

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

Condensed Consolidated Interim
Financial Statements As At and For
The Six-Month Period
Ended 30 June 2015

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 June 2015

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

	Notes	Reviewed	Audited
		30 June 2015	31 December 2014
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	988	635
Financial Investments	7	230	87
Trade Receivables			
-Trade Receivables From Non-Related Parties		555	456
Other Receivables			
-Other Receivables from Related Parties	10	3	3
-Other Receivables from Non-Related Parties	11	1,205	1,196
Derivative Financial Instruments	29	168	152
Inventories		262	195
Prepaid Expenses		99	60
Current Income Tax Assets	27	6	8
Other Current Assets		44	39
TOTAL CURRENT ASSETS		3,560	2,831
Non-Current Assets			
Financial Investments		1	1
Other Receivables			
-Other Receivables from Non-Related Parties	11	869	1,059
Investments Accounted by Using Equity Method	4	190	227
Investment Property		36	36
Property and Equipment	12	10,624	9,201
Intangible Assets			
- Other Intangible Assets	13	67	71
- Goodwill	3	12	12
Prepaid Expenses		350	308
TOTAL NON-CURRENT ASSETS		12,149	10,915
TOTAL ASSETS		15,709	13,746

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 June 2015
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	Reviewed	Audited
		30 June 2015	31 December 2014
LIABILITIES			
Current Liabilities			
Short-Term Portion of Long-Term Borrowings	8 and 14	698	613
Other Financial Liabilities	9	6	19
Trade Payables			
-Trade Payables to Related Parties	10	126	148
-Trade Payables to Non-Related Parties		557	514
Payables Related to Employee Benefits		112	128
Other Payables			
-Other Payables to Non-Related Parties		67	71
Derivative Financial Instruments	29	290	427
Deferred Income		22	10
Passenger Flight Liabilities	19	1,896	1,398
Current Tax Provision	27	-	1
Short-Term Provisions			
-Provisions for Employee Benefits	15	59	58
-Other Provisions	15	16	16
Other Current Liabilities		244	264
TOTAL CURRENT LIABILITIES		4,093	3,667
Non- Current Liabilities			
Long-Term Borrowings	8 and 14	6,184	5,318
Trade Payables			
- Trade Payables to Non-Related Parties		-	1
Other Payables			
-Other Payables to Non-Related Parties		13	14
Deferred Income		22	14
Long-Term Provisions			
-Provisions for Employee Benefits	17	119	127
Deferred Tax Liability		812	655
TOTAL NON- CURRENT LIABILITIES		7,150	6,129
Equity			
Share Capital	20	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	20	(10)	(10)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	20	(73)	(47)
-Fair Value (Losses) on Hedging Instruments Entered into for Cash Flow Hedges	20	(49)	(185)
Restricted Profit Reserves	20	36	36
Previous Years Profit	20	2,559	1,714
Net Profit for the Period		406	845
TOTAL EQUITY		4,466	3,950
TOTAL LIABILITIES AND EQUITY		15,709	13,746

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 Six-Month Period Ended 30 June 2015
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Reviewed	Not Reviewed	Reviewed	Not Reviewed
	Notes	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
<u>PROFIT OR LOSS</u>					
Sales Revenue	21	4,789	2,570	5,222	2,907
Cost of Sales (-)	22	(4,035)	(2,086)	(4,411)	(2,324)
GROSS PROFIT		754	484	811	583
General Administrative Expenses (-)	23	(135)	(62)	(135)	(71)
Marketing and Sales Expenses (-)	23	(569)	(302)	(571)	(304)
Other Operating Income	24	158	99	59	32
Other Operating Expenses (-)	24	(16)	(9)	(13)	(6)
OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES		192	210	151	234
Income from Investment Activities	25	34	21	29	16
Expenses from Investment Activities	25	-	-	(4)	(4)
Share of Investments' Profit / Loss Accounted by Using The Equity Method	4	12	25	20	28
OPERATING PROFIT		238	256	196	274
Financial Income	26	443	121	26	8
Financial Expenses (-)	26	(109)	(52)	(142)	(65)
PROFIT BEFORE TAX		572	325	80	217
Tax (Expense) /Income		(166)	(72)	8	(27)
Current Tax Expense	27	-	-	(4)	(4)
Deferred Tax (Expense)/Income	27	(166)	(72)	12	(23)
PROFIT FOR THE PERIOD		406	253	88	190
<u>OTHER COMPREHENSIVE INCOME</u>					
Items That May Be Reclassified Subsequently To Profit or Loss		110	23	21	26
Currency Translation Adjustment		(26)	(5)	2	5
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		166	41	21	22
Fair Value Gains/(Loss) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		4	(6)	3	4
Income Tax Relating to Items That May Be Reclassified Subsequently to Profit or Loss		(34)	(7)	(5)	(5)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		110	23	21	26
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		516	276	109	216
Basic Earning Per Share (Full US Cents)	28	0.29	0.18	0.06	0.14
Diluted Earning Per Share (Full US Cents)	28	0.29	0.18	0.06	0.14

