

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 30 September 2016
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	Not Reviewed	Audited
		30 September 2016	31 December 2015
Current Assets			
Cash and Cash Equivalents	5	1,394	900
Financial Investments	6	190	62
Trade Receivables			
-Trade Receivables From Non-Related Parties		494	361
Other Receivables			
-Other Receivables from Related Parties	9	3	3
-Other Receivables from Non-Related Parties	10	1,087	1,382
Derivative Financial Instruments	28	124	100
Inventories		250	216
Prepaid Expenses		99	74
Current Income Tax Assets	26	17	12
Other Current Assets		40	36
TOTAL CURRENT ASSETS		3,698	3,146
Non-Current Assets			
Financial Investments	6	47	1
Other Receivables			
-Other Receivables from Non-Related Parties	10	620	1,058
Investments Accounted by Using Equity Method	3	273	246
Investment Property		1	1
Property and Equipment	11	13,352	11,415
Intangible Assets			
- Other Intangible Assets	12	77	89
- Goodwill		12	12
Prepaid Expenses		518	415
TOTAL NON-CURRENT ASSETS		14,900	13,237
TOTAL ASSETS		18,598	16,383

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 September 2016

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

		<u>Not Reviewed</u>	<u>Audited</u>
	<u>Notes</u>	<u>30 September 2016</u>	<u>31 December 2015</u>
LIABILITIES			
Current Liabilities			
Short Term Borrowings	7	1,000	250
Short-Term Portion of Long-Term Borrowings	7 and 13	986	763
Other Financial Liabilities	8	22	15
Trade Payables			
-Trade Payables to Related Parties	9	143	132
-Trade Payables to Non-Related Parties		601	539
Payables Related to Employee Benefits		150	121
Other Payables			
-Other Payables to Non-Related Parties		86	84
Derivative Financial Instruments	28	201	568
Deferred Income	18	924	1,104
Current Tax Provision	26	11	10
Short-Term Provisions			
-Provisions for Employee Benefits	14	58	52
-Other Provisions	14	19	15
Other Current Liabilities		222	218
TOTAL CURRENT LIABILITIES		4,423	3,871
Non- Current Liabilities			
Long-Term Borrowings	7 and 13	8,594	6,636
Other Payables			
-Other Payables to Non-Related Parties		12	12
Deferred Income	18	8	16
Long-Term Provisions			
-Provisions for Employee Benefits	16	127	119
Deferred Tax Liability	26	793	887
TOTAL NON- CURRENT LIABILITIES		9,534	7,670
Equity			
Share Capital	19	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	19	(6)	(8)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	(83)	(84)
-Fair Value (Losses) on Hedging Instruments Entered into for Cash Flow Hedges	19	(68)	(327)
Restricted Profit Reserves	19	36	36
Previous Years Profit	19	3,628	2,559
Net (Loss) / Profit for the Period		(463)	1,069
TOTAL EQUITY		4,641	4,842
TOTAL LIABILITIES AND EQUITY		18,598	16,383

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

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

		Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed
		1 January -	1 July -	1 January -	1 July -
	Notes	30 September 2016	30 September 2016	30 September 2015	30 September 2015
PROFIT OR LOSS					
Sales Revenue	20	7,562	2,930	8,054	3,265
Cost of Sales (-)	21	(6,625)	(2,335)	(6,276)	(2,241)
GROSS PROFIT		937	595	1,778	1,024
General Administrative Expenses (-)	22	(242)	(77)	(199)	(64)
Marketing and Sales Expenses (-)	22	(955)	(292)	(847)	(278)
Other Operating Income	23	136	55	191	33
Other Operating Expenses (-)	23	(30)	(24)	(29)	(13)
OPERATING (LOSS)/PROFIT BEFORE INVESTMENT ACTIVITIES		(154)	257	894	702
Income from Investment Activities	24	88	32	55	21
Expenses from Investment Activities	24	(20)	-	(1)	(1)
Share of Investments' (Loss) / Profit Accounted by Using The Equity Method	3	47	49	79	67
OPERATING (LOSS)/PROFIT		(39)	338	1,027	789
Financial Income	25	106	33	427	9
Financial Expenses (-)	25	(660)	(145)	(265)	(181)
(LOSS)/PROFIT BEFORE TAX		(593)	226	1,189	617
Tax Income (Expense)		130	(42)	(312)	(146)
Current Tax Expense	26	(25)	(11)	(2)	(2)
Deferred Tax Income / (Expense)	26	155	(31)	(310)	(144)
(LOSS)/ PROFIT FOR THE PERIOD		(463)	184	877	471

