TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Financial Statements
For The Year Ended 31 December 2016
with Independent Auditor’s Report

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

ASSETS	**Notes**	**2016**	**2015**
Current Assets			
Cash and Cash Equivalents	5	1,466	900
Financial Investments	6	349	62
Trade Receivables			
-Trade Receivables From Non-Related Parties	10	379	361
Other Receivables			
-Other Receivables from Related Parties	9	3	3
-Other Receivables from Non-Related Parties	12	843	1,382
Derivative Financial Instruments	36	197	100
Inventories	13	217	216
Prepaid Expenses	14	98	74
Current Income Tax Assets	34	23	12
Other Current Assets	26	26	36
TOTAL CURRENT ASSETS		**3,601**	**3,146**
Non-Current Assets			
Financial Investments	6	47	1
Other Receivables			
-Other Receivables from Non-Related Parties	12	516	1,058
Investments Accounted by Using Equity Method	3	247	246
Investment Property	15	1	1
Property and Equipment	16	13,476	11,415
Intangible Assets			
- Other Intangible Assets	17	73	89
- Goodwill	18	12	12
Prepaid Expenses	14	518	415
TOTAL NON-CURRENT ASSETS		**14,890**	**13,237**
TOTAL ASSETS		**18,491**	**16,383**

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

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

LIABILITIES	Notes	2016	2015
Current Liabilities			
Short Term Borrowings	7	1,357	250
Short-Term Portion of Long-Term Borrowings	7 and 19	1,064	763
Other Financial Liabilities	8	4	15
Trade Payables			
-Trade Payables to Related Parties	9	129	132
-Trade Payables to Non-Related Parties	10	487	539
Payables Related to Employee Benefits	11	143	121
Other Payables			
-Other Payables to Non-Related Parties	12	93	84
Derivative Financial Instruments	36	146	568
Deferred Income	14	796	1,104
Current Tax Provision	34	2	10
Short-Term Provisions			
-Provisions for Employee Benefits	22	44	52
-Other Provisions	22	17	15
Other Current Liabilities	26	215	218
TOTAL CURRENT LIABILITIES		**4,497**	**3,871**
Non- Current Liabilities			
Long-Term Borrowings	7 and 19	7,822	6,636
Other Payables			
-Other Payables to Non-Related Parties	12	11	12
Deferred Income	14	6	16
Long-Term Provisions			
-Provisions for Employee Benefits	24	113	119
Deferred Tax Liability	34	955	887
TOTAL NON- CURRENT LIABILITIES		**8,907**	**7,670**
Equity			
Share Capital	27	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	27	(11)	(8)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	27	(106)	(84)
-Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges	27	20	(327)
Restricted Profit Reserves	27	36	36
Previous Years Profit	27	3,628	2,559
Net (Loss) / Profit for the Period		(77)	1,069
TOTAL EQUITY		**5,087**	**4,842**
TOTAL LIABILITIES AND EQUITY		**18,491**	**16,383**

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

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

PROFIT OR LOSS	**Notes**	**2016**	**2015**
Sales Revenue	28	9,792	10,522
Cost of Sales (-)	29	(8,656)	(8,420)
GROSS PROFIT		**1,136**	**2,102**
General Administrative Expenses (-)	30	(315)	(272)
Marketing and Sales Expenses (-)	30	(1,171)	(1,148)
Other Operating Income	31	145	244
Other Operating Expenses (-)	31	(86)	(31)
OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES		**(291)**	**895**
Income from Investment Activities	32	137	102
Expenses from Investment Activities	32	(20)	(1)
Share of Investments' (Loss) / Profit Accounted by Using The Equity Method	3	44	80
OPERATING (LOSS) / PROFIT		**(130)**	**1,076**
Financial Income	33	300	532
Financial Expenses (-)	33	(229)	(201)
(LOSS) / PROFIT BEFORE TAX		**(59)**	**1,407**
Tax Income (Expense)		**(18)**	**(338)**
Current Tax Expense	34	(23)	(12)
Deferred Tax Income / (Expense)	34	5	(326)
(LOSS) / PROFIT FOR THE YEAR		**(77)**	**1,069**
OTHER COMPREHENSIVE INCOME			
Items That May Be Reclassified Subsequently To Profit or Loss		**325**	**(179)**
Currency Translation Adjustment		(22)	(37)
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		430	(179)
Fair Value Gains /(Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		4	1
Income Tax Relating Items That May Be Reclassified Subsequently to Profit or Loss		(87)	36
Items That Will Not Be Reclassified Subsequently To Profit or Loss		**(3)**	**2**
Actuarial Gains on Retirement Pay Obligation		(4)	3
Income Tax Relating Items That Will Not Be Reclassified Subsequently to Profit or Loss		1	(1)
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR		**322**	**(177)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**245**	**892**
Basic (Loss) Earning Per Share (Full US Cents)	35	(0.06)	0.77
Diluted (Loss) Earning Per Share (Full US Cents)	35	(0.06)	0.77