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 Six-Month Period Ended 30 June 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			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 /(loss)	-	-	(26)	136	-	-	406	516
As of 30 June 2015	1,597	(10)	(73)	(49)	36	2,559	406	4,466

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 Six-Month Period Ended 30 June 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		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 2013	1,597	(6)	(32)	(47)	36	1,357	357	3,262
Transfers	-	-	-	-	-	357	(357)	-
Total comprehensive income	-	-	2	19	-	-	88	109
As of 30 June 2014	1,597	(6)	(30)	(28)	36	1,714	88	3,371

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 Six-Month Period Ended 30 June 2015
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		<u>Reviewed</u>	<u>Reviewed</u>
	<u>Notes</u>	<u>1 January- 30 June 2015</u>	<u>1 January- 30 June 2014</u>
Profit for the Period		406	88
Adjustments to reconcile cash flows generated from operating activities:			
Adjustments for Depreciation and Amortization	12 and 13	425	359
Adjustments for Provisions for Employee Benefits	17	13	14
Adjustments for Provisions, Net	15	12	23
Adjustments for Interest Income	25 and 26	(13)	(18)
Loss / (Gain) on Sales of Fixed Assets	25	(1)	4
Share of Investments' (Profit) Accounted for			
Using The Equity Method	4	(12)	(20)
Adjustments for Interest Expense	26	79	81
Change in Manufacturers' Credit		3	(2)
Unrealized Foreign Exchange Translation Differences		(350)	(3)
Tax Expense/(Income)	27	166	(8)
Change in Fair Value of Derivative Instruments		11	(6)
Operating profit before working capital changes		739	512
Adjustments for Change in Trade Receivables		(99)	(157)
Adjustments for Change in Other Short Term and Long Term Other Receivables		62	78
Adjustments for Change in Inventories		(67)	(28)
Adjustments for Change in Other Current and Non- Current Assets and Prepaid Expenses		(86)	(93)
Adjustments for Change in Short Term and Long Term Trade Payables		20	51
Adjustments for Change in Short Term and Long Term Payables Related to Operations and Deferred Income		(24)	(27)
Adjustments for Change in Passenger Flight Liabilities		498	658
Cash Flows Generated From Operating Activities		1,043	994
Payment of Retirement Pay Liabilities	17	(5)	(10)
Taxes Paid/Received	27	2	5
Net Cash Generated From Operating Activities		1,040	989
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds From Sale of Property Equipment and Intangible Assets		22	13
Interest Received		11	20
Purchase of Property and Equipment and Intangible Assets (*)	12 and 13	(362)	(265)
Prepayments for the Purchase of Aircrafts		121	(33)
Change in Financial Investments,Net		(143)	(355)
Dividends Received		28	19
Net Cash Used In Investing Activities		(323)	(601)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Financial Lease Liabilities		(283)	(258)
Increase/ (Decrease) in Other Financial Liabilities,Net		(13)	21
Interest Paid		(68)	(79)
Net Cash Used In Financing Activities		(364)	(316)
NET INCREASE IN CASH AND CASH EQUIVALENTS		353	72
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD		635	627
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD		988	699

(*) 1,503 USD portion of property and equipment and intangible assets purchases in total of 1,865 USD for the period ended 30 June 2015 was financed through finance leases. (30 June 2014: 936 USD portion of property and equipment and intangible assets purchases in total of 1,201 USD was financed through finance leases.)

The accompanying notes are an integral part of these 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 Six-Month Period Ended 30 June 2015
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 30 June 2015 and 31 December 2014, the shareholders and their respective shareholdings in the Company are as follows:

	<u>30 June 2015</u>	<u>31 December 2014</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 June 2015 are 26,293 (full) (31 December 2014: 25,126 (full)). The average number of employees working for the Group for the six-month period ended 30 June 2015 and 2014 are 25,365 (full) and 23,601 (full) 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 June 2015 and 31 December 2014:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>30 June 2015</u>	<u>31 December 2014</u>	
THY Teknik A.Ş. (THY Teknik) (*)	Aircraft Maintenance Services	100%	100%	Turkey
THY Habom A.Ş. (THY Habom) (Note:3)	Aircraft Maintenance Services	-	100%	Turkey
THY Aydın Çıldır Havalimanı İşletme A.Ş. (THY Aydın Çıldır)	Training & Airport Operations	100%	100%	Turkey

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 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 30 June 2015 and 31 December 2014:

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 six-month period ended 30 June 2015 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 2014.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Six-Month Period Ended 30 June 2015
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Statement of Compliance (cont'd)

Board of Directors has approved the condensed consolidated interim financial statements as of 30 June 2015 on 14 August 2015. 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 the 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 the 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 June 2015 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2014.

