	**(68)**	-	**36**	**3,628**	**(463)**	**4,641**

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

Condensed Consolidated Interim Statement of Cash Flows
For the Nine-Month Period Ended 30 September 2017
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	Not Reviewed 1 January - 30 September 2017	Not Reviewed 1 January - 30 September 2016
Profit / (Loss) for the period		263	(463)
Adjustments to Reconcile Profit (Loss)			
Adjustments for Depreciation and Amortisation Expense	12 and 13	758	848
Adjustments for Provisions Related with Employee Benefits	15 and 17	22	25
Adjustments for (Reversal of) Provisions for Payables	15	4	5
Adjustments for Free Provisions for Probable Risks		(6)	3
Adjustments for Interest Income	24 and 25	(90)	(70)
Adjustments for Interest Expense	25	154	140
Adjustments For Unrealised Foreign Exchange Loss		530	375
Adjustments for Manufacturers' Credits		3	2
Adjustments for Fair Value Losses on Derivative Financial Instruments		16	(64)
Adjustments for Undistributed Profits of Associates	3	(106)	(47)
Adjustments for Tax Income	26	47	(130)
Adjustments for (Gains) / Losses Arised From Sale of Tangible Assets	24	(48)	20
Adjustments for Losses Arised from Sale of Other Non-Current Assets		14	23
Operating Profit Before Changes in Working Capital		**1,561**	**667**
Increase in Trade Receivables from Non Related Parties		(192)	(135)
(Increase) / Decrease in Other Non-Related Party Receivables Related with Operations		(37)	180
Adjustments for Increase in Inventories		4	(34)
Adjustments for Increase in Prepaid Expenses		(11)	(128)
Decrease in Trade Payables to Related Parties		16	11
Increase in Trade Payables to Non-Related Parties		202	62
Adjustments for (Decrease) / Increase in Payables Due to Employee Benefits		(2)	29
Increase / (Decrease) in Other Operating Payables to Non-Related Parties		30	-
Increase / (Decrease) in Deferred Income		287	(184)
Decrease in Other Assets Related with Operations		(53)	(4)
Cash Flows From Operations		**1,805**	**464**
Payments for Provisions Related with Employee Benefits	17	(11)	(11)
Income taxes paid	26	(3)	(5)
Net Cash From Operating Activities		**1,791**	**448**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed from sales of property, plant and equipment		941	2
Cash Payments From Purchasing of Property, Plant and Equipment (*)	12 and 13	(551)	(568)
Cash Payments From Purchasing of Other Long-Term Assets		(3)	(174)
Other Cash Advances and Loans		370	564
Dividends Received		18	23
Interest Received		88	59
Net Cash Flows Used In Investing Activities		**863**	**(94)**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds from Loans		5	879
Payments of finance lease liabilities		(1,597)	(653)
Interest Paid		(99)	(93)
Other Inflows of Cash		14	7
Net Cash Flows Used in Financing Activities		**(1,677)**	**140**
Net Change in Cash and Cash Equivalents		**977**	**494**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,466**	**900**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	**2,443**	**1,394**

(*) USD 385 portion of property and equipment and intangible assets purchases in total of USD 936 for the year ended 30 September 2017 was financed through finance leases. (30 September 2016: USD 2,250 portion of property and equipment and intangible assets purchases in total of USD 2,818 was financed through finance leases.)

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

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the "Company" or "THY") was incorporated in Turkey in 1933. As of 30 September 2017 and 31 December 2016, the shareholders and their respective shareholdings in the Company are as follows:

	30 September 2017	31 December 2016
Turkey Wealth Fund (*)	% 49.12	-
Republic of Turkey Prime Ministry Privatization Administration (*)	-	% 49.12
Other (publicly held)	% 50.88	% 50.88
Total	% 100.00	% 100.00

(*) 49.12% share of the Company and its subsidiaries (together the "Group") owned by Republic of Turkey Prime Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 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 Group as of 30 September 2017 is 30,911 (31 December 2016: 30,541). The average number of employees working for the Group for the period ended 30 September 2017 and 2016 are 30,548 and 29,450 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 30 September 2017 and 31 December 2016:

		Ownership Rate		Country of
Name of the Company	Principal Activity	30 September 2017	31 December 2016	Registration
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Training & Airport Operations	100%	100%	Turkey

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

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

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Company as of 30 September 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 İkram 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 nine-month period ended 30 September 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 30 September 2017 on 8 November 2017. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

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 30 September 2017 except for described below 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.

Group has decided to change the useful lives of aircraft and engines and cargo aircraft and engines from 20 years to 25 years. This change in estimation in useful lives was effective from 1 January 2017.