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 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		
	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 Year	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	-	(3)	(22)	347	-	-	(77)	245
As of 31 December 2016	**1,597**	**(11)**	**(106)**	**20**	**36**	**3,628**	**(77)**	**5,087**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2015
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		
	Share Capital	Actuarial (Losses) 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 Year	Total Equity
As of 31 December 2014	**1,597**	**(10)**	**(47)**	**(185)**	**36**	**1,714**	**845**	**3,950**
Transfers	-	-	-	-	-	845	(845)	-
Total comprehensive income	-	2	(37)	(142)	-	-	1,069	892
As of 31 December 2015	**1,597**	**(8)**	**(84)**	**(327)**	**36**	**2,559**	**1,069**	**4,842**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the Year Ended 31 December
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	2016	2015
(Loss) / profit for the year		(77)	1,069
Adjustments to Reconcile Profit (Loss)			
Adjustments for Depreciation and Amortisation Expense	16 and 17	1,148	924
Adjustment for Fair Value of Investment Property		-	4
Adjustments for Provisions Related with Employee Benefits	22 and 24	28	30
Adjustments for (Reversal of) Provisions for Payables	22	6	2
Adjustments for Free Provisions for Probable Risks		5	6
Adjustments for Interest Income	32 and 33	(89)	(27)
Adjustments for Interest Expense	33	202	162
Adjustments For Unrealised Foreign Exchange Gains		(385)	(403)
Adjustments for Manufacturers' Credits		3	5
Adjustments for Fair Value Losses / (Gains) on Derivative Financial Instruments		(89)	14
Adjustments for Undistributed Profits of Associates	3	(44)	(80)
Adjustments for Tax Expenses	34	18	338
Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets	32	16	(2)
Adjustments for Losses Arised from Sale of Other Non-Current Assets		29	-
Changes in Working Capital		**771**	**2,042**
(Increase)/Decrease in Trade Receivables from NonRelated Parties		(22)	90
Decrease / (Increase) in Other Non-Related Party Receivables Related with Operations		358	(294)
Adjustments for Increase in Inventories		(1)	(21)
Adjustments for Increase in Prepaid Expenses		(127)	(121)
Decrease in Trade Payables to Related Parties		(3)	(16)
(Decrease) / Increase in Trade Payables to Non-Related Parties		(52)	24
Adjustments for Increase / (Decrease) in Payables Due to Employee Benefits		22	(7)
Increase in Other Operating Payables to Non-Related Parties		5	6
Decrease in Deferred Income		(321)	(348)
Decrease in Other Assets Related with Operations		10	3
Cash Flows From Operations		**640**	**1,358**
Payments for Provisions Related with Employee Benefits	24	(16)	(9)
Income taxes refund (paid)	34	(11)	(4)
Net Cash From Operating Activities		**613**	**1,345**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed from sales of property, plant and equipment		122	23
Cash Payments From Purchasing of property, plant and equipment (*)	16 and 17	(878)	(738)
Cash (Payments) / Receipts From Purchasing of Other Long-Term Assets		(333)	25
Other Cash Advances and Loans		731	109
Cash Outflow Arising From Capital Increse in Investments		(6)	-
Dividends Received		23	28
Interest Received		85	26
Net Cash Flows From Investing Activities		**(256)**	**(527)**
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from Loans		1,229	250
Payments of finance lease liabilities		(890)	(678)
Interest Paid		(119)	(121)
Other Outflows of Cash		(11)	(4)
Net Cash Flows From (Used in) Financing Activities		**209**	**(553)**
Net Change in Cash and Cash Equivalents		**566**	**265**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**900**	**635**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**1,466**	**900**

(*) USD 2,482 portion of property and equipment and intangible assets purchases in total of USD 3,360 for the year ended 31 December 2016 was financed through finance leases. (31 December 2015: USD 2,481 portion of property and equipment and intangible assets purchases in total of USD 3,219 was financed through finance leases.)

The accompanying notes are an integral part of these consolidated 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 31 December 2016 and 2015, the shareholders and their respective shareholdings in the Company are as follows:

	31 December 2016	31 December 2015
Republic of Turkey Prime Ministry Privatization Administration	% 49.12	% 49.12
Other (publicly held)	% 50.88	% 50.88
Total	% 100.00	% 100.00

The number of employees working for the Company and its subsidiaries (together the "Group") as of 31 December 2016 are 30,541 (31 December 2015: 27,676). The average number of employees working for the Group for the year ended 31 December 2016 and 2015 are 29,733 and 26,391 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 December 2016 and 2015:

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

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

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

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

Subsidiaries and Joint Ventures (cont'd)

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

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO 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
Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Türkbine Teknik) (*)	Turkey	-	-	Maintenance Services
Vergi İade Aracılık A.Ş.	Turkey	30%	30%	VAT Return and Consultancy

(*) All of the 50% shares of the Group in Turkbine Teknik were sold on December 7, 2016 at a price of 1 USD.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

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

Board of Directors has approved the consolidated financial statements as of 31 December 2016 on 10 March 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 consolidated financial statements, except for investment property and derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Adjustment of Financial Statements in Hyperinflationary Periods

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

Functional and Reporting Currency

Functional currency

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

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

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

Basis of Consolidation

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

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

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

2.1 Basis of Presentation (cont'd)

Business Combinations

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

The Group measures goodwill at the acquisition date as:

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.2 Changes and Errors in Accounting Estimates

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

2.3 Summary of Significant Accounting Policies

2.3.1 Revenue

Rendering of services:

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

Dividend and interest income:

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

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

2.3.2 Inventories

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

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

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

2.3.3 Property and Equipment

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

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.3 Property and Equipment (cont'd)

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

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

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

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

2.3.4 Leases

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.5 Intangible Assets

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

<u>Goodwill</u>

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

2.3.6 Impairment on Assets

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

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

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

2.3.7 Borrowing Costs

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments

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

(a) Financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Effective interest method

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

Cash and cash equivalents

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(b) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(b) Financial liabilities (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

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

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

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

2.3.9 Foreign Currency Transactions

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

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

The closing and average US Dollar-TL exchange rates as at 31 December 2016, 2015 and 2014 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2016	3.5192	3.0181
Year ended 31 December 2015	2.9076	2.7191
Year ended 31 December 2014	2.3189	2.1865

The closing and average US Dollar - Euro exchange rates as at 31 December 2016, 2015 and 2014 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2016	1/ 1.0542	1/ 1.1059
Year ended 31 December 2015	1/ 1.0929	1/ 1.1102
Year ended 31 December 2014	1/ 1.2164	1/ 1.3282

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.10 Earnings per Share

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

2.3.11 Events After the Reporting Date

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

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

2.3.12 Provisions, Contingent Liabilities, Contingent Assets

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

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

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

Onerous Contracts

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

2.3.13 Segmental Information

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

2.3.14 Investment Property

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.14 Investment Property (cont'd)

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

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

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

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

2.3.15 Taxation and Deferred Tax

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

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

Current tax

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

Deferred Tax

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.15 Taxation and Deferred Tax (cont'd)

Deferred Tax (cont'd)