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

2.3 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed consolidated interim financial statements as at 30 June 2015 are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2014.

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 condensed consolidated interim 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.

IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization

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

IFRS 11 – Accounting for acquisition of interests in joint operations

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

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

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

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

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

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

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 14 Regulatory Deferral Accounts

IASB has started a comprehensive project for Rate Regulated Activities in 2012. As part of the project, IASB published an interim standard to ease the transition to IFRS for rate regulated entities. The standard permits first time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances. The interim standard is effective for financial reporting periods beginning on or after 1 January 2016, although early adoption is permitted. The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

IFRS 15 Revenue from Contracts with customers

The standard replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2017, 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.

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

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

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

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

Disclosure Initiative (Amendments to IAS 1)

The narrow-focus amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. In most cases the amendments respond to overly prescriptive interpretations of the wording in IAS 1. The amendments relate to the following: materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments apply for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

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

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

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

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

Due to difficulties associated with the fair value measurement of bearer plants that are no longer undergoing biological transformation bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

Improvements to IFRSs

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

Annual Improvements to IFRSs – 2012–2014 Cycle

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

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

IFRS 7 Financial Instruments: Disclosures

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

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).

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3. BUSINESS COMBINATIONS

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

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

In the Extraordinary General Assembly Meeting of MNG Teknik dated 29 August 2013, it was decided to merge with Habom Havacılık Bakım Onarım ve Modifikasyon A.Ş. (HABOM) which are under common control.

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

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

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

	30 June 2015
Company licenses	10
Rent contract	5
Total intangible assets recognized at the acquisition	15

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

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4. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	30 June 2015	31 December 2014
Sun Express	51	61
Turkish DO&CO	50	52
TGS	35	42
THY Opet	21	40
TEC	25	22
Turbine Teknik	2	4
TCI	5	4
Uçak Koltuk	1	1
Goodrich (*)	-	1
Vergi İade Aracılık (*)	-	-
	<u>190</u>	<u>227</u>

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

Financial information for Sun Express as of 30 June 2015 and 2014 are as follows:

	30 June 2015	31 December 2014
Total assets	739	631
Total liabilities	636	510
Shareholders'equity	103	121
Group's share in joint venture's shareholders' equity	51	61

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	487	321	549	358
Profit/ (loss) for the period	(15)	14	(12)	21
Group's share in joint venture's profit/(loss) for the period	(8)	7	(6)	10

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

Financial information for Turkish DO&CO as of 30 June 2015 and 2014 are as follows:

	30 June 2015	31 December 2014
Total assets	172	172
Total liabilities	72	69
Shareholders'equity	100	103
Group's share in joint venture's shareholders' equity	50	52

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	186	99	174	95
Profit for the period	18	9	17	11
Group's share in joint venture's profit for the period	9	5	9	6

Financial information for TGS as of 30 June 2015 and 2014 are as follows:

	30 June 2015	31 December 2014
Total assets	128	140
Total liabilities	58	56
Shareholders'equity	70	84
Group's share in joint venture's shareholders' equity	35	42

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	120	63	124	71
Profit for the period	9	7	14	11
Group's share in joint venture's profit for the period	5	4	7	5

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

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

Financial information for THY Opet as of 30 June 2015 and 2014 are as follows:

			30 June 2015	31 December 2014
Total assets			259	303
Total liabilities			218	223
Shareholders'equity			41	80
Group's share in joint venture's shareholders' equity			21	40
	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	941	527	1,308	685
Profit for the period	8	16	20	11
Group's share in joint venture's profit for the period	4	8	10	6

Financial information for TEC as of 30 June 2015 and 2014 are as follows:

			30 June 2015	31 December 2014
Total assets			126	129
Total liabilities			76	84
Shareholders'equity			50	45
Group's share in joint venture's shareholders' equity			25	22
	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	111	53	98	54
Profit for the period	6	3	4	5
Group's share in joint venture's profit for the period	3	1	2	3

Financial information for Turbine Teknik as of 30 June 2015 and 2014 are as follows:

			30 June 2015	31 December 2014
Total assets			5	6
Total liabilities			-	(1)
Shareholders'equity			5	7
Group's share in joint venture's shareholders' equity			2	4

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

Financial information for Turbine Teknik as of 30 June 2015 and 2014 are as follows (cont'd):

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	1	-	-	-
Profit for the period	-	-	-	-
Group's share in joint venture's profit for the period	-	-	-	-