2.3 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed consolidated interim financial statements as at 30 September 2017 except for described below are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2016.

Group management has recognized various sale and leaseback transactions for its aircraft and engines in accordance with IAS 17 "Leases". If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. Sales proceeds over the carrying amount excess is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

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

2.4 New and Revised Standards and Interpretations

Standards issued but not yet effective and not early adopted

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

IFRS 9 Financial Instruments

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.

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

IFRIC 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

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)

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.

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.

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

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

2.5 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.

- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.

- Level 3: Variables, which are not related to observable market variable for assets and liabilities (unobservable variables).

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	30 September 2017	31 December 2016
Sun Express	127	77
Turkish DO&CO	62	57
TEC	52	43
TGS	37	31
THY Opet	45	30
Uçak Koltuk	5	5
TCI	2	3
Goodrich	2	1
Vergi İade Aracılık (*)	-	-
	332	247

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

Financial information for Sun Express as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	1,444	972
Total liabilities	1,189	818
Shareholders'equity	255	154
Group's share in joint venture's shareholders' equity	127	77

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

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

Financial information for Sun Express as of 30 September 2017 and 2016 are as follows (cont'd):

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	994	533	853	421
Profit for the period	99	118	10	63
Group's share in joint venture's profit for the period	50	59	5	33

Financial information for Turkish DO&CO as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	203	175
Total liabilities	80	62
Shareholders'equity	123	113
Group's share in joint venture's shareholders' equity	62	57

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	211	85	276	95
Profit for the period	20	9	25	7
Group's share in joint venture's profit for the period	10	5	12	3

Financial information for TEC as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	232	168
Total liabilities	123	79
Shareholders'equity	109	89
Group's share in joint venture's shareholders' equity	52	43

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	373	144	251	94
Profit for the period	20	7	15	4
Group's share in joint venture's profit for the period	10	4	7	2

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

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

Financial information for TGS as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	132	115
Total liabilities	59	53
Shareholders'equity	73	62
Group's share in joint venture's shareholders' equity	37	31

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	195	78	210	76
Profit for the period	19	12	19	9
Group's share in joint venture's profit for the period	10	6	10	5

Financial information for THY Opet as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	589	458
Total liabilities	500	399
Shareholders'equity	89	59
Group's share in joint venture's shareholders' equity	45	30

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	1,222	521	1,051	440
Profit for the period	55	22	29	14
Group's share in joint venture's profit for the period	27	11	15	8

Financial information for Uçak Koltuk as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	19	19
Total liabilities	9	9
Shareholders'equity	10	10
Group's share in joint venture's shareholders' equity	5	5

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

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

Financial information for Uçak Koltuk as of 30 September 2017 and 2016 are as follows (cont'd):

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	8	2	4	-
(Loss) for the period	(1)	-	(1)	-
Group's share in joint venture's (loss) for the period	-	-	(1)	(1)

Financial information for TCI as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	8	11
Total liabilities	5	4
Shareholders'equity	3	7
Group's share in joint venture's shareholders' equity	2	3

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	3	1	7	2
(Loss) for the period	(2)	(1)	(1)	-
Group's share in joint venture's (loss) for the period	(1)	(1)	(1)	(1)

Financial information for Goodrich as of 30 September 2017 and 2016 are as follows:

	30 September 2017	31 December 2016
Total assets	6	5
Total liabilities	2	2
Shareholders'equity	4	3
Group's share in joint venture's shareholders' equity	2	1

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Revenue	11	3	8	3
Profit for the period	1	-	1	-
Group's share in joint venture's profit for the period	-	-	-	-

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

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

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

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Sun Express	50	59	5	33
Turkish DO&CO	10	5	12	3
TEC	10	4	7	2
TGS	10	6	10	5
THY Opet	27	11	15	8
Uçak Koltuk	-	-	(1)	(1)
TCI	(1)	(1)	(1)	(1)
Turkbine Teknik (*)	-	-	-	-
	106	84	47	49

(*) All of the 50% shares of the Group in Turkbine Teknik were sold on December 7, 2016.