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

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

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

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

Current and deferred tax for the year

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

2.3.16 Government Grants

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.17 Employee Benefits / Retirement Pay Provision

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

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

2.3.18 Share Capital and Dividends

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

2.3.19 Manufacturers' Credits

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

2.3.20 Maintenance and Repair Cost

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

2.3.21 Frequent Flyer Program

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

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

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

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

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements

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

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

The Determination of Impairment on Long Term Assets:

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

Calculation of the Liability for Frequent Flyer Program:

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

Useful Lives and Salvage Values of Tangible Assets:

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

Deferred Tax:

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

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

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

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

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

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements (cont'd)

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

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

The total contribution amount resulting from these investment certificates as of 31 December 2016 is 1,350 USD (31 December 2015: 1,219 USD). Until the contribution amount is fully consumed by reduction from future corporate taxes, the corporate income attributable to related investments will be taxed by 10% rate instead of 20% rate, due to 50% corporate tax discount rate applicable.

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

2.5 New and Revised Standards and Interpretations

Standards issued but not yet effective and not early adopted

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments 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.

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

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

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

IFRS 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.

Amendments to IAS 7 *Statement of Cash Flows* – Disclosure Initiative

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

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

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

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

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

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

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

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

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.

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

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

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

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

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.

2.6 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

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

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	31 December 2016	31 December 2015
Sun Express	77	90
Turkish DO&CO	57	54
TEC	43	26
TGS	31	40
THY Opet	30	28
Uçak Koltuk	5	2
TCI	3	3
Goodrich	1	1
Turkbine Teknik	-	2
Vergi İade Aracılık (*)	-	-
	247	246

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

(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 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Total assets	972	813
Total liabilities	818	633
Shareholders'equity	154	180
Group's share in joint venture's shareholders' equity	77	90

	1 January - 31 December 2016	**1 January - 31 December 2015**
Revenue	1,085	1,226
(Loss) / profit for the year	(26)	72
Group's share in joint venture's (loss) /profit for the year	(13)	36

Financial information for Turkish DO&CO as of 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Total assets	175	174
Total liabilities	62	66
Shareholders'equity	113	108
Group's share in joint venture's shareholders' equity	57	54

	1 January - 31 December 2016	**1 January - 31 December 2015**
Revenue	357	377
Profit for the year	32	34
Group's share in joint venture's profit for the year	16	17

Financial information for TEC as of 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Total assets	168	151
Total liabilities	79	97
Shareholders'equity	89	54
Group's share in joint venture's shareholders' equity	43	26

(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 TEC as of 31 December 2016 and 2015 are as follows (cont'd):

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	342	240
Profit for the year	34	10
Group's share in joint venture's profit for the year	17	5

Financial information for TGS as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	115	139
Total liabilities	53	59
Shareholders'equity	62	80
Group's share in joint venture's shareholders' equity	31	40

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	261	257
Profit for the year	12	25
Group's share in joint venture's profit for the year	6	13

Financial information for THY Opet as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	458	213
Total liabilities	399	157
Shareholders'equity	59	56
Group's share in joint venture's shareholders' equity	30	28

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	1,357	1,825
Profit for the year	39	26
Group's share in joint venture's profit for the year	19	13

(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 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	19	17
Total liabilities	9	13
Shareholders'equity	10	4
Group's share in joint venture's shareholders' equity	5	2

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	9	7
(Loss) for the year	(2)	1
Group's share in joint venture's (loss) for the year	(1)	-

Financial information for TCI as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	11	11
Total liabilities	4	6
Shareholders'equity	7	5
Group's share in joint venture's shareholders' equity	3	3

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	7	9
(Loss) for the year	(2)	(8)
Group's share in joint venture's (loss) for the year	(1)	(4)

Financial information for Goodrich as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	5	4
Total liabilities	2	2
Shareholders'equity	3	2
Group's share in joint venture's shareholders' equity	1	1

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	10	10
Profit for the year	1	1
Group's share in joint venture's profit for the year	1	-

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

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

Financial information for Turkbine Teknik as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	-	5
Total liabilities	-	-
Shareholders'equity	-	5
Group's share in joint venture's shareholders' equity	-	2
	1 January - 31 December 2016	**1 January - 31 December 2015**
Revenue	-	1
Profit for the year	-	-
Group's share in joint venture's profit for the year	-	-

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

	1 January - 31 December 2016	1 January - 31 December 2015
Sun Express	(13)	36
Turkish DO&CO	16	17
TEC	17	5
TGS	6	13
THY Opet	19	13
Uçak Koltuk	(1)	-
TCI	(1)	(4)
Goodrich	1	-
	44	80

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:

<u>Air Transport ("Aviation")</u>

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

<u>Technical Maintenance Services ("Technical")</u>

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 28.

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

4. SEGMENTAL REPORTING (cont'd)

4.1 Total Assets and Liabilities

Total Assets	**31 December 2016**	**31 December 2015**
Aviation	18,335	16,200
Technical	1,258	1,198
Total	19,593	17,398
Less: Eliminations due to consolidation	(1,102)	(1,015)
Total assets in consolidated financial statements	18,491	16,383

Total Liabilitites	**31 December 2016**	**31 December 2015**
Aviation	13,389	11,438
Technical	455	508
Total	13,844	11,946
Less: Eliminations due to consolidation	(440)	(405)
Total liabilitites in consolidated financial statements	13,404	11,541

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 31 December 2016	**Aviation**	**Technic**	**Inter-segment elimination**	**Total**
Sales to External Customers	9,624	168		9,792
Inter-Segment Sales	34	893	(927)	-
Revenue	9,658	1,061	(927)	9,792
Cost of Sales (-)	(8,814)	(774)	932	(8,656)
Gross Profit	844	287	5	1,136
Administrative Expenses (-)	(219)	(101)	5	(315)
Marketing and Sales Expenses (-)	(1,167)	(4)	-	(1,171)
Other Operating Income	153	32	(40)	145
Other Operating Expenses (-)	(88)	(28)	30	(86)
Operating (Loss) Before Investment Activities	(477)	186	-	(291)
Income from Investment Activities	137	-	-	137
Expenses from Investment Activities	(20)	-	-	(20)
Share of Investments' (Loss) Accounted by Using The Equity Method	27	17	-	44
Operating (Loss)	(333)	203	-	(130)
Financial Income	299	13	(12)	300
Financial Expense (-)	(227)	(14)	12	(229)
(Loss) Before Tax	(261)	202	-	(59)