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

		<u>Not Reviewed</u>	<u>Not Reviewed</u>	<u>Not Reviewed</u>	<u>Not Reviewed</u>
	<u>Notes</u>	<u>1 January - 30 September 2016</u>	<u>1 July - 30 September 2016</u>	<u>1 January - 30 September 2015</u>	<u>1 July - 30 September 2015</u>
<u>OTHER COMPREHENSIVE INCOME</u>					
Items That May Be Reclassified Subsequently To Profit or Loss		260	15	(16)	(126)
Currency Translation Adjustment		1	(3)	(37)	(11)
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		326	26	26	(140)
Fair Value Gains /(Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(2)	(3)	-	(4)
Income Tax Relating Items That May Be Reclassified Subsequently to Profit or Loss		(65)	(5)	(5)	29
Items That Will Not Be Reclassified					
Subsequently To Profit or Loss		2	-	-	-
Actuarial Gains on Retirement Pay Obligation		3	-	-	-
Income Tax Relating Items That Will Not Be Reclassified Subsequently to Profit or Loss		(1)	-	-	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		262	15	(16)	(126)
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD		(201)	199	861	345
Basic (Loss) Earning Per Share (Full US Cents)	27	(0.34)	0.13	0.64	0.34
Diluted (Loss) Earning Per Share (Full US Cents)	27	(0.34)	0.13	0.64	0.34

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

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

	Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		Total Equity	
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit		Net (Loss) for The Period
As of 31 December 2015	1,597	(8)	(84)	(327)	36	2,559	1,069	4,842
Transfers	-	-	-	-	-	1,069	(1,069)	-
Total comprehensive income	-	2	1	259	-	-	(463)	(201)
As of 30 September 2016	1,597	(6)	(83)	(68)	36	3,628	(463)	4,641

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

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

	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		Total Equity
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	
As of 31 December 2014	1,597	(10)	(47)	(185)	36	1,714	845	3,950
Transfers	-	-	-	-	-	845	(845)	-
Total comprehensive income	-	-	(37)	21	-	-	877	861
As of 30 September 2015	1,597	(10)	(84)	(164)	36	2,559	877	4,811

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

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

		<u>Not Reviewed</u>	<u>Not Reviewed</u>
	<u>Notes</u>	<u>1 January- 30 September 2016</u>	<u>1 January- 30 September 2015</u>
Profit (loss)		(463)	877
Adjustments to Reconcile Profit (Loss)			
Adjustments for Depreciation and Amortisation Expense	11 and 12	848	658
Adjustments for Provisions Related with Employee Benefits	14 and 16	25	29
Adjustments for (Reversal of) Provisions for Payables	14	5	4
Adjustments for Free Provisions for Probable Risks		3	-
Adjustments for Interest Income	24 and 25	(70)	(25)
Adjustments for Interest Expense	25	140	120
Adjustments For Unrealised Foreign Exchange Losses / (Gains)		375	(334)
Adjustments for Manufacturers' Credits		2	4
Adjustments for Fair Value Losses / (Gains) on Derivative Financial Instruments		(64)	124
Adjustments for Undistributed Profits of Associates	3	(47)	(79)
Adjustments for Tax (Income) / Expenses	26	(130)	312
Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets	24	20	(2)
Adjustments for Losses / (Gains) Arised from Sale of Other Non-Current Assets		23	42
Changes in Working Capital		667	1,730
Increase in Trade Receivables from Non-Related Parties		(135)	(29)
Decrease in Other Non-Related Party Receivables Related with Operations		180	(189)
Adjustments for Increase in Inventories		(34)	(69)
Adjustments for Increase in Prepaid Expenses		(128)	(118)
Increase / (Decrease) in Trade Payables to Related Parties		11	(16)
Increase in Trade Payables to Non-Related Parties		62	66
Adjustments for Increase / (Decrease) in Payables Due to Employee Benefits		29	(32)
Increase in Deferred Income		(184)	(96)
Decrease / (Increase) in Other Assets Related with Operations		(4)	18
Cash Flows From (Used in) Operations		464	1,265
Payments for Provisions Related with Employee Benefits	16	(11)	(7)
Income taxes refund (paid)	26	(5)	(1)
Net Cash From (Used in) Operating Activities		448	1,257
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed from sales of property, plant and equipment		2	4
Cash Payments From Purchasing of property, plant and equipment (*)	11 and 12	(568)	(517)
Cash Payments From Purchasing of Other Long-Term Assets		(174)	87
Other Cash Advances and Loans		564	182
Dividends Received		23	28
Interest Received		59	25
Net Cash Flows From Investing Activities		(94)	(191)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from Loans		879	-
Payments of finance lease liabilities		(653)	(449)
Interest Paid		(93)	(107)
Other Outflows of Cash		7	11
Net Cash Flows From Financing Activities		140	(545)
Net Change in Cash and Cash Equivalents		494	521
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		900	635
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	1,394	1,156

(*) USD 2,250 portion of property and equipment and intangible assets purchases in total of USD 2,818 for the period ended 30 September 2016 was financed through finance leases. (30 September 2015: USD 2,228 portion of property and equipment and intangible assets purchases in total of USD 2,745 was financed through finance leases.)

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

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

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

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

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 30 September 2016 are 30,619 (31 December 2015: 27,676). The average number of employees working for the Group for the period ended 30 September 2016 and 2015 are 29,450 and 25,850 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

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

Subsidiaries and Joint Ventures

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

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

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

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

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

Subsidiaries and Joint Ventures (cont'd)

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

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

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

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

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

2.1 Basis of Presentation (cont'd)

Statement of Compliance (cont'd)

Board of Directors has approved the condensed consolidated interim financial statements as of 30 September 2016 on 9 November 2016. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

Basis of Preparation

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

Adjustment of Financial Statements in Hyperinflationary Periods

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

Functional and Reporting Currency

Functional currency

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

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

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

Basis of Consolidation

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

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

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

Business Combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

2.2 Changes and Errors in Accounting Estimates

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

2.3 Summary of Significant Accounting Policies

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

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

2.4 New and Revised Standards and Interpretations

Standards issued but not yet effective and not early adopted

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

IFRS 9 - Financial Instruments – Classification and measurement

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

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

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

IFRS 9 Financial Instruments (2014)

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

IFRS 16 Leases

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

Amendments to IAS 7 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.