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	30 September 2017	31 December 2016
Aviation	18,480	18,335
Technical	1,216	1,258
Total	19,696	19,593
Less: Eliminations due to consolidation	(1,049)	(1,102)
Total assets in consolidated financial statements	18,647	18,491

Total Liabilitites	30 September 2017	31 December 2016
Aviation	13,310	13,389
Technical	318	455
Total	13,628	13,844
Less: Eliminations due to consolidation	(292)	(440)
Total liabilitites in consolidated financial statements	13,336	13,404

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

4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 30 September 2017	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	8,078	125		8,203
Inter-Segment Sales	31	646	(677)	-
Revenue	8,109	771	(677)	8,203
Cost of Sales (-)	(6,437)	(562)	671	(6,328)
Gross Profit	1,672	209	(6)	1,875
Administrative Expenses (-)	(148)	(64)	8	(204)
Marketing and Sales Expenses (-)	(850)	(3)	1	(852)
Other Operating Income	168	24	(25)	167
Other Operating Expenses (-)	(26)	(26)	22	(30)
Operating Profit Before Investment Activities	816	140	-	956
Income from Investment Activities	156	-	-	156
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Profit Accounted by Using The Equity Method	96	10	-	106
Operating Profit	1,067	150	-	1,217
Financial Income	45	3	(7)	41
Financial Expense (-)	(947)	(8)	7	(948)
Profit Before Tax	165	145	-	310

1 January - 30 September 2016	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	7,437	125	-	7,562
Inter-Segment Sales	26	674	(700)	-
Revenue	7,463	799	(700)	7,562
Cost of Sales (-)	(6,762)	(568)	705	(6,625)
Gross Profit	701	231	5	937
Administrative Expenses (-)	(169)	(77)	4	(242)
Marketing and Sales Expenses (-)	(952)	(3)	-	(955)
Other Operating Income	133	25	(22)	136
Other Operating Expenses (-)	(28)	(15)	13	(30)
Operating (Loss) / Profit Before Investment Activities	(315)	161	-	(154)
Income from Investment Activities	88	-	-	88
Expenses from Investment Activities	(20)	-	-	(20)
Share of Investments' Profit Accounted by Using The Equity Method	40	7	-	47
Operating (Loss) / Profit	(207)	168	-	(39)
Financial Income	109	6	(9)	106
Financial Expense (-)	(660)	(9)	9	(660)
(Loss) / Profit Before Tax	(758)	165	-	(593)

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

4. SEGMENTAL REPORTING (cont'd)

4.3 Investment Operations

1 January - 30 September 2017	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	859	77	-	936
Current period depreciation and amortization change	656	102	-	758
Investments accounted by using the equity method	277	55	-	332

1 January - 30 September 2016	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	2,704	114	-	2,818
Current period depreciation and amortization change	759	89	-	848
Investments accounted by using the equity method	236	37	-	273

5. CASH AND CASH EQUIVALENTS

	30 September 2017	31 December 2016
Cash	3	2
Banks – Time deposits	2,316	1,357
Banks – Demand deposits	124	99
Other liquid assets	-	8
	2,443	1,466

Details of the time deposits as of 30 September 2017 are as follows:

Amount	Currency	Interest Rate	Maturity	30 September 2017
1,339	TL	10.79% - 12.92%	December 2017	391
1,301	USD	2.75% - 3.94%	December 2017	1,313
516	EUR	1.64% - 2.19%	December 2017	612
				2,316

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

Amount	Currency	Interest Rate	Maturity	31 December 2016
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
				1,357

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

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	30 September 2017	31 December 2016
Time deposits with maturity more than 3 months	363	349

Time deposit with maturity of more than 3 months as of 30 September 2017 is as follows:

Amount	Currency	Interest Rate	Maturity	30 September 2017
50	USD	3.49%	January 2018	50
265	EUR	1.76% - 1.97%	March 2018	313
				363

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

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

Long-term financial investments are as follows:

	30 September 2017	31 December 2016
Debt to securities		
- Available for sale	35	-
- Held to maturity	-	46
Other	1	1
	36	47

Group Management has changed its intention on debt securities, which were previously reported as held to maturity, and decided to reclasss them as available for sale in the current period.

Details of available for sale as of 30 September 2017 is as follows:

	30 September 2017	31 December 2016
Debt to securities / available for sale		
- Government bonds	4	-
- Eurobonds	31	-
	35	-

Period remaining to contractual maturity dates for financial investments available for sale as of 30 September 2017 is as follows:

	30 September 2017	31 December 2016
Over 5 years	35	-

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

6. FINANCIAL INVESTMENTS (cont'd)

Details of held to maturity as of 31 December 2016 is as follows:

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

7. BORROWINGS

Short term borrowings are as follows:

	30 September 2017	31 December 2016
Short term borrowings	1,369	1,357

Short term borrowings as of 30 September 2017 is as follows:

Amount	Currency	Interest Rate	Maturity	30 September 2017
1,160	EUR	0.40% - 0.75%	January 2018	1,369

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

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

Short term portions of long term borrowings are as follows:

	30 September 2017	31 December 2016
Finance lease obligations (Note: 14)	960	1,038
Bank borrowings	29	26
	989	1,064

Long term borrowings are as follows:

	30 September 2017	31 December 2016
Finance lease obligations (Note: 14)	7,208	7,726
Bank borrowings	86	96
	7,294	7,822

Details of bank borrowings as of 30 September 2017 and 31 December 2016 is as follows:

	30 September 2017	31 December 2016
Less than 1 year	29	26
Between 1 – 5 years	86	96
	115	122

Bank borrowings has 5.5 year term such borrowings are denominated in EUR amounting to 115 million is bearing annual interest rate of Euribor + 2.45%.