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

4. SEGMENTAL REPORTING (cont'd)

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

Segment Results (cont'd):

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

4.3 Investment Operations

1 January - 31 December 2016	**Aviation**	**Technic**	**Inter-segment elimination**	**Total**
Purchase of property and equipment and intangible assets	3,215	145	-	3,360
Current period depreciation and amortization change	1,030	118	-	1,148
Investments accounted by using the equity method	202	45		247

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

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

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash	2	2
Banks – Time deposits	1,357	823
Banks – Demand deposits	99	69
Other liquid assets	8	6
	1,466	900

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

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

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

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	31 December 2016	31 December 2015
Time deposits with maturity more than 3 months	349	62

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%	Haziran 2017	226
				349

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

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

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

6. FINANCIAL INVESTMENTS (cont'd)

Long-term financial investments are as follows:

	31 December 2016	31 December 2015
Debt to securities/held to maturity		
- Eurobonds	46	-
Other	1	1
	47	1

Details of Eurobonds 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

Other long-term financial investments are as follows:

	31 December 2016	31 December 2015
Sita Inc.	1	1
Star Alliance Gmbh	< 1	< 1
Emek İnşaat ve İşletme A.Ş.	< 1	< 1
UATP Inc.	< 1	< 1
	1	1

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

Details of the long-term financial investments of the Group at 31 December 2016 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

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

7. BORROWINGS

Short term borrowings are as follows:

	31 December 2016	31 December 2015
Short term borrowings	1,357	250

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 borrowings as of 31 December 2015 is as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2015
250	USD	0.69%	March 2016	250

Short term portions of long term borrowings are as follows:

	31 December 2016	31 December 2015
Finance lease obligations (Note: 19)	1,038	763
Bank borrowings	26	-
	1,064	763

Long term borrowings are as follows:

	31 December 2016	31 December 2015
Finance lease obligations (Note: 19)	7,726	6,636
Bank borrowings	96	-
	7,822	6,636

Details of bank borrowings as of 31 December 2016 is as follows:

	31 December 2016	31 December 2015
Less than 1 year	26	-
Between 1 – 5 years	96	-
Over 5 years	-	-
	122	-

Cost of the bank borrowings 5.5 year term denominated in 115 million EURO 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:

	31 December 2016	31 December 2015
Other financial liabilities	4	15

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:

	31 December 2016	31 December 2015
Turkish DO&CO (*)	3	3

(*) The amounts are dividend receivables of 2015.

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

	31 December 2016	31 December 2015
THY Opet	43	54
Turkish DO&CO	33	28
Sun Express	19	19
TEC	19	19
TGS	14	11
Goodrich	1	1
	129	132

Transactions with related parties for the year ended 31 December 2016 and 2015 are as follows:

a) Sales to related parties:

	1 January - 31 December 2016	1 January - 31 December 2015
Sun Express	28	36
TEC	15	24
TGS	6	5
Sun Express Deutschland	3	-
Turkish DO&CO	1	2
Goodrich	1	-
THY Opet	-	1
	54	68

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

9. RELATED PARTY TRANSACTIONS (cont'd)

b) Purchases from related parties:

	1 January - 31 December 2016	1 January - 31 December 2015
THY Opet	1,154	1,551
Turkish DO&CO	326	339
TEC	298	184
TGS	245	214
Sun Express	218	250
Goodrich	6	7
Uçak Koltuk	4	6
TCI	1	6
	2,252	2,557

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 4 (1 January-31 December 2015: USD 4).

10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from non-related parties as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Trade receivables	455	433
Allowance for doubtful receivables	(76)	(72)
	379	361

Provision for doubtful receivables has been determined based on past experience for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 37.

Trade payables to non-related parties as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Trade payables	486	539
Other trade payables	1	-
	487	539

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

11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Salary accruals	103	98
Social security premiums payable	40	23
	143	121

12. OTHER RECEIVABLES

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

	31 December 2016	31 December 2015
Predelivery payments made for aircrafts	596	1,139
Receivables from technical purchases	130	133
Bank deposits with transfer limitations (*)	62	59
Value added tax receivables	39	38
Receivables from pilots for flight training	10	11
Receivables from employees	1	1
Other receivables	5	1
	843	1,382

(*) 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.

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

	31 December 2016	31 December 2015
Receivables related to investment certificates	211	172
Predelivery payments made for aircrafts	207	392
Receivables from pilots for flight training	67	58
Deposits and guarentees given	15	12
Interest and commodity swap agreement deposits	11	418
Bank deposits with transfer limitations (*)	5	5
Other receivables	-	1
	516	1,058

(*) As of 31 December 2016, the balance of this account includes bank deposits in Syria.

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

	31 December 2016	31 December 2015
Taxes and funds payable	79	61
Deposits and guarantees received	12	15
Payables to insurance companies	-	6
Other liabilities	2	2
	93	84

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

12. OTHER RECEIVABLES (cont'd)

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

	31 December 2016	31 December 2015
Deposits and guarantees received	11	12

13. INVENTORIES

	31 December 2016	31 December 2015
Spare parts	176	167
Other inventories	60	66
	236	233
Provision for impairment (-)	(19)	(17)
	217	216

The change in the value of provision for impairment for the years ended 31 December 2016 and 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Provision at the beginning of the year	17	12
Charges during the year	2	5
Provision at the end of the year	19	17

14. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses are as follows:

	31 December 2016	31 December 2015
Advances given for purchases	27	12
Prepaid operating lease expenses	16	17
Prepaid sales commissions	12	12
Prepaid advertising expenses	12	22
Prepaid borrowings interest expenses	5	-
Prepaid insurance expenses	5	-
Other prepaid expenses	21	11
	98	74