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.

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

2.5 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

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

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Sun Express	95	90
Turkish DO&CO	63	54
TGS	40	40
TEC	32	26
THY Opet	30	28
TCI	4	3
Turkbine Teknik	2	2
Uçak Koltuk	6	2
Goodrich	1	1
Vergi İade Aracılık (*)	-	-
	<u>273</u>	<u>246</u>

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

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Total assets	1,059	813
Total liabilities	868	633
Shareholders'equity	191	180
Group's share in joint venture's shareholders' equity	95	90

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

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

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Revenue	853	421	954	467
(Loss) / profit for the period	10	63	90	105
Group's share in joint venture's (loss) /profit for the period	5	33	45	53

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

	30 September 2016	31 December 2015
Total assets	196	174
Total liabilities	71	66
Shareholders'equity	125	108
Group's share in joint venture's shareholders' equity	63	54

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Revenue	276	95	287	101
Profit for the period	25	7	27	9
Group's share in joint venture's profit for the period	12	3	13	4

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

	30 September 2016	31 December 2015
Total assets	144	139
Total liabilities	64	59
Shareholders'equity	80	80
Group's share in joint venture's shareholders' equity	40	40

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Revenue	210	76	192	72
Profit for the period	19	9	20	11
Group's share in joint venture's profit for the period	10	5	10	5

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

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

			30 September 2016	31 December 2015
Total assets			232	213
Total liabilities			173	157
Shareholders'equity			59	56
Group's share in joint venture's shareholders' equity			30	28
	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Revenue	1,051	440	1,394	453
Profit for the period	29	14	20	12
Group's share in joint venture's profit for the period	15	8	10	6

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

			30 September 2016	31 December 2015
Total assets			144	151
Total liabilities			78	97
Shareholders'equity			66	54
Group's share in joint venture's shareholders' equity			32	26
	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Revenue	251	94	163	52
Profit for the period	15	4	8	2
Group's share in joint venture's profit for the period	7	2	4	1

Financial information for Turkbine Teknik as of 30 September 2016 and 2015 are as follows:

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

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

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

	<u>1 January - 30 September 2016</u>	<u>1 July - 30 September 2016</u>	<u>1 January - 30 September 2015</u>	<u>1 July - 30 September 2015</u>
Revenue	-	-	1	-
Profit for the period	-	-	-	-
Group's share in joint venture's profit for the period	-	-	-	-

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Total assets	12	11
Total liabilities	4	6
Shareholders'equity	8	5
Group's share in joint venture's shareholders' equity	4	3

	<u>1 January - 30 September 2016</u>	<u>1 July - 30 September 2016</u>	<u>1 January - 30 September 2015</u>	<u>1 July - 30 September 2015</u>
Revenue	7	2	5	3
(Loss) for the period	(1)	-	(6)	(4)
Group's share in joint venture's (loss) for the period	(1)	(1)	(3)	(2)

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Total assets	22	17
Total liabilities	11	13
Shareholders'equity	11	4
Group's share in joint venture's shareholders' equity	6	2

	<u>1 January - 30 September 2016</u>	<u>1 July - 30 September 2016</u>	<u>1 January - 30 September 2015</u>	<u>1 July - 30 September 2015</u>
Revenue	4	-	4	1
(Loss) for the period	(1)	-	-	1
Group's share in joint venture's (loss) for the period	(1)	(1)	-	-

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

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

	30 September		31 December	
	2016		2015	
Total assets	5		4	
Total liabilities	2		2	
Shareholders'equity	3		2	
Group's share in joint venture's shareholders' equity	1		1	
	1 January -	1 July -	1 January -	1 July -
	30 September 2016	30 September 2016	30 September 2015	30 September 2015
Revenue	8	3	7	3
Profit for the period	1	-	-	-
Group's share in joint venture's profit for the period	-	-	-	-

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

	1 January -		1 July -	
	30 September 2016		30 September 2015	
Sun Express	5	33	45	53
Turkish DO&CO	12	3	13	4
TGS	10	5	10	5
THY Opet	15	8	10	6
TEC	7	2	4	1
TCI	(1)	(1)	(3)	(2)
Uçak Koltuk	(1)	(1)	-	-
	<u>47</u>	<u>49</u>	<u>79</u>	<u>67</u>

4. SEGMENTAL REPORTING

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

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

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

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4. SEGMENTAL REPORTING (cont'd)

4.1 Total Assets and Liabilities

	30 September 2016	31 December 2015
Total Assets		
Aviation	18,396	16,200
Technical	1,246	1,198
Total	19,642	17,398
Less: Eliminations due to consolidation	(1,044)	(1,015)
Total assets in consolidated financial statements	18,598	16,383
	30 September 2016	31 December 2015
Total Liabilities		
Aviation	13,886	11,438
Technical	453	508
Total	14,339	11,946
Less: Eliminations due to consolidation	(382)	(405)
Total liabilities in consolidated financial statements	13,957	11,541