Financial information for TCI as of 30 June 2015 and 2014 are as follows:

	30 June 2015	31 December 2014
Total assets	17	13
Total liabilities	8	5
Shareholders'equity	9	8
Group's share in joint venture's shareholders' equity	5	4

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	2	1	3	3
(Loss) for the period	(2)	-	(4)	(4)
Group's share in joint venture's (loss) for the period	(1)	-	(2)	(2)

Financial information for Uçak Koltuk as of 30 June 2015 and 2014 are as follows:

	30 June 2015	31 December 2014
Total assets	11	11
Total liabilities	9	9
Shareholders'equity	2	2
Group's share in joint venture's shareholders' equity	1	1

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	3	2	6	3
Profit/ (loss) for the period	(1)	-	1	1
Group's share in joint venture's profit/(loss) for the period	-	-	-	-

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

Financial information for Goodrich as of 30 June 2015 and 2014 are as follows:

	30 June 2015	31 December 2014
Total assets	4	3
Total liabilities	3	2
Shareholders'equity	1	1
Group's share in joint venture's shareholders' equity	-	1

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Revenue	4	3	5	4
Profit for the period	-	-	1	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 - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Sun Express	(8)	7	(6)	10
Turkish DO&CO	9	5	9	6
TGS	5	4	7	5
THY Opet	4	8	10	6
TEC	3	1	2	3
TCI	(1)	-	(2)	(2)
	<u>12</u>	<u>25</u>	<u>20</u>	<u>28</u>

5. SEGMENTAL REPORTING

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

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

The detailed information about the sales revenue of the Group is given in Note 21.

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5. SEGMENTAL REPORTING (cont'd)

5.1 Total Assets and Liabilities

	30 June 2015	31 December 2014
Total Assets	<u>15,548</u>	<u>13,677</u>
Aviation	15,548	13,677
Technical	1,134	1,110
Total	<u>16,682</u>	<u>14,787</u>
Less: Eliminations due to consolidation	<u>(973)</u>	<u>(1,041)</u>
Total assets in consolidated financial statements	<u><u>15,709</u></u>	<u><u>13,746</u></u>

	30 June 2015	31 December 2014
Total Liabilities	<u>11,115</u>	<u>9,732</u>
Aviation	11,115	9,732
Technical	491	477
Total	<u>11,606</u>	<u>10,209</u>
Less: Eliminations due to consolidation	<u>(363)</u>	<u>(413)</u>
Total liabilities in consolidated financial statements	<u><u>11,243</u></u>	<u><u>9,796</u></u>

5.2 Profit / (Loss) before Tax

Segment Results:

1 January - 30 June 2015	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	4,708	81	-	4,789
Inter-Segment Sales	20	351	(371)	-
Revenue	<u>4,728</u>	<u>432</u>	<u>(371)</u>	<u>4,789</u>
Cost of Sales (-)	<u>(4,067)</u>	<u>(339)</u>	<u>371</u>	<u>(4,035)</u>
Gross Profit	<u>661</u>	<u>93</u>	<u>-</u>	<u>754</u>
Administrative Expenses (-)	(89)	(49)	3	(135)
Marketing and Sales Expenses (-)	(566)	(3)	-	(569)
Other Operating Income	177	11	(30)	158
Other Operating Expenses (-)	<u>(31)</u>	<u>(12)</u>	<u>27</u>	<u>(16)</u>
Operating Profit Before Investment Activities	<u>152</u>	<u>40</u>	<u>-</u>	<u>192</u>
Income from Investment Activities	34	-	-	34
Share of Investments' Profit Accounted by Using The Equity Method	9	3	-	12
Operating Profit	<u>195</u>	<u>43</u>	<u>-</u>	<u>238</u>
Financial Income	442	7	(6)	443
Financial Expense (-)	<u>(109)</u>	<u>(6)</u>	<u>6</u>	<u>(109)</u>
Profit Before Tax	<u><u>528</u></u>	<u><u>44</u></u>	<u><u>-</u></u>	<u><u>572</u></u>

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5. SEGMENTAL REPORTING (cont'd)

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

1 January - 30 June 2014	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	5,117	105	-	5,222
Inter-Segment Sales	13	278	(291)	-
Revenue	5,130	383	(291)	5,222
Cost of Sales (-)	(4,390)	(308)	287	(4,411)
Gross Profit	740	75	(4)	811
Administrative Expenses (-)	(89)	(53)	7	(135)
Marketing and Sales Expenses (-)	(568)	(3)	-	(571)
Other Operating Income	53	9	(3)	59
Other Operating Expenses (-)	(8)	(5)	-	(13)
Operating Profit Before Investment Activities	128	23	-	151
Income from Investment Activities	29	-	-	29
Expenses from Investment Activities	(4)	-	-	(4)
Share of Investments' Profit Accounted by Using The Equity Method	18	2	-	20
Operating Profit	171	25	-	196
Financial Income	30	-	(4)	26
Financial Expense (-)	(140)	(6)	4	(142)
Profit Before Tax	61	19	-	80