Long-term prepaid expenses are as follows:

	31 December 2016	31 December 2015
Prepaid engine maintenance expenses	440	356
Prepaid aircraft financing expenses	59	43
Advances given for fixed asset purchases	11	10
Other prepaid expenses	8	6
	518	415

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

14. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

Deferred income is as follows:

	31 December 2016	31 December 2015
Passenger flight liabilites	785	1,091
Other short-term deferred income	11	13
	796	1,104

Passenger flight liability is as follows:

	31 December 2016	31 December 2015
Flight liability generating from ticket sales	578	833
Flight liability generating from Frequent flyer program	207	258
	785	1,091

Short-term deferred income is as follows:

	31 December 2016	31 December 2015
Unearned bank protocol revenue accruals	6	7
Advances received	5	3
Other income accruals	-	3
	11	13

Long-term deferred income is as follows:

	31 December 2016	31 December 2015
Gross manufacturer's credits	31	31
Unearned bank protocol revenue accruals	1	8
Accumulated depreciation of manufacturer's credit	(26)	(23)
	6	16

15. INVESTMENT PROPERTY

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance	1	36
Foreign currency translation difference	-	(7)
Valuation gain (Note: 34)	-	4
Transfer to property and equipment (Note:16)	-	(32)
Closing balance	1	1

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

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

16. 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 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	2	30	24	2,899	65	118	27	191	3,356
Transfer (*)	-	20	1	52	32	-	2	(108)	(1)
Transfers between the account	-	4	(4)	-	-	-	-	-	-
Disposals	-	(5)	(14)	(598)	(35)	(67)	(1)	-	(720)
Closing balance at 31 December 2016	218	367	176	16,279	608	539	500	235	18,922
Accumulated Depreciation									
Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	10	30	24	915	42	69	37	-	1,127
Transfers between the account	-	2	(2)	-	-	-	-	-	-
Disposals	-	(1)	(14)	(466)	(33)	(38)	(1)	-	(553)
Closing balance at 31 December 2016	66	177	112	4,549	204	203	135	-	5,446
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 December 2016, carrying value of the aircrafts and spare engines acquired through finance leases is USD 11,439 (31December 2015 : 9,432 USD)

Depreciation expenses are recognized in cost of sales is amounting to USD 1,081 (31 December 2015:USD 860), general administrative expenses is amounting to USD 61 (31 December 2015:USD 58) and marketing and sales expenses is amounting to USD 6 (31 December 2015:USD 6).

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

16. 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 2015	164	284	144	11,301	459	346	446	111	13,255
Additions	14	36	32	2,715	87	172	26	98	3,180
Transfers	6	-	1	50	-	-	-	(57)	-
Transfers from investment property (Note:15)	32	-	-	-	-	-	-	-	32
Disposals	-	(2)	(8)	(140)	-	(30)	-	-	(180)
Closing balance at 31 December 2015	216	318	169	13,926	546	488	472	152	16,287
Accumulated Depreciation									
Opening balance at 1 January 2015	47	125	90	3,430	163	132	67	-	4,054
Depreciation charge	9	23	21	724	32	63	32	-	904
Disposals	-	(2)	(7)	(54)	-	(23)	-	-	(86)
Closing balance at 31 December 2015	56	146	104	4,100	195	172	99	-	4,872
Net book value 31 December 2015	160	172	65	9,826	351	316	373	152	11,415

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

17. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2016	44	137	5	186
Additions	-	4	-	4
Disposals	-	(2)	-	(2)
Transfers	-	1	-	1
Closing balance at 31 December 2016	44	140	5	189
Accumulated Amortization				
Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	21	-	21
Disposals	-	(2)	-	(2)
Closing balance at 31 December 2016	-	115	1	116
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 2015	23	121	5	149
Additions	21	18	-	39
Disposals	-	(2)	-	(2)
Closing balance at 31 December 2015	44	137	5	186
Accumulated Amortization				
Opening balance at 1 January 2015	-	77	1	78
Amortization charge	-	20	-	20
Disposals	-	(1)	-	(1)
Closing balance at 31 December 2015	-	96	1	97
Net book value at 31 December 2015	44	41	4	89

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.

18. GOODWILL

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

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

19. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	31 December 2016	31 December 2015
Less than 1 year	1,189	896
Between 1 – 5 years	3,491	3,419
Over 5 years	4,969	3,898
	9,649	8,213
Less: Future interest expenses	(885)	(814)
Principal value of future rentals stated in financial statements	8,764	7,399

	31 December 2016	31 December 2015
Interest Range:		
Floating rate obligations	4,942	4,038
Fixed rate obligations	3,822	3,361
	8,764	7,399

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

As of 31 December 2016, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.81% (31 December 2015: 3.13%) for the fixed rate obligations and 1.15% (31 December 2015: 1.06%) for the floating rate obligations.

20. GOVERNMENT GRANTS AND INCENTIVES

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

21. BORROWING COSTS

During the year of 2016, there is no capitalized borrowing cost on property and equipment. (31 December 2015: None).

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

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

Short-term provision for employee benefits is as follows:

	31 December 2016	31 December 2015
Provisions for unused vacation	44	52

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

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

Changes in the provisions for the years ended 31 December 2016 and 2015 are set out below:

	1 January - 31 December 2016	1 January - 31 December 2015
Provisions at the beginning of the year	52	58
Provisions for the current year	3	7
Foreign currency translation differences	(11)	(13)
Provisions at the end of the year	44	52

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

Other short-term provision is as follows:

	31 December 2016	31 December 2015
Provisions for legal claims	17	15

Changes in the provisions for legal claims for the years ended 31 December 2016 and 2015 are set out below:

	1 January - 31 December 2016	1 January - 31 December 2015
Provisions at the beginning of the year	15	16
Provisions for the current year	9	6
Provisions released	(3)	(4)
Foreign currency translation differences	(4)	(3)
Provisions at the end of the year	17	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.