4.2 Profit / (Loss) before Tax

Segment Results:

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

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4. SEGMENTAL REPORTING (cont'd)

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

Segment Results:

1 January - 30 September 2015	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	7,929	125	-	8,054
Inter-Segment Sales	29	543	(572)	-
Revenue	7,958	668	(572)	8,054
Cost of Sales (-)	(6,347)	(501)	572	(6,276)
Gross Profit	1,611	167	-	1,778
Administrative Expenses (-)	(133)	(71)	5	(199)
Marketing and Sales Expenses (-)	(844)	(3)	-	(847)
Other Operating Income	209	27	(45)	191
Other Operating Expenses (-)	(51)	(18)	40	(29)
Operating Profit Before Investment Activities	792	102	-	894
Income from Investment Activities	55	-	-	55
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Profit Accounted by Using The Equity Method	76	3	-	79
Operating Profit	922	105	-	1,027
Financial Income	436	1	(10)	427
Financial Expense (-)	(266)	(9)	10	(265)
Profit Before Tax	1,092	97	-	1,189

4.3 Investment Operations

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

1 January - 30 September 2015	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	2,607	138	-	2,745
Current period depreciation and amortization change	581	77	-	658
Investments accounted by using the equity method	214	28	-	242

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5. CASH AND CASH EQUIVALENTS

	<u>30 September 2016</u>	<u>31 December 2015</u>
Cash	3	2
Banks – Time deposits	1,264	823
Banks – Demand deposits	115	69
Other liquid assets	12	6
	<u>1,394</u>	<u>900</u>

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 September 2016</u>
2,892	TL	7.73% - 10.12%	December 2016	975
124	USD	1.00% - 2.48%	October 2016	124
147	EUR	1.64% - 1.85%	December 2016	165
				<u>1,264</u>

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

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

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Time deposits with maturity more than 3 months	<u>190</u>	<u>62</u>

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 September 2016</u>
568	TL	9.99% - 10.12%	January 2017	<u>190</u>

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

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

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6. FINANCIAL INVESTMENTS (cont'd)

Long-term financial investments are as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Debt to securities/held to maturity		
- Eurobonds	46	-
Other	1	1
	<u>47</u>	<u>1</u>

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 September 2016</u>
46	USD	4.75% - 8.50%	June 2019 - March 2026	<u>46</u>

Other long-term financial investments are as follows:

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

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

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

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

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7. BORROWINGS

Short term borrowings are as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Short term borrowings	1,000	250

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 September 2016</u>
500	USD	0.97% - 1.02%	October 2016 - January 2017	500
445	EUR	0.50%	December 2016 - January 2017	500
				<u>1,000</u>

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

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

Short term portions of long term borrowings are as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Finance lease obligations (Note: 13)	972	763
Bank borrowings	14	-
	<u>986</u>	<u>763</u>

Long term borrowings are as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Finance lease obligations (Note: 13)	8,479	6,636
Bank borrowings	115	-
	<u>8,594</u>	<u>6,636</u>

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Less than 1 year	14	-
Between 1 – 5 years	115	-
Over 5 years	-	-
	<u>129</u>	<u>-</u>

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

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8. OTHER FINANCIAL LIABILITIES

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Other financial liabilities	22	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:

	<u>30 September 2016</u>	<u>31 December 2015</u>
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:

	<u>30 September 2016</u>	<u>31 December 2015</u>
THY Opet	57	54
Turkish DO&CO	31	28
Sun Express	22	19
TEC	16	19
TGS	16	11
Goodrich	1	1
	<u>143</u>	<u>132</u>

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

a) Sales to related parties:

	<u>1 January - 30 September 2016</u>	<u>1 July - 30 September 2016</u>	<u>1 January - 30 September 2015</u>	<u>1 July - 30 September 2015</u>
Sun Express	23	8	27	8
TEC	11	2	17	6
TGS	3	1	4	1
Sun Express Deutschland	2	-	-	-
Turkish DO&CO	1	-	1	-
THY Opet	-	-	1	1
	<u>40</u>	<u>11</u>	<u>50</u>	<u>16</u>

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9. RELATED PARTY TRANSACTIONS (cont'd)

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

b) Purchases from related parties:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
THY Opet	866	338	1,204	430
Turkish DO&CO	255	87	255	90
TEC	213	83	118	45
TGS	196	68	157	52
Sun Express	180	60	195	72
Goodrich	5	2	5	3
Other	1	-	-	-
	1,716	638	1,934	692

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

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 3 (1 January-30 September 2015: USD 2).

10. OTHER RECEIVABLES

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

	30 September 2016	31 December 2015
Predelivery payments made for aircrafts	767	1,139
Receivables from technical purchases	217	133
Bank deposits with transfer limitations (*)	63	59
Value added tax receivables	25	38
Receivables from pilots for flight training	11	11
Receivables from employees	1	1
Other receivables	3	1
	1,087	1,382

(*) As of 30 September 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.