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

8. OTHER FINANCIAL LIABILITIES

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

	30 September 2017	31 December 2016
Other financial liabilities	18	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

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

	30 September 2017	31 December 2016
Turkish DO&CO (*)	3	3

(*) The amounts are dividend receivables of 2016.

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

	30 September 2017	31 December 2016
THY Opet (*)	7	-

(*) The amounts are received on account to dividend income of 2017.

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

	30 September 2017	31 December 2016
THY Opet	73	43
Turkish DO&CO	35	33
TGS	17	14
Sun Express	10	19
TEC	9	19
Goodrich	1	1
	145	129

Transactions with related parties for the period ended 30 September 2017 and 2016 are as follows:

a) Sales to related parties:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Sun Express	19	6	25	8
TEC	9	4	11	2
TGS	4	1	3	1
Turkish DO&CO	1	-	1	-
	33	11	40	11

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

9. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with related parties for the period ended 30 September 2017 and 2016 are as follows (cont'd):

b) Purchases from related parties:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
THY Opet	1,005	395	866	338
Turkish DO&CO	187	74	255	87
TGS	176	65	196	68
TEC	171	40	213	83
Sun Express	125	44	180	60
Goodrich	7	2	5	2
Other	2	-	1	-
	1,673	620	1,716	638

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

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 3 (1 January-30 September 2016: USD 3).

10. OTHER RECEIVABLES

Other short-term receivables from non-related parties as of 30 September 2017 and 31 December 2016 are as follows:

	30 September 2017	31 December 2016
Predelivery payments made for aircrafts	214	596
Bank deposits with transfer limitations (*)	84	62
Receivables from technical purchases	75	130
Value added tax receivables	31	39
Receivables from pilots for flight training	12	10
Receivables from employees	1	1
Other receivables	5	5
	422	843

(*) As of 30 September 2017, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Gabon and Benin. (As of 31 December 2016, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Egypt, Argentina, Algeria, Greece, Nigeria, Ukraine, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique and Benin.)

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

10. OTHER RECEIVABLES (cont'd)

Other long-term receivables from non-related parties as of 30 September 2017 and 31 December 2016 are as follows:

	30 September 2017	31 December 2016
Receivables related to investment certificates	255	211
Predelivery payments made for aircrafts	219	207
Receivables from pilots for flight training	81	67
Interest and commodity swap agreement deposits	31	11
Deposits and guarentees given	13	15
Bank deposits with transfer limitations (*)	6	5
	605	516

(*) As of 30 September 2017, the balance of this account includes bank deposits in Syria.

11. DEFERRED INCOME

Deferred income is as follows:

	30 September 2017	31 December 2016
Passenger flight liabilites	1,057	785
Other short-term deferred income	16	11
	1,073	796

Passenger flight liability is as follows:

	30 September 2017	31 December 2016
Flight liability generating from ticket sales	804	578
Flight liability generating from frequent flyer program	253	207
	1,057	785

Short-term deferred income is as follows:

	30 September 2017	31 December 2016
Advances received	10	5
Deferred finance income	5	-
Unearned bank protocol revenue accruals	1	6
	16	11

Long-term deferred income is as follows:

	30 September 2017	31 December 2016
Deferred finance income	42	-
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(29)	(26)
Unearned bank protocol revenue accruals	-	1
	44	6

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

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
Cost									
Opening balance at 1 January 2017	218	367	176	16,279	608	539	500	235	18,922
Additions	-	6	6	676	71	68	2	102	931
Transfer (*)	4	-	3	23	-	-	-	(31)	(1)
Disposals	-	(7)	(2)	(1,000)	(44)	(37)	-	-	(1,090)
Closing balance at 30 September 2017	222	366	183	15,978	635	570	502	306	18,762
Accumulated Depreciation									
Opening balance at 1 January 2017	66	177	112	4,549	204	203	135	-	5,446
Depreciation charge	9	22	17	574	31	65	28	-	746
Disposals	-	(3)	(2)	(141)	(14)	(23)	-	-	(183)
Closing balance at 30 September 2017	75	196	127	4,982	221	245	163	-	6,009
Net book value at 30 September 2017	147	170	56	10,996	414	325	339	306	12,753
Net book value at 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 30 September 2017, carrying value of the aircrafts and spare engines acquired through finance leases is USD 10,690 (31 December 2016: USD 11,439)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 714 (30 September 2016: USD 796), general administrative expenses is amounting to USD 40 (30 September 2016: USD 47) and marketing and sales expenses is amounting to USD 4 (30 September 2016: USD 5).