5.3 Investment Operations

1 January - 30 June 2015	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	1,791	74	-	1,865
Current period depreciation and amortization change	375	50	-	425
Investments accounted by using the equity method	160	30	-	190

1 January - 30 June 2014	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	1,125	76	-	1,201
Current period depreciation and amortization change	324	34	-	358
Investments accounted by using the equity method	159	29	-	188

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6. CASH AND CASH EQUIVALENTS

	<u>30 June 2015</u>	<u>31 December 2014</u>
Cash	2	2
Banks – Time deposits	794	503
Banks – Demand deposits	171	114
Other liquid assets	21	16
	<u>988</u>	<u>635</u>

Details of the time deposits as of 30 June 2015 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 June 2015</u>
76	TL	10.08% - 11.01%	August 2015	28
358	USD	0.50% - 2.50%	September 2015	358
366	EUR	1.56% - 2.00%	September 2015	408
				<u>794</u>

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

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

7. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	<u>30 June 2015</u>	<u>31 December 2014</u>
Time deposits with maturity more than 3 months	<u>230</u>	<u>87</u>

Time deposit with maturity of more than 3 months as of 30 June 2015 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 June 2015</u>
101	USD	2.15% - 2.16%	October 2015	101
116	EUR	1.65% - 1.92%	December 2015	129
				<u>230</u>

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7. FINANCIAL INVESTMENTS (cont'd)

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

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

8. BORROWINGS

Short term portions of long term borrowings are as follows:

	<u>30 June 2015</u>	<u>31 December 2014</u>
Finance lease obligations (Note: 14)	698	613

Long term borrowings are as follows:

	<u>30 June 2015</u>	<u>31 December 2014</u>
Finance lease obligations (Note: 14)	6,184	5,318

9. OTHER FINANCIAL LIABILITIES

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

	<u>30 June 2015</u>	<u>31 December 2014</u>
Other financial liabilities	6	19

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

10. RELATED PARTY TRANSACTIONS

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

	<u>30 June 2015</u>	<u>31 December 2014</u>
Turkish DO&CO (*)	3	3

(*) It consists of the dividend receivables of 2014 and 2013 respectively as of 30 June 2015 and 31 December 2014.

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

	<u>30 June 2015</u>	<u>31 December 2014</u>
THY Opet	74	82
Turkish DO&CO	35	27
TGS	12	15
TEC	3	10
Sun Express	2	14
	126	148

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10. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with related parties for the six-month period ended 30 June 2015 and 2014 are as follows:

a) Sales to related parties:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Sun Express	19	8	37	19
TEC	11	7	7	2
TGS	3	2	5	2
Turkish DO&CO	1	1	1	1
	<u>34</u>	<u>18</u>	<u>50</u>	<u>24</u>

b) Purchases from related parties:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
THY Opet	774	425	1,123	587
Turkish DO&CO	165	85	160	83
Sun Express	123	66	168	91
TGS	105	55	98	54
TEC	73	28	91	48
Goodrich	2	1	-	-
	<u>1,242</u>	<u>660</u>	<u>1,640</u>	<u>863</u>

Transactions between the Group and Sun Express are related to wet lease and seat sales operations; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and TGS are related to ground services, transactions between the Group and TEC are related to engine maintenance services and transactions between the Group and THY Opet are related to the supply of aircraft fuel. 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 2 USD (1 January-30 June 2014: 2 USD).

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11. OTHER RECEIVABLES

Other short-term receivables from non-related parties as of 30 June 2015 and 31 December 2014 are as follows:

	30 June 2015	31 December 2014
Predelivery payments made for aircrafts	970	990
Receivables from technical purchases	129	124
Bank deposits with transfer limitations (*)	64	20
Value added tax receivables	30	48
Receivables from pilots for flight training	10	12
Receivables from employees	1	1
Other receivables	1	1
	<u>1,205</u>	<u>1,196</u>

(*) As of 30 June 2015, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Uzbekistan, Egypt, Argentina, Algeria, Niger and Ukraine.

Other long-term receivables from non-related parties as of 30 June 2015 and 31 December 2014 are as follows:

	30 June 2015	31 December 2014
Predelivery payments made for aircrafts	551	650
Receivables related to investment certificates	151	140
Interest and commodity swap agreement deposits	92	192
Receivables from pilots for flight training	58	59
Deposits and guarentees given	11	11
Bank deposits with transfer limitations (*)	5	6
Other receivables	1	1
	<u>869</u>	<u>1,059</u>

(*) As of 30 June 2015, the balance of this account includes bank deposits in Syria.