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10. OTHER RECEIVABLES (cont'd)

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Receivables related to investment certificates	225	172
Predelivery payments made for aircrafts	210	392
Interest and commodity swap agreement deposits	90	418
Receivables from pilots for flight training	72	58
Deposits and guarentees given	17	12
Bank deposits with transfer limitations (*)	6	5
Other receivables	-	1
	<u>620</u>	<u>1,058</u>

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

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11. PROPERTY AND EQUIPMENT

	Land, Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	1	18	18	2,413	58	99	18	190	2,815
Transfer (*)	-	2	1	48	32	-	1	(85)	(1)
Disposals	-	(1)	(13)	(446)	(35)	(51)	-	-	(546)
Closing balance at 30 September 2016	217	337	175	15,941	601	536	491	257	18,555
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	8	22	18	672	32	53	27	-	832
Disposals	-	(1)	(13)	(426)	(33)	(28)	-	-	(501)
Closing balance at 30 September 2016	64	167	109	4,346	194	197	126	-	5,203
Net book value 30 September 2016	153	170	66	11,595	407	339	365	257	13,352
Net book value 31 December 2015	160	172	65	9,826	351	316	373	152	11,415

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

As of 30 September 2016, carrying value of the aircrafts and spare engines acquired through finance leases is USD 11,299 (31 December 2015: USD 9,432).

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11. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2015	164	284	144	11,301	459	346	446	111	13,255
Additions	5	12	21	2,417	74	101	9	98	2,737
Transfers	6	-	1	40	-	-	-	(47)	-
Disposals	-	(2)	(5)	(10)	-	(48)	-	-	(65)
Closing balance at 30 September 2015	175	294	161	13,748	533	399	455	162	15,927
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2015	47	125	90	3,430	163	132	67	-	4,054
Depreciation charge	7	16	15	513	24	45	23	-	643
Disposals	-	(1)	(5)	(10)	-	(6)	-	-	(22)
Closing balance at 30 September 2015	54	140	100	3,933	187	171	90	-	4,675
Net book value 30 September 2015	121	154	61	9,815	346	228	365	162	11,252

As of 30 September 2015, carrying value of the aircrafts and spare engines acquired through finance leases is USD 9,422.

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12. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
<u>Cost</u>				
Opening balance at 1 January 2016	44	137	5	186
Additions	-	3	-	3
Disposals	-	(2)	-	(2)
Transfers	-	1	-	1
Closing balance at 30 September 2016	<u>44</u>	<u>139</u>	<u>5</u>	<u>188</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	16	-	16
Disposals	-	(2)	-	(2)
Closing balance at 30 September 2016	<u>-</u>	<u>110</u>	<u>1</u>	<u>111</u>
Net book value at 30 September 2016	<u>44</u>	<u>29</u>	<u>4</u>	<u>77</u>
Net book value at 31 December 2015	<u>44</u>	<u>41</u>	<u>4</u>	<u>89</u>

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
<u>Cost</u>				
Opening balance at 1 January 2015	23	121	5	149
Additions	-	8	-	8
Disposals	-	(2)	-	(2)
Closing balance at 30 September 2015	<u>23</u>	<u>127</u>	<u>5</u>	<u>155</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2015	-	77	1	78
Amortization charge	-	15	-	15
Disposals	-	(1)	-	(1)
Closing balance at 30 September 2015	<u>-</u>	<u>91</u>	<u>1</u>	<u>92</u>
Net book value at 30 September 2015	<u>23</u>	<u>36</u>	<u>4</u>	<u>63</u>

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

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13. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	30 September 2016	31 December 2015
Less than 1 year	1,167	896
Between 1 – 5 years	4,345	3,419
Over 5 years	4,919	3,898
	<u>10,431</u>	<u>8,213</u>
Less: Future interest expenses	(980)	(814)
Principal value of future rentals stated in financial statements	<u>9,451</u>	<u>7,399</u>
	30 September 2016	31 December 2015
Interest Range:		
Floating rate obligations	5,309	4,038
Fixed rate obligations	4,142	3,361
	<u>9,451</u>	<u>7,399</u>

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

As of 30 September 2016, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.82% (31 December 2015: 3.13%) for the fixed rate obligations and 1.06% (31 December 2015: 1.06%) for the floating rate obligations.

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

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

Short-term provision for employee benefits is as follows:

	30 September 2016	31 December 2015
Provisions for unused vacation	<u>58</u>	<u>52</u>

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

	1 January - 30 September 2016	1 January - 30 September 2015
Provisions at the beginning of the year	52	58
Provisions for the current period	8	10
Foreign currency translation differences	(2)	(17)
Provisions at the end of the period	<u>58</u>	<u>51</u>

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

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

Other short-term provision is as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Provisions for legal claims	19	15

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

	<u>1 January - 30 September 2016</u>	<u>1 January - 30 September 2015</u>
Provisions at the beginning of the year	15	16
Provisions for the current period	8	6
Provisions released	(3)	(2)
Foreign currency translation differences	(1)	(5)
Provisions at the end of the period	<u>19</u>	<u>15</u>

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

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15. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letter of guarantees given as of 30 September 2016 is USD 1,094 (31 December 2015: USD 316).