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

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
Cost									
Opening balance at 1 January 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	1	18	18	2,413	58	99	18	190	2,815
Transfers	-	2	1	48	32	-	1	(85)	(1)
Disposals	-	(1)	(13)	(446)	(35)	(51)	-	-	(546)
Closing balance at 30 September 2016	217	337	175	15,941	601	536	491	257	18,555
Accumulated Depreciation									
Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	8	22	18	672	32	53	27	-	832
Disposals	-	(1)	(13)	(426)	(33)	(28)	-	-	(501)
Closing balance at 30 September 2016	64	167	109	4,346	194	197	126	-	5,203
Net book value at 30 September 2016	153	170	66	11,595	407	339	365	257	13,352

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

13. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2017	44	140	5	189
Additions	-	5	-	5
Transfers	-	1	-	1
Closing balance at 30 September 2017	44	146	5	195
Accumulated Amortization				
Opening balance at 1 January 2017	-	115	1	116
Amortization charge	-	12	-	12
Closing balance at 30 September 2017	-	127	1	128
Net book value at 30 September 2017	44	19	4	67
Net book value at 31 December 2016	44	25	4	73

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2016	44	137	5	186
Additions	-	3	-	3
Disposals	-	(2)	-	(2)
Transfers	-	1	-	1
Closing balance at 30 September 2016	44	139	5	188
Accumulated Amortization				
Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	16	-	16
Disposals	-	(2)	-	(2)
Closing balance at 30 September 2016	-	110	1	111
Net book value at 30 September 2016	44	29	4	77

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.

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

14. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	30 September 2017	31 December 2016
Less than 1 year	1,109	1,189
Between 1 – 5 years	3,589	3,491
Over 5 years	4,279	4,969
	8,977	9,649
Less: Future interest expenses	(809)	(885)
Principal value of future rentals stated in financial statements	8,168	8,764

	30 September 2017	31 December 2016
Interest Range:		
Floating rate obligations	5,098	4,942
Fixed rate obligations	3,070	3,822
	8,168	8,764

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

As of 30 September 2017, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.95% (31 December 2016: 2.81%) for the fixed rate obligations and 1.39% (31 December 2016: 1.15%) for the floating rate obligations.

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 30 September 2017 and 31 December 2016 are as follows:

Short-term provision for employee benefits is as follows:

	30 September 2017	31 December 2016
Provisions for unused vacation	47	44

Changes in the provisions for the periods ended 30 September 2017 and 2016 are set out below:

	1 January - 30 September 2017	1 January - 30 September 2016
Provisions at the beginning of the period	44	52
Provisions for the current period	4	8
Foreign currency translation differences	(1)	(2)
Provisions at the end of the period	47	58

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

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

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

Other short-term provision is as follows:

	30 September 2017	31 December 2016
Provisions for legal claims	21	17

Changes in the provisions for legal claims for the periods ended 30 September 2017 and 2016 are set out below:

	1 January - 30 September 2017	1 January - 30 September 2016
Provisions at the beginning of the period	17	15
Provisions for the current period	5	8
Provisions released	(1)	(3)
Foreign currency translation differences	-	(1)
Provisions at the end of the period	21	19

The Group recognizes provisions for lawsuits against itself due to its operations. The lawsuits against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. It is expected that provision amount will be paid within one year.

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

16. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letters of guarantees given as of 30 September 2017 is USD 1,240 (31 December 2016: USD 1,040).

	30 September 2017		31 December 2016	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,240	-	1,040
-Collaterals				
TL	29	8	27	8
EUR	992	1,170	930	980
USD	54	54	48	48
Other	-	8	-	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	-	-	-	-
		1,240		1,040

The ratio of other GPM ("D") given by the group to its equity is 0% as of 30 September 2017 (31 December 2016: 0%)

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

	30 September 2017	31 December 2016
Less than 1 year	330	327
Between 1 – 5 years	1023	773
More than 5 years	813	178
	2,166	1,278

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

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:

	30 September 2017	31 December 2016
Less than 1 year	4	4
Between 1 – 5 years	21	20
More than 5 years	24	29
	49	53

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 2 were delivered in the first nine-month period of 2017. The Group has made an advance payment of 448 million US Dollars (full) relevant to these purchases as of 30 September 2017.