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12. PROPERTY AND EQUIPMENT

	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	3	7	9	1,659	49	57	8	66	1,858
Transfer	6	-	1	37	-	-	-	(44)	-
Disposals	-	(2)	(2)	(3)	-	(20)	-	-	(27)
Closing balance at 30 June 2015	173	289	152	12,994	508	383	454	133	15,086
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2015	47	125	90	3,430	163	132	67	-	4,054
Depreciation charge	4	11	10	331	15	29	15	-	415
Disposals	-	(2)	(1)	(3)	-	(1)	-	-	(7)
Closing balance at 30 June 2015	51	134	99	3,758	178	160	82	-	4,462
Net book value 30 June 2015	122	155	53	9,236	330	223	372	133	10,624
Net book value 31 December 2014	117	159	54	7,871	296	214	379	111	9,201

As at 30 June 2015, carrying value of the aircrafts and spare engines acquired through finance leases is 8,799 USD (31 December 2014: 7,379 USD)

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12. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
<u>Cost</u>									
Opening balance at 1 January 2014	116	230	161	9,883	365	263	98	559	11,675
Additions	1	27	10	1,017	35	29	34	41	1,194
Transfers (*)	-	-	-	-	-	-	293	(299)	(6)
Transfers between accounts	-	(5)	5	(5)	5	-	-	-	-
Disposals	-	(4)	(42)	(139)	(9)	(9)	-	-	(203)
Closing balance at 30 June 2014	117	248	134	10,756	396	283	425	301	12,660
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2014	44	109	117	3,102	115	103	42	-	3,632
Depreciation charge	1	10	9	286	17	20	10	-	353
Transfers between accounts	-	(1)	1	(4)	4	-	-	-	-
Disposals	-	(3)	(42)	(128)	(5)	(8)	-	-	(186)
Closing balance at 30 June 2014	45	115	85	3,256	131	115	52	-	3,799
Net book value 30 June 2014	72	133	49	7,500	265	168	373	301	8,861

(*) Tangible assets amounting to 6 USD is transferred to intangible assets.

As at 30 June 2014, carrying value of the aircrafts and spare engines acquired through finance leases is 6,929 USD.

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13. OTHER INTANGIBLE ASSETS

	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	-	7	-	7
Disposals	-	(2)	-	(2)
Closing balance at 30 June 2015	<u>23</u>	<u>126</u>	<u>5</u>	<u>154</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2015	-	77	1	78
Amortization charge	-	10	-	10
Disposals	-	(1)	-	(1)
Closing balance at 30 June 2015	<u>-</u>	<u>86</u>	<u>1</u>	<u>87</u>
Net book value at 30 June 2015	<u>23</u>	<u>40</u>	<u>4</u>	<u>67</u>
Net book value at 31 December 2014	<u>23</u>	<u>44</u>	<u>4</u>	<u>71</u>

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
<u>Cost</u>				
Opening balance at 1 January 2014	23	90	5	118
Additions	-	7	-	7
Transfers	-	6	-	6
Closing balance at 30 June 2014	<u>23</u>	<u>103</u>	<u>5</u>	<u>131</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2014	-	65	-	65
Amortization charge	-	5	-	5
Closing balance at 30 June 2014	<u>-</u>	<u>70</u>	<u>-</u>	<u>70</u>
Net book value at 30 June 2014	<u>23</u>	<u>33</u>	<u>5</u>	<u>61</u>

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

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14. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	<u>30 June 2015</u>	<u>31 December 2014</u>
Less than 1 year	830	736
Between 1 – 5 years	3,211	2,848
Over 5 years	3,632	3,067
	<u>7,673</u>	<u>6,651</u>
Less: Future interest expenses	(791)	(720)
Principal value of future rentals stated in financial statements	<u>6,882</u>	<u>5,931</u>
	<u>30 June 2015</u>	<u>31 December 2014</u>
Interest Range:		
Floating rate obligations	3,689	3,176
Fixed rate obligations	3,193	2,755
	<u>6,882</u>	<u>5,931</u>

The Group leased certain of its aircrafts and spare engines under finance leases. The lease term is 10-12 years (2014: 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 June 2015, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 3.43% (31 December 2014: 3.69%) for the fixed rate obligations and 0.98% (31 December 2014: 0.98%) for the floating rate obligations.