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

23. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letter of guarantees given as of 31 December 2016 is USD 1,040 (31 December 2015: USD 316).

	31 December 2016		31 December 2015	
	Original currency amount	**USD equivalent**	**Original currency amount**	**USD equivalent**
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,040	-	316
-Collaterals				
TL	27	8	27	9
EUR	930	980	11	13
USD	48	48	291	291
Other	-	4	-	3
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		1,040		316

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

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

	31 December 2016	31 December 2015
Less than 1 year	327	286
Between 1 – 5 years	773	738
More than 5 years	178	176
	1,278	1,200

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

23. 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:

	31 December 2016	31 December 2015
Less than 1 year	4	5
Between 1 – 5 years	20	21
More than 5 years	29	37
	53	63

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 and 43 were delivered in 2016. The Group has made an advance payment of 820 million US Dollars (full) relevant to these purchases as of 31 December 2016.

24. EMPLOYEE BENEFITS

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

	31 December 2016	31 December 2015
Provisions for retirement pay liability	113	119

Provisions for retirement pay liability are recorded as follows:

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

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,258 (full) as of 31 December 2016.

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

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

24. EMPLOYEE BENEFITS (cont'd)

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2016 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.00% annual inflation rate (31 December 2015: 7.00%) and 11.00% interest rate (31 December 2015: 11.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.45% (31 December 2015: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,258 (full) which is in effect since 31 December 2016 is used in the calculation of Group's provision for retirement pay liability.

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

	1 January - 31 December 2016	**1 January - 31 December 2015**
Provisions at the beginning of the year	119	127
Service charge for the year	25	27
Interest charges	4	4
Actuarial loss / (gain)	4	(3)
Payments	(16)	(9)
Foreign currency translation difference	(23)	(27)
Provisions at the end of the year	113	119

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

25. EXPENSES BY NATURE

Expenses by nature for the years ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	**1 January - 31 December 2015**
Fuel expenses	2,673	2,997
Personnel expenses	1,865	1,640
Depreciation expenses	1,148	924
Ground services expenses	645	619
Aircraft maintenance expenses	590	516
Passenger services and catering expenses	582	585
Air traffic control expenses	504	506
Airport expenses	448	410
Commissions and incentives	321	346
Wet lease expenses	252	285
Operating lease expenses	244	211
Reservation systems expenses	219	215
Advertisement and promotion expenses	214	204
Service expenses	75	64
Rents	67	59
Insurance expenses	50	32
IT & communication expenses	47	41
Taxes and duties	33	31
Transportation expenses	27	29
Consultancy expenses	13	11
Utility expenses	9	10
Systems use and associateship expenses	8	6
Membership fees	6	5
Other expenses	102	94
	10,142	9,840

26. OTHER ASSETS AND LIABILITIES

Other current assets as of 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Value added tax receivable	23	34
Personnel and business advances	3	2
	26	36

Other short-term liabilities as of 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Accruals for maintenance expenses of aircraft under operating lease	209	214
Accruals for other expenses	5	3
Other liabilities	1	1
	215	218

27. SHAREHOLDERS' EQUITY

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

	Class	%	31 December 2016	%	31 December 2015
Republic of Turkey Prime Ministry Privatization Administration (*)	A, C	49.12	678	49.12	678
Other (publicly held)	A	50.88	702	50.88	702
Paid-in capital (Turkish Lira)			1,380		1,380
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124
Historic capital (Turkish Lira) (***)			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.

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

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

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

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

a) Decisions that will negatively affect the Company's mission Defined in Article 3.1. of the Articles of Association,

b) Suggesting change in the Articles of Association at General Assembly,

c) Increasing share capital,

d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

27. 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):

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.

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.

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

28. REVENUE

Breakdown of gross profit is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Passenger revenue		
Scheduled	8,541	9,310
Unscheduled	49	58
Total passenger revenue	8,590	9,368
Cargo revenue		
Carried by passenger aircraft	600	547
Carried by cargo aircraft	396	388
Total cargo revenue	996	935
Total passenger and cargo revenue	9,586	10,303
Technical revenue	168	188
Other revenue	38	31
Net sales	9,792	10,522
Cost of sales (-)	(8,656)	(8,420)
Gross profit	1,136	2,102

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

	1 January - 31 December 2016	1 January - 31 December 2015
- Europe	2,791	3,138
- Far East	2,148	2,337
- Middle East	1,154	1,333
- America	1,297	1,294
- Africa	914	842
Total international flights	8,304	8,944
Domestic flights	1,282	1,359
Total passenger and cargo revenue	9,586	10,303

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

29. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Fuel expenses	2,673	2,997
Personnel expenses	1,442	1,258
Depreciation expenses	1,081	860
Ground services expenses	645	619
Aircraft maintenance expenses	590	516
Passenger services and catering expenses	582	585
Air traffic control expenses	504	506
Airport expenses	448	410
Wet lease expenses	252	285
Operating lease expenses	244	211
Insurance expenses	48	30
Rents	35	30
Service expenses	33	33
Transportation expenses	27	29
Taxes and duties	13	13
Utility expenses	4	5
IT & communication expenses	2	3
Other expenses	33	30
	8,656	8,420

30. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel expenses	142	123
Depreciation expenses	61	58
IT & communication expenses	36	30
Service expenses	30	20
Rents	12	10
Systems use and associateship expenses	8	6
Utility expenses	5	5
Consultancy expenses	4	3
Insurance expenses	2	2
Other general administrative expenses	15	15
	315	272

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

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

Breakdown of marketing and sales expenses is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Commissions and incentives	321	346
Personnel expenses	281	259
Reservation systems expenses	219	215
Advertisement and promotion expenses	214	204
Taxes and duties	20	18
Rents	20	19
Service expenses	12	11
Consultancy expenses	9	8
IT & communication expenses	9	8
Depreciation expenses	6	6
Membership fees	6	5
Other marketing and sales expenses	54	49
	1,171	1,148

31. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Manufacturers' credits	76	68
Insurance, indemnities, penalties income	29	29
Provisions released	12	10
Non- interest income from banks	8	7
Turnover premium from suppliers	6	7
Rent income	3	3
Rediscount interest income	1	1
Delay interest income	-	2
Foreign exchange gains from operational activities, net	-	108
Other operating income	10	9
	145	244

Breakdown of other operating expenses is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange losses from operational activities, net	42	-
Provisions	23	18
Indemnity and penalty expenses	5	4
Other operating expenses	16	9
	86	31

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

32. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Income from investment incentives	80	64
Interest income from financial investment	53	8
Gain on sale of fixed assets	4	3
Income from insurance due to aircraft damages	-	23
Fair value gain on investment property (Note:15)	-	4
	137	102

Breakdown of expense from investment activities is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Loss on sale of fixed assets	20	1

33. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange gains from financial activities	175	513
Fair value gains on derivative financial instruments	89	-
Interest income	32	19
Rediscount interest income from repayments of aircrafts	4	-
	300	532

Breakdown of financial expenses is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Finance lease interest expenses	198	158
Aircraft financing expenses	21	15
Interest expenses on employee benefits	4	4
Fair value losses on derivative financial instruments	-	14
Rediscount interest expense from repayments of aircrafts	-	1
Other financial expenses	6	9
	229	201

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

34. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	31 December 2016	31 December 2015
Prepaid taxes	23	12

Tax liability is as follows:

	31 December 2016	31 December 2015
Provisions for corporate tax	23	12
Prepaid taxes and funds	(21)	(2)
Tax liability	2	10

Tax expense is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Current year tax expense	23	12
Deferred tax (income) / expense	(5)	326
Tax expense	18	338

Tax effect related to other comprehensive income is as follows:

	1 January - 31 December 2016			1 January - 31 December 2015		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	(22)	-	(22)	(37)	-	(37)
Change in cash flow hedge reserve	434	(87)	347	(178)	36	(142)
Change in actuarial losses from retirement pay obligation	(4)	1	(3)	3	(1)	2
Other comprehensive (expense) /income	408	(86)	322	(212)	35	(177)

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.

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

34. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

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:

	31 December 2016	**31 December 2015**
Fixed assets	(1,423)	(1,138)
Adjustments for passenger flight liabilities	(88)	(75)
Change in fair value of derivative instruments	(10)	94
Tax loss carried forward	409	47
Income and expense for future periods	48	47
Accruals for expenses	42	45
Miles accruals	36	46
Provisions for employee benefits	20	24
Provisions for unused vacation	1	10
Other	10	13
Deferred tax liabilities	(955)	(887)

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

34. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The changes of deferred tax liability for interim periods 1 January – 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance at 1 January	887	655
Deferred tax (income) / expense	(5)	326
Tax expense / (income) from hedging reserves	85	(36)
Tax (income) / expense of actuarial losses on retirement	(1)	1
Foreign currency translation difference	(11)	(59)
Deferred tax liability at the end of the year	955	887

Reconciliation with current tax charge for interim periods 1 January – 31 December 2016 and 2015 are as follows:

Reconciliation of effective tax charge	1 January - 31 December 2016	1 January - 31 December 2015
(Loss) / Profit from operations before tax	(59)	1,407
Domestic income / (expense) tax rate of 20%	12	(281)
Taxation effects on:		
- expense from investment certificates	16	13
- non-deductible expenses	(1)	-
- foreign currency translation difference	(55)	(92)
- investments accounted by using the equity method	9	16
- adjustment for prior year loss	1	6
Tax charge in statement of loss	(18)	(338)

35. 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.)

35. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 1 January – 31 December 2016 and 2015:

	1 January - 31 December 2016	1 January - 31 December 2015
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 December (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net (loss) / profit for the year	(77)	1,069
Basic (loss)/ profit per share (Full US Cents) (*)	(0.06)	0.77

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

36. DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial assets	31 December 2016	31 December 2015
Derivative instruments for fuel prices cash flow hedge	154	14
Cross currency rate swap agreements	38	77
Derivative instruments for interest rate cash flow hedge	5	9
	197	100

Derivative financial liabilities	31 December 2016	31 December 2015
Derivative instruments for interest rate cash flow hedge	73	68
Cross currency rate swap agreements	49	15
Derivative instruments for fuel prices cash flow hedge	24	485
	146	568

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

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

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

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

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

The overall strategy of the Group has not changed compared to 2015.

	31 December 2016	**31 December 2015**
Total debts	10,247	7,664
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(1,815)	(962)
Net debt (A)	8,432	6,702
Total shareholders' equity (B)	5,087	4,842
Total capital stock (A+B)	13,519	11,544
Net debt/total capital stock ratio	0.62	0.58

(b) Financial Risk Factors

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

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

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

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

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management

	Receivables					
	Trade receivables		Other receivables			
31 December 2016	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks (***)**	**Derivative Instruments**
Maximum credit risk as of balance sheet date (*)	-	379	3	1,359	1,805	197
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	18	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	227	3	1,359	1,805	197
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	152	-	-	-	-
-The part under guarantee with collateral etc.	-	6	-	-	-	-
D. Net book value of impaired assets						
-Past due (gross carrying amount)	-	76	-	-	-	-
-Impairment(-)	-	(76)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-

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

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

(***)Deposits in Banks consist of financial investments with maturity more than 3 months.

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

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

(***)Deposits in Banks consist of financial investments with maturity more than 3 months.

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

The aging of past due receivables as of 31 December 2016 are as follows:

	Receivables					
31 December 2016	**Trade Receivables**	**Other Receivables**	**Deposits in Banks**	**Derivative Instruments**	**Other**	**Total**
Past due 1-30 days	53	-	-	-	-	53
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	121	-	-	-	-	121
Past due 1-5 years	19	-	-	-	-	19
Total past due receivables	228	-	-	-	-	228
The part under guarantee with collateral etc.	6	-	-	-	-	6

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

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

(b) Financial Risk Factors (cont'd)

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

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

As of balance sheet date, total amount of cash collateral and letter of guarantee received by Group for past due and not impaired receivable is 6 USD (31 December 2015: 12 USD).