17. EMPLOYEE BENEFITS

Provisions for long-term retirement pay liability as of 30 September 2017 and 31 December 2016 is comprised of the following:

	30 September 2017	31 December 2016
Provisions for retirement pay liability	119	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 1,332 (full) as of 30 September 2017. (31 December 2016: US Dollar 1,258 (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.

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

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 30 September 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 2.46% (31 December 2016: 2.45%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,332 (full) which is in effect since 1 July 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:

	1 January - 30 September 2017	1 January - 30 September 2016
Provisions at the beginning of the period	113	119
Service charge for the period	18	20
Interest charges	3	3
Actuarial loss	(1)	(3)
Payments	(11)	(11)
Foreign currency translation difference	(3)	(1)
Provisions at the end of the period	119	127

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

18. EXPENSES BY NATURE

Expenses by nature for the nine-month period ended 30 September 2017 and 2016 are as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Fuel expenses	2,099	815	2,036	760
Personnel expenses	1,243	431	1,451	478
Depreciation and amortisation expenses	758	251	848	292
Ground services expenses	483	184	503	181
Aircraft maintenance expenses	430	154	450	141
Passenger services and catering expenses	388	150	452	160
Air traffic control expenses	378	149	393	144
Airport expenses	352	140	347	128
Commissions and incentives	275	104	268	91
Operating lease expenses	238	85	174	64
Reservation systems expenses	186	64	184	56
Wet lease expenses	146	58	211	63
Advertisement and promotion expenses	93	29	182	44
Service expenses	52	18	57	19
Rents	50	18	50	17
Insurance expenses	35	11	35	11
IT & communication expenses	35	12	34	12
Taxes and duties	31	7	24	5
Transportation expenses	22	8	21	7
Consultancy expenses	10	3	10	3
Systems use and associateship expenses	7	3	6	2
Utility expenses	6	2	7	3
Membership fees	5	2	4	1
Other expenses	62	20	75	22
	7,384	2,718	7,822	2,704

19. SHAREHOLDERS' EQUITY

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

	Class	%	30 September 2017	%	31 December 2016
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 Administry has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 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 30 September 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 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.

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.

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

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:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Passenger revenue				
Scheduled	7,061	3,160	6,655	2,600
Unscheduled	64	47	41	25
Total passenger revenue	7,125	3,207	6,696	2,625
Cargo revenue				
Carried by passenger aircraft	518	193	446	158
Carried by cargo aircraft	405	150	266	90
Total cargo revenue	923	343	712	248
Total passenger and cargo revenue	8,048	3,550	7,408	2,873
Technical revenue	125	48	125	48
Other revenue	30	8	29	9
Net sales	8,203	3,606	7,562	2,930
Cost of sales (-)	(6,328)	(2,356)	(6,625)	(2,335)
Gross profit	1,875	1,250	937	595

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

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
- Europe	2,338	1,109	2,179	877
- Far East	1,874	740	1,592	579
- Middle East	997	466	927	366
- America	1,062	438	1,000	382
- Africa	730	304	691	257
Total international flights	7,001	3,057	6,389	2,461
Domestic flights	1,047	493	1,019	412
Total passenger and cargo revenue	8,048	3,550	7,408	2,873

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

21. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Fuel expenses	2,099	815	2,036	760
Personnel expenses	962	336	1,124	375
Depreciation and amortisation expenses	714	238	796	275
Ground services expenses	483	184	503	181
Aircraft maintenance expenses	430	154	450	141
Passenger services and catering expenses	388	150	452	160
Air traffic control expenses	378	149	393	144
Airport expenses	352	140	347	128
Operating lease expenses	238	85	174	64
Wet lease expenses	146	58	211	63
Insurance expenses	34	11	35	11
Rents	25	9	26	9
Transportation expenses	22	8	21	7
Service expenses	22	8	25	8
Taxes and duties	10	3	7	2
IT & communication expenses	5	2	1	-
Utility expenses	3	1	3	1
Other expenses	17	5	21	6
	6,328	2,356	6,625	2,335

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Personnel expenses	83	27	112	35
Depreciation and amortisation expenses	40	12	47	15
IT & communication expenses	25	8	27	10
Service expenses	22	7	23	8
Rents	10	4	9	3
Systems use and associateship expenses	7	3	6	2
Consultancy expenses	4	1	3	1
Utility expenses	3	1	4	2
Taxes and duties	2	1	-	-
Insurance expenses	1	-	-	-
Other general administrative expenses	7	1	11	1
	204	65	242	77