	30 September 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	-	1,094	-	316
-Collaterals				
TL	28	9	27	9
EUR	476	534	11	13
USD	546	546	291	291
Other	-	5	-	3
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>1,094</u>		<u>316</u>

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

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

	30 September 2016	31 December 2015
Less than 1 year	270	286
Between 1 – 5 years	620	738
More than 5 years	101	176
	<u>991</u>	<u>1,200</u>

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15. COMMITMENTS (cont'd)

c) Other operational lease debts :

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Less than 1 year	5	5
Between 1 – 5 years	23	21
More than 5 years	32	37
	<u>60</u>	<u>63</u>

d) Aircraft purchase commitments:

To be delivered between the years 2013-2023, the Group signed a contract for 259 aircrafts with a list price value of 34.7 billion US Dollars (full). 2 of these aircrafts were delivered in 2013, 10 were delivered in 2014, 33 were delivered in 2015 and 42 were delivered in the first nine-month period of 2016. The Group has made an advance payment of 987 million US Dollars (full) relevant to these purchases as of 30 September 2016.

16. EMPLOYEE BENEFITS

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

	<u>30 September 2016</u>	<u>31 December 2015</u>
Provisions for retirement pay liability	127	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 1,434 (full) as of 30 September 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.

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16. EMPLOYEE BENEFITS (cont'd)

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 30 September 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 2.38% (31 December 2015: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,434 (full) which is in effect since 30 September 2016 is used in the calculation of Group’s provision for retirement pay liability.

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

	1 January - 30 September 2016	1 January - 30 September 2015
Provisions at the beginning of the year	119	127
Service charge for the period	20	19
Interest charges	3	3
Actuarial gains	(3)	-
Payments	(11)	(7)
Foreign currency translation difference	(1)	(32)
Provisions at the end of the period	<u>127</u>	<u>110</u>

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17. EXPENSES BY NATURE

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

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Fuel expenses	2,036	760	2,289	813
Personnel expenses	1,451	478	1,225	405
Depreciation expenses	848	292	658	233
Ground services expenses	503	181	465	164
Passenger services and catering expenses	452	160	441	158
Aircraft maintenance expenses	450	141	339	132
Air traffic control expenses	393	144	379	141
Airport expenses	347	128	308	113
Commissions and incentives	268	91	267	92
Wet lease expenses	211	63	224	87
Reservation systems expenses	184	56	171	52
Advertisement and promotion expenses	182	44	124	38
Operating lease expenses	174	64	151	54
Service expenses	57	19	46	15
Rents	50	17	42	16
Insurance expenses	35	11	26	8
IT & communication expenses	34	12	29	9
Taxes and duties	24	5	24	8
Transportation expenses	21	7	23	9
Consultancy expenses	10	3	9	3
Utility expenses	7	3	8	2
Systems use and associateship expenses	6	2	5	1
Membership fees	4	1	4	2
Other expenses	75	22	65	28
	<u>7,822</u>	<u>2,704</u>	<u>7,322</u>	<u>2,583</u>

18. DEFERRED INCOME

Deferred income is as follows:

	30 September 2016	31 December 2015
Passenger flight liabilities	911	1,091
Other short-term deferred income	13	13
	<u>924</u>	<u>1,104</u>

Passenger flight liability is as follows;

	30 September 2016	31 December 2015
Flight liability generating from ticket sales	700	833
Flight liability generating from Frequent flyer program	211	258
	<u>911</u>	<u>1,091</u>

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18. DEFERRED INCOME (cont'd)

Short-term deferred income is as follows:

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

Long-term deferred income is as follows:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(26)	(23)
Unearned bank protocol revenue accruals	3	8
	<u>8</u>	<u>16</u>

19. SHAREHOLDERS' EQUITY

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

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

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

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

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

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19. SHAREHOLDERS' EQUITY (cont'd)

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

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

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

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

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

Restricted Profit Reserves

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

Foreign Currency Translation Differences

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

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19. SHAREHOLDERS' EQUITY (cont'd)

Distribution of Dividends

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

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

Actuarial Differences on Defined Benefit Plans

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

Gains/Losses from Cash Flow Hedges

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

20. REVENUE

Breakdown of gross profit is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Passenger revenue				
Scheduled	6,655	2,600	7,149	2,941
Unscheduled	41	25	48	28
Total passenger revenue	<u>6,696</u>	<u>2,625</u>	<u>7,197</u>	<u>2,969</u>
Cargo revenue				
Carried by passenger aircraft	446	158	414	143
Carried by cargo aircraft	266	90	294	100
Total cargo revenue	<u>712</u>	<u>248</u>	<u>708</u>	<u>243</u>
Total passenger and cargo revenue	<u>7,408</u>	<u>2,873</u>	<u>7,905</u>	<u>3,212</u>
Technical revenue	125	48	125	44
Other revenue	29	9	24	9
Net sales	<u>7,562</u>	<u>2,930</u>	<u>8,054</u>	<u>3,265</u>
Cost of sales (-)	<u>(6,625)</u>	<u>(2,335)</u>	<u>(6,276)</u>	<u>(2,241)</u>
Gross profit	<u><u>937</u></u>	<u><u>595</u></u>	<u><u>1,778</u></u>	<u><u>1,024</u></u>

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20. REVENUE (cont'd)