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 30 June 2015 and 31 December 2014 are as follows:

(a) Short-term provisions for employee benefits

	<u>30 June 2015</u>	<u>31 December 2014</u>
Provisions for unused vacation	<u>59</u>	<u>58</u>

Changes in the provisions during 30 June 2015 and 2014 periods are set out below:

	<u>1 January - 30 June 2015</u>	<u>1 January - 30 June 2014</u>
Provisions at the beginning of the year	58	30
Provisions for the current period	9	23
Foreign currency translation differences	(8)	(1)
Provisions at the end of the period	<u>59</u>	<u>52</u>

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

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

(b) Other short-term provisions:

	30 June 2015	31 December 2014
Provisions for legal claims	<u>16</u>	<u>16</u>

Changes in the provisions for legal claims during 30 June 2015 and 2014 periods are set out below:

	1 January - 30 June 2015	1 January - 30 June 2014
Provisions at the beginning of the year	<u>16</u>	<u>14</u>
Provisions for the current period	5	3
Provisions released	(2)	(3)
Foreign currency translation differences	<u>(3)</u>	<u>(1)</u>
Provisions at the end of the period	<u><u>16</u></u>	<u><u>13</u></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 estimate has been made on the basis of the legal advices. These amounts have not been discounted for the purpose of measuring the provision for legal claims, because the effect is not material. It is expected that provision amount will be paid within one year.

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16. COMMITMENTS

- a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letter of guarantees given as of 30 June 2015 is 59 USD (31 December 2014: 58 USD).

	30 June 2015		31 December 2014	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	59	-	58
-Collaterals				
TL	24	9	27	11
EUR	11	13	8	10
USD	34	34	35	35
Other	-	3	-	2
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>59</u>		<u>58</u>

The ratio of other GPM given by the group to its equity is 0% as of 30 June 2015 (31 December 2014: 0%)

- b) Operational lease obligations: The detail of the Group’s operational lease obligations related to aircrafts is as follows:

	30 June 2015	31 December 2014
Less than 1 year	189	190
Between 1 – 5 years	479	530
More than 5 years	74	96
	<u>742</u>	<u>816</u>

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16. COMMITMENTS (cont'd)

c) Other operational lease debts :

The Group has operational lease agreements for 15 years related to the land for the aircraft maintenance hangar and building and 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 June 2015</u>	<u>31 December 2014</u>
Less than 1 year	2	5
Between 1 – 5 years	8	24
More than 5 years	23	47
	<u>33</u>	<u>76</u>

d) Aircraft purchase commitments:

To be delivered between the years 2013-2021, the Group signed a contract for 259 aircrafts with a list price value of 34.7 billion US Dollars (full). 2 of these aircrafts were delivered in 2013, 10 were delivered in 2014 and 19 were delivered in the first six-month period of 2015. The Group has made an advance payment of 1.5 billion US Dollars (full) relevant to these purchases as of 30 June 2015.

17. EMPLOYEE BENEFITS

Provisions for long-term retirement pay liability as of 30 June 2015 and 31 December 2014 is comprised of the following:

	<u>30 June 2015</u>	<u>31 December 2014</u>
Provisions for retirement pay liability	119	127

Provisions for retirement pay liability is 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 a ceiling of US Dollar 1,381 (full) as of 30 June 2015 (1 January 2015: US Dollar 1,527 (full)).

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17. EMPLOYEE BENEFITS (cont'd)

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.

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 condensed consolidated interim financial statements as of 30 June 2015 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 5.50% annual inflation rate (31 December 2014: 5.50%) and 9.00% interest rate (31 December 2014: 9.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.29% (31 December 2014: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,381 (full) in effect from 30 June 2015 is used in the calculation of Group’s provisions for retirement pay liability.

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

	1 January - 30 June 2015	1 January - 30 June 2014
Provisions at the beginning of the year	127	117
Service charge for the year	13	14
Interest charges	2	2
Payments	(5)	(10)
Foreign currency translation difference	(18)	(1)
Provisions at the end of the period	<u>119</u>	<u>122</u>

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18. EXPENSES BY NATURE

Expenses by nature for the six-month period ended 30 June 2015 and 2014 are as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Fuel expenses	1,475	755	1,885	998
Personnel expenses	820	409	831	430
Depreciation expenses	425	220	358	184
Ground services expenses	301	157	303	158
Passenger services and catering expenses	283	146	263	137
Air traffic control expenses	238	126	262	138
Aircraft maintenance expenses	207	112	201	108
Airport expenses	195	104	203	108
Commissions and incentives	175	96	185	107
Wet lease expenses	137	76	192	101
Reservation systems expenses	119	60	117	61
Operating lease expenses	97	48	77	41
Advertisement and promotion expenses	86	49	74	36
Service expenses	31	16	25	12
Rents	26	12	25	15
Insurance expenses	18	9	16	8
IT&communication expenses	18	9	20	11
Taxes and duties	16	9	11	6
Transportation expenses	14	8	10	5
Utility expenses	6	2	4	2
Consultancy expenses	6	3	5	2
Systems use and associateship expenses	4	2	3	2
Membership fees	2	1	3	2
Other expenses	40	21	44	27
	4,739	2,450	5,117	2,699

19. PASSENGER FLIGHT LIABILITIES

Passenger flight liability is as follows;

	30 June 2015	31 December 2014
Flight liability generating from ticket sales	1,652	1,203
Flight liability generating from Frequent flyer program	244	195
	1,896	1,398

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20. SHAREHOLDERS' EQUITY

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

			31 June		31 December	
	Class	%	2015	%	2014	
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	

(*) 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.