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

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

Breakdown of marketing and sales expenses is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Commissions and incentives	275	104	268	91
Personnel expenses	198	68	215	68
Reservation systems expenses	186	64	184	56
Advertisement and promotion expenses	93	29	182	44
Taxes and duties	19	3	17	3
Rents	15	5	15	5
Service expenses	8	3	9	3
Consultancy expenses	6	2	7	2
Membership fees	5	2	4	1
IT & communication expenses	5	2	6	2
Depreciation and amortisation expenses	4	1	5	2
Other marketing and sales expenses	38	14	43	15
	852	297	955	292

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Foreign exchange gains from operational activities, net	57	29	24	13
Insurance, indemnities, penalties income	39	13	24	7
Manufacturers' credits	35	14	53	18
Provisions released	13	1	8	2
Rent income	7	2	2	1
Non- interest income from banks	6	2	5	1
Turnover premium from suppliers	4	1	3	-
Delay interest income	2	1	-	-
Rediscount interest income	-	-	3	3
Other operating income	4	1	14	10
	167	64	136	55

Breakdown of other operating expenses is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Provisions	20	11	16	12
Indemnity and penalty expenses	3	2	4	2
Other operating expenses	7	-	10	10
	30	13	30	24

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

24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Interest income from financial investment	59	35	28	11
Gain on sale of fixed assets	49	1	-	-
Income from investment incentives	46	11	60	21
Gain on sale of financial investments	2	-	-	-
	156	47	88	32

Breakdown of expense from investment activities is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Loss on sale of fixed assets	1	-	20	-

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Interest income	29	9	31	16
Rediscount interest income from repayments of aircrafts	2	-	11	-
Fair value gains on derivative financial instruments	-	-	64	17
Other financial incomes	10	1	-	-
	41	10	106	33

Breakdown of financial expenses is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Foreign exchange losses on financial activities	744	210	502	88
Finance lease interest expenses	153	52	137	47
Aircraft financing expenses	26	4	16	5
Fair value losses on derivative financial instruments	16	(40)	-	-
Interest expenses on employee benefits	3	1	3	1
Rediscount interest expense from repayments of aircrafts	-	-	-	2
Other financial expenses	6	2	2	2
	948	229	660	145

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

26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	30 September 2017	31 December 2016
Prepaid taxes	26	23

Tax liability is as follows:

	30 September 2017	31 December 2016
Provisions for corporate tax	39	23
Prepaid taxes and funds	(23)	(21)
Corporate tax liability	16	2

Tax expense is as follows:

	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Current period tax expense	39	15	25	11
Deferred tax expense / (income)	8	139	(155)	31
Tax expense / (income)	47	154	(130)	42

Tax effect related to other comprehensive income is as follows:

	1 January - 30 September 2017			1 January - 30 September 2016		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	5	-	5	1	-	1
Change in cash flow hedge reserve	(57)	11	(46)	324	(65)	259
Gains on Remeasuring Available for Sale Financial Investments	1	-	1	-	-	-
Change in actuarial losses from retirement pay obligation	1	-	1	3	(1)	2
Other comprehensive (expense) /income	(50)	11	(39)	328	(66)	262

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

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

26. TAX ASSETS AND LIABILITIES (cont'd)

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.

Deferred Tax

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

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

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

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

	30 September 2017	31 December 2016
Fixed assets	(1,453)	(1,423)
Adjustments for passenger flight liabilities	(111)	(88)
Tax loss carried forward	442	409
Income and expense for future periods	74	48
Accruals for expenses	39	42
Miles accruals	32	36
Provisions for employee benefits	21	20
Change in fair value of derivative instruments	2	(10)
Provisions for unused vacation	1	1
Other	10	10
Deferred tax liabilities	(943)	(955)

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

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The changes of deferred tax liability for interim periods 1 January – 30 September 2017 and 2016 are as follows:

	1 January - 30 September 2017	1 January - 30 September 2016
Opening balance at 1 January	955	887
Deferred tax expense / (income)	8	(155)
Tax (income) / expense from hedging reserves	(9)	65
Foreign currency translation difference	(11)	(4)
Deferred tax liability at the end of the period	943	793

Reconciliation with current tax charge for interim periods 1 January – 30 September 2017 and 2016 are as follows:

Reconciliation of effective tax charge	1 January - 30 September 2017	1 July - 30 September 2017	1 January - 30 September 2016	1 July - 30 September 2016
Profit / (Loss) from operations before tax	310	851	(593)	226
Domestic income tax rate of 20%	(62)	(170)	119	(45)
Taxation effects on:				
- expense from investment certificates	9	2	8	-
- investments accounted by using the equity method	21	17	9	9
- adjustment for prior year loss	(3)	-	1	-
- foreign currency translation difference	(12)	(3)	(7)	(6)
Tax (expense) / income in statement of profit / (loss)	(47)	(154)	130	(42)

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.