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

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
- Europe	2,179	877	2,425	1,008
- Far East	1,592	579	1,762	667
- Middle East	927	366	1,050	454
- America	1,000	382	970	388
- Africa	691	257	625	245
Total international flights	<u>6,389</u>	<u>2,461</u>	<u>6,832</u>	<u>2,762</u>
Domestic flights	<u>1,019</u>	<u>412</u>	<u>1,073</u>	<u>450</u>
Total passenger and cargo revenue	<u><u>7,408</u></u>	<u><u>2,873</u></u>	<u><u>7,905</u></u>	<u><u>3,212</u></u>

21. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Fuel expenses	2,036	760	2,289	813
Personnel expenses	1,124	375	939	313
Depreciation expenses	796	275	610	215
Ground services expenses	503	181	465	164
Passenger services and catering expenses	452	160	441	158
Aircraft maintenance expenses	450	141	339	132
Air traffic control expenses	393	144	379	141
Airport expenses	347	128	308	113
Wet lease expenses	211	63	224	87
Operating lease expenses	174	64	151	54
Insurance expenses	35	11	26	8
Rents	26	9	21	9
Service expenses	25	8	25	8
Transportation expenses	21	7	23	9
Taxes and duties	7	2	10	5
Utility expenses	3	1	4	1
IT & communication expenses	1	-	2	-
Other expenses	21	6	20	11
	<u><u>6,625</u></u>	<u><u>2,335</u></u>	<u><u>6,276</u></u>	<u><u>2,241</u></u>

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22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Personnel expenses	112	35	93	29
Depreciation expenses	47	15	43	16
IT & communication expenses	27	10	21	7
Service expenses	23	8	14	5
Rents	9	3	7	2
Systems use and associateship expenses	6	2	5	1
Utility expenses	4	2	4	1
Consultancy expenses	3	1	2	-
Other general administrative expenses	11	1	10	3
	<u>242</u>	<u>77</u>	<u>199</u>	<u>64</u>

Breakdown of marketing and sales expenses is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Commissions and incentives	268	91	267	92
Personnel expenses	215	68	193	63
Reservation systems expenses	184	56	171	52
Advertisement and promotion expenses	182	44	124	38
Taxes and duties	17	3	14	3
Rents	15	5	14	5
Service expenses	9	3	7	2
Consultancy expenses	7	2	7	3
IT & communication expenses	6	2	6	2
Depreciation expenses	5	2	5	2
Membership fees	4	1	4	2
Other marketing and sales expenses	43	15	35	14
	<u>955</u>	<u>292</u>	<u>847</u>	<u>278</u>

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23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Manufacturers' credits	53	18	49	15
Insurance, indemnities, penalties income	24	7	17	6
Foreign exchange gains from operational activities, net	24	13	98	4
Provisions released	8	2	8	2
Non- interest income from banks	5	1	5	2
Turnover premium from suppliers	3	-	-	(3)
Rediscount interest income	3	3	-	-
Rent income	2	1	3	2
Other operating income	14	10	11	5
	<u>136</u>	<u>55</u>	<u>191</u>	<u>33</u>

Breakdown of other operating expenses is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Provisions	16	12	14	6
Indemnity and penalty expenses	4	2	3	1
Other operating expenses	10	10	12	6
	<u>30</u>	<u>24</u>	<u>29</u>	<u>13</u>

24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Income from investment incentives	60	21	46	16
Interest income from financial investment	28	11	6	3
Gain on sale of fixed assets	-	-	3	2
	<u>88</u>	<u>32</u>	<u>55</u>	<u>21</u>

Breakdown of expense from investment activities is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Loss on sale of fixed assets	20	-	1	1

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25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Fair value gains on derivative financial instruments	64	17	-	-
Interest income	31	16	13	5
Rediscount interest income from repayments of aircrafts	11	-	6	4
Foreign exchange gains from financial activities	-	-	408	-
	<u>106</u>	<u>33</u>	<u>427</u>	<u>9</u>

Breakdown of financial expenses is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Foreign exchange losses on financial activities	502	88	-	25
Finance lease interest expenses	137	47	117	40
Aircraft financing expenses	16	5	12	2
Interest expenses on employee benefits	3	1	3	1
Fair value losses on derivative financial instruments	-	-	124	111
Rediscount interest expense from repayments of aircrafts	-	2	-	-
Other financial expenses	2	2	9	2
	<u>660</u>	<u>145</u>	<u>265</u>	<u>181</u>

26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	30 September 2016	31 December 2015
Prepaid taxes	<u>17</u>	<u>12</u>

Tax liability is as follows:

	30 September 2016	31 December 2015
Provisions for corporate tax	25	12
Prepaid taxes and funds	(14)	(2)
Tax liability	<u>11</u>	<u>10</u>

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26. TAX ASSETS AND LIABILITIES (cont'd)

Tax expense is as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Current period tax expense	25	11	2	2
Deferred tax (income) / expense	(155)	31	310	144
Tax (income) / expense	<u>(130)</u>	<u>42</u>	<u>312</u>	<u>146</u>

Tax effect related to other comprehensive income is as follows:

	1 January - 30 September 2016			1 January - 30 September 2015		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	1	-	1	(37)	-	(37)
Change in cash flow hedge reserve	324	(65)	259	26	(5)	21
Change in actuarial losses from retirement pay obligation	3	(1)	2	-	-	-
Other comprehensive (expense) /income	<u>328</u>	<u>(66)</u>	<u>262</u>	<u>(11)</u>	<u>(5)</u>	<u>(16)</u>

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

Corporate Tax

The effective tax rate is 20%.