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

b.2)Impairment

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

Changes in provisions for doubtful receivables for the years ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	**1 January - 31 December 2015**
Opening Balance	72	67
Charge for the year	14	12
Collections during the year	(9)	(6)
Currency translation adjustment	(1)	(1)
Closing Balance	76	72

b.3) Liquidity risk management

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

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

Liquidity risk table:

31 December 2016

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	1,357	1,357	531	826	-	-
Finance lease obligations	8,764	9,649	264	925	3,491	4,969
Trade payables	616	618	618	-	-	-
Other financial liabilities	4	4	4	-	-	-
Total	10,741	11,628	1,417	1,751	3,491	4,969

31 December 2015

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

31 December 2016

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	51	52	(1)	51	2	-

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

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

(b) Financial Risk Factors (cont'd)

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

Liquidity risk table:

31 December 2015 **Due date on the contract**	**Book value**	**Total cash outflow according to the contract (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	**More than 5 years (IV)**
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	(468)	(466)	(113)	(261)	(97)	5

b.4)Market risk management

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

b.4.1) Foreign currency risk management

Foreign currency risk management

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

	31 December 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.)

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

(b) Financial Risk Factors (cont'd)

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

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

Foreign currency sensitivity

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

	31 December 2016	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	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

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

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

(b) Financial Risk Factors (cont'd)

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

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

Foreign currency sensitivity (cont'd)

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

b.4.2) Interest rate risk management

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

Interest Rate Position Table

	31 December 2016	31 December 2015
Instruments with fixed interest rate		
Financial Liabilities	3,822	3,361
Financial Instruments with Variable Interest Rate		
Financial Liabilities	4,942	4,038
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(17)	(22)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(50)	(37)

As indicated in Note 38, the Group fixed the interest rate for 3,397 USD of floating–interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2016.

Interest rate sensitivity

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

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

Current loss before tax of the Group for the year will increase by USD 32 (For the year ended 31 December 2015 profit before tax will decrease by 20 USD). In contrast, if Libor and Euribor interest rate decrease by 0.5%, loss before tax will decrease by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in the event of a 0.5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by 49 USD, excluding the deferred tax effect. (For the year ended 31 December 2015 the shareholders' equity of the Group will increase by 48 USD, excluding the deferred tax effect.) In the event of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amounts, excluding the deferred tax effect.

b.4.3) Fuel prices sensitivity

As explained in Note 38, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by 263 USD, excluding the deferred tax effect. (For the year ended 31 December 2015, the shareholders' equity of the Group will increase by 88 USD excluding deferred tax effect.)

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

(b) Financial Risk Factors (cont'd)

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

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

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by 1 USD, excluding the deferred tax effect. (For the year ended 31 December 2015, the shareholders' equity of the Group will decrease by 98 USD, excluding deferred tax effect.)

38. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

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

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

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

38. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2016 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1,466	-	-	-	-	1,466	5
Financial investments and derivative financial instruments	349	160	37	1	-	547	6 and 36
Trade receivables	379	-	-	-	-	379	10
Other receivables	1,362	-	-	-	-	1,362	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	1,479	1,479	7
Finance lease obligations	-	-	-	-	8,764	8,764	7
Other financial liabilities and derivative financial instruments	-	99	47	-	4	150	8 and 36
Trade payables	-	-	-	-	616	616	9 and 10

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

38. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2015 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	900	-	-	-	-	900	5
Financial investments and derivative financial instruments	62	70	30	1	-	163	6 and 36
Trade receivables	361	-	-	-	-	361	10
Other receivables	2,443	-	-	-	-	2,443	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	250	250	7
Finance lease obligations	-	-	-	-	7,399	7,399	7
Other financial liabilities and derivative financial instruments	-	532	36	-	15	583	8 and 36
Trade payables	-	-	-	-	671	671	9 and 10

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

38. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

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

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

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

		Fair value level as of the reporting date		
Financial assets	31 December 2016	Level 1 USD	Level 2 USD	Level 3 USD
Derivative instruments at fair value through profit or loss	37	-	37	-
Derivative instruments accounted for hedge accounting	160	-	160	-
Total	197	-	197	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	47	-	47	-
Derivative instruments accounted for hedge accounting	99	-	99	-
Total	146	-	146	-

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

38. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

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

Derivative Instruments and Hedging Transactions

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

The floating-rate financial liabilities of the Group are explained in Note 37 b.4.2. Beginning from September 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group entered into fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities of which maturities are after the second half of 2010 which account for approximately 69% of floating rate USD, JPY and Euro denominated liabilities. Effective part of change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

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

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

38. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

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

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2016 and 2015 are as follows:

Derivative Instruments Stated in Assets and Liabilities

31 December 2016	**Positive fair value**	**Negative fair value**	**Total**
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(50)	(50)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	59	(10)	49
Collar contracts for hedging against cash flow risk of fuel prices	94	(14)	80
Forward currency contracts for hedging purposes	7	(25)	(18)
Fair values of derivative instruments for hedging purposes	160	(99)	61
Cross-currency swap contracts not subject to hedge accounting	16	-	16
Interest rate swap contracts not subject to hedge accounting	6	(23)	(17)
Forward currency contracts not for hedging purposes	15	(24)	(9)
Fair values of derivative instruments not for hedging purposes	37	(47)	(10)
Total	197	(146)	51

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

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

38. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2016 and 2015 are as follows (cont'd):

Derivative Instruments Stated in the Equity

31 December 2016	**Hedging against fuel risk**	**Hedging against interest risk**	**Hedging against currency risk**	**Total**
Fair values of derivative instruments for hedging purposes	129	(50)	(14)	65
The amount of financial expenses inside hedge funds	-	1	-	1
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(44)	-	-	(44)
Ineffecient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	3	3
Total	85	(49)	(11)	25
Deferred tax	(17)	10	2	(5)
Hedge reserve as of 31 December 2016	68	(39)	(9)	20

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

39. EVENTS AFTER THE BALANCE SHEET DATE

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.