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

27. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 1 January – 30 September 2017 and 2016:

	1 January - 30 September 2017	1 January - 30 September 2016
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 30 September (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the period (in full)	138,000,000,000	138,000,000,000
Net profit / (loss) for the period	263	(463)
Basic gain / (loss) per share (Full US Cents) (*)	0.19	(0.34)

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 30 September 2017 and 31 December 2016 are as follows:

Derivative financial assets	30 September 2017	31 December 2016
Derivative instruments for fuel prices cash flow hedge	70	154
Cross currency rate swap agreements	21	38
Derivative instruments for interest rate cash flow hedge	2	5
	93	197

Derivative financial liabilities	30 September 2017	31 December 2016
Cross currency rate swap agreements	52	49
Derivative instruments for interest rate cash flow hedge	49	73
Derivative instruments for fuel prices cash flow hedge	3	24
	104	146

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

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

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

	30 September 2017					
	USD EQUIVALENT	**TL**	**EUR**	**JPY**	**CHF**	**OTHER**
1.Trade Receivables	494	131	104	-	8	251
2a.Monetary Financial Assets	1,441	396	980	2	3	60
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	429	153	89	6	5	176
4.Current Assets (1+2+3)	**2,364**	**680**	**1,173**	**8**	**16**	**487**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	85	3	73	-	-	9
8.Non Current Assets (5+6+7)	**85**	**3**	**73**	**-**	**-**	**9**
9.Total Assets (4+8)	**2,449**	**683**	**1,246**	**8**	**16**	**496**
10.Trade Payables	579	375	148	-	2	54
11.Financial Liabilities	679	17	436	206	20	-
12a.Other Liabilities, Monetary	1,004	786	183	32	1	2
12b.Other Liabilities, Non Monetary	67	67	-	-	-	-
13.Current Liabilities (10+11+12)	**2,329**	**1,245**	**767**	**238**	**23**	**56**
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	5,723	-	3,392	2,146	185	-
16a.Other Liabilities, Monetary	12	5	5	-	-	2
16b.Other Liabilities, Non Monetary	119	119	-	-	-	-
17.Non Current Liabilities (14+15+16)	**5,854**	**124**	**3,397**	**2,146**	**185**	**2**
18.Total Liabilities (13+17)	**8,183**	**1,369**	**4,164**	**2,384**	**208**	**58**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	**(5,734)**	**(686)**	**(2,918)**	**(2,376)**	**(192)**	**438**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a -14-15-16a)	**(6,062)**	**(656)**	**(3,080)**	**(2,382)**	**(197)**	**253**
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

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

Foreign currency risk management (cont'd)

	31 December 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
4.Current Assets (1+2+3)	**1,560**	**581**	**643**	**11**	**14**	**311**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	62	5	48	-	-	9
8.Non Current Assets (5+6+7)	**62**	**5**	**48**	**-**	**-**	**9**
9.Total Assets (4+8)	**1,622**	**586**	**691**	**11**	**14**	**320**
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	-	-	-	-
13.Current Liabilities (10+11+12)	**1,878**	**911**	**684**	**230**	**21**	**32**
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	-	-	-	-
17.Non Current Liabilities (14+15+16)	**6,394**	**114**	**3,870**	**2,215**	**193**	**2**
18.Total Liabilities (13+17)	**8,272**	**1,025**	**4,554**	**2,445**	**214**	**34**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	**(6,650)**	**(439)**	**(3,863)**	**(2,434)**	**(200)**	**286**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(6,797)**	**(367)**	**(3,974)**	**(2,439)**	**(205)**	**188**
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

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

Foreign currency risk management (cont'd)

Foreign currency sensitivity

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

	30 September 2017	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(69)	69
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(69)	69
4- Euro net asset / liability	(292)	292
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(292)	292
7- JPY net asset / liability	(238)	238
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	(238)	238
10- CHF net asset / liability	(19)	19
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	(19)	19
13- Other foreign currency net asset / liability	44	(44)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	44	(44)
TOTAL (3 + 6 + 9 + 12 + 15)	(574)	574

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

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

Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

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

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.