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

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

Income Withholding Tax

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

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26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax

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

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

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

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

	30 September 2016	31 December 2015
Fixed assets	(1,203)	(1,138)
Adjustments for passenger flight liabilities	(104)	(75)
Tax loss carried forward	312	47
Income and expense for future periods	63	47
Accruals for expenses	44	45
Miles accruals	36	46
Provisions for employee benefits	25	24
Change in fair value of derivative instruments	15	94
Provisions for unused vacation	12	10
Other	7	13
Deferred tax liabilities	<u>(793)</u>	<u>(887)</u>

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

	1 January - 30 September 2016	1 January - 30 September 2015
Opening balance at 1 January	887	655
Deferred tax expense	(155)	310
Tax expense from hedging reserves	65	5
Foreign currency translation difference	(4)	(66)
Deferred tax liability at the end of the period	<u>793</u>	<u>904</u>

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26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

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

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
<u>Reconciliation of effective tax charge</u>				
(Loss) / Profit from operations before tax	(593)	226	1,189	617
Domestic (income) / expense tax rate of 20%	(119)	45	238	124
Taxation effects on:				
- expense from investment certificates	(8)	-	(9)	(4)
- non-deductible expenses	-	-	2	-
- foreign currency translation difference	7	6	103	40
- equity method	(9)	(9)	(16)	(14)
- adjustment for prior year loss	(1)	-	(6)	-
Tax charge in statement of profit or loss	<u>(130)</u>	<u>42</u>	<u>312</u>	<u>146</u>

27. EARNINGS PER SHARE

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

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

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

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27. EARNINGS PER SHARE (cont'd)

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

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000	138,000,000,000	138,000,000,000
New bonus shares issued (in full)	-	-	-	-
Number of shares outstanding at 30 June (in full)	138,000,000,000	138,000,000,000	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the period (in full)	138,000,000,000	138,000,000,000	138,000,000,000	138,000,000,000
Net (loss) / profit for period	(463)	184	877	471
Basic (loss) / profit per share (Full US Cents) (*)	(0.34)	0.13	0.64	0.34

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

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

<u>Derivative financial assets</u>	<u>30 September 2016</u>	<u>31 December 2015</u>
Derivative instruments for fuel prices		
cash flow hedge	92	14
Cross currency rate swap agreements	26	77
Derivative instruments for interest rate		
cash flow hedge	6	9
	<u>124</u>	<u>100</u>
<u>Derivative financial liabilities</u>	<u>30 September 2016</u>	<u>31 December 2015</u>
Derivative instruments for fuel prices		
cash flow hedge	87	485
Derivative instruments for interest rate		
cash flow hedge	104	68
Cross currency rate swap agreements	10	15
	<u>201</u>	<u>568</u>

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29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

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

	30 September 2016					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	414	83	74	2	11	244
2a.Monetary Financial Assets	1,470	1,188	225	4	1	52
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	444	275	69	5	6	89
4.Current Assets (1+2+3)	2,328	1,546	368	11	18	385
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	79	6	63	-	-	10
8.Non Current Assets (5+6+7)	79	6	63	-	-	10
9.Total Assets (4+8)	2,407	1,552	431	11	18	395
10.Trade Payables	631	439	141	1	2	48
11.Financial Liabilities	740	18	449	253	20	-
12a.Other Liabilities, Monetary	847	653	140	47	3	4
12b.Other Liabilities, Non Monetary	67	67	-	-	-	-
13.Current Liabilities (10+11+12)	2,285	1,177	730	301	25	52
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,905	-	3,843	2,857	205	-
16a.Other Liabilities, Monetary	10	2	5	-	-	3
16b.Other Liabilities, Non Monetary	116	116	-	-	-	-
17.Non Current Liabilities (14+15+16)	7,031	118	3,848	2,857	205	3
18.Total Liabilities (13+17)	9,316	1,295	4,578	3,158	230	55
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)	(6,909)	257	(4,147)	(3,147)	(212)	340
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(7,249)	159	(4,279)	(3,152)	(218)	241
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

Foreign currency risk management (cont'd)

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

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

Foreign currency risk management (cont'd)

Foreign currency sensitivity

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

	30 September 2016	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u> </u>	<u> </u>
1- TL net asset / liability	26	(26)
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>26</u>	<u>(26)</u>
4- Euro net asset / liability	(415)	415
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(415)</u>	<u>415</u>
7- JPY net asset / liability	(315)	315
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	<u>(315)</u>	<u>315</u>
10- CHF net asset / liability	(21)	21
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	<u>(21)</u>	<u>21</u>
13- Other foreign currency net asset / liability	34	(34)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>34</u>	<u>(34)</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>(691)</u></u>	<u><u>691</u></u>

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

Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

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

30. EVENTS AFTER THE BALANCE SHEET DATE

None.

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

None.