As of 30 June 2015, the Group's issued and paid-in share capital consists of 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are registered. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

- Decisions that will negatively affect the Company's mission Defined in Article 3.1. of the Articles of Association,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- 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%).
- Decisions relating to merges and liquidation,
- 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.

20. SHAREHOLDERS' EQUITY (cont'd)

Restricted Profit Reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first 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. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses 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 and also in conformity 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.

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.

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21. REVENUE

Breakdown of gross profit is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Passenger revenue				
Scheduled	4,208	2,273	4,586	2,577
Unscheduled	20	14	33	22
Total passenger revenue	4,228	2,287	4,619	2,599
Cargo revenue				
Carried by passenger aircraft	273	142	270	143
Carried by cargo aircraft	192	99	210	106
Total cargo revenue	465	241	480	249
Total passenger and cargo revenue	4,693	2,528	5,099	2,848
Technical revenue	81	35	105	51
Other revenue	15	7	18	8
Net sales	4,789	2,570	5,222	2,907
Cost of sales (-)	(4,035)	(2,086)	(4,411)	(2,324)
Gross profit	754	484	811	583

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

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
- Europe	1,412	774	1,639	935
- Far East	1,099	578	1,167	620
- Middle East	598	315	639	353
- America	582	330	543	317
- Africa	380	191	446	235
Total international flights	4,071	2,188	4,434	2,460
Domestic flights	622	340	665	388
Total passenger and cargo revenue	4,693	2,528	5,099	2,848

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22. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Fuel expenses	1,475	755	1,885	998
Personnel expenses	626	313	616	324
Depreciation expenses	395	208	337	174
Ground services expenses	301	157	303	158
Passenger services and catering expenses	283	146	263	137
Air traffic control expenses	238	126	262	138
Aircraft maintenance expenses	207	112	201	108
Airport expenses	195	104	203	108
Wet lease expenses	137	76	192	101
Operating lease expenses	97	48	77	41
Insurance expenses	18	9	16	8
Service expenses	17	9	14	7
Transportation expenses	14	8	10	5
Rents	12	6	11	6
Taxes and duties	5	2	5	2
Utility expenses	3	1	2	1
Other expenses	12	6	14	8
	<u>4,035</u>	<u>2,086</u>	<u>4,411</u>	<u>2,324</u>

23. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Personnel expenses	64	31	72	35
Depreciation expenses	27	11	18	9
IT&communication expenses	14	7	16	9
Service expenses	9	4	7	3
Rents	5	2	5	4
Systems use and associateship expenses	4	2	3	2
Utility expenses	3	1	2	1
Consultancy expenses	2	1	2	1
Other general administrative expenses	7	3	10	7
	<u>135</u>	<u>62</u>	<u>135</u>	<u>71</u>

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

Breakdown of marketing and sales expenses is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Commissions and incentives	175	96	185	107
Personnel expenses	130	65	143	71
Reservation systems expenses	119	60	117	61
Advertisement and promotion	86	49	74	36
Taxes and duties	11	7	6	4
Rents	9	4	9	5
Service expenses	5	3	4	2
Consultancy expenses	4	2	3	1
IT&communication expenses	4	2	4	2
Depreciation expenses	3	1	3	1
Membership fees	2	1	3	2
Other marketing and sales expenses	21	12	20	12
	<u>569</u>	<u>302</u>	<u>571</u>	<u>304</u>

24. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Foreign exchange gains from operational activities, net	94	66	17	10
Manufacturers' credits	34	15	4	3
Insurance, indemnities, penalties income	11	6	12	7
Provisions released	6	3	8	6
Non- interest income from banks	3	2	2	1
Rent income	1	-	1	-
Discount interest income	-	1	-	-
TGS share premium (Note: 4)	-	-	3	1
Other operating income	9	6	12	4
	<u>158</u>	<u>99</u>	<u>59</u>	<u>32</u>

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24. OTHER OPERATING INCOME / EXPENSES (cont'd)

Breakdown of other operating expenses is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Provisions	8	6	6	2
Indemnity and penalty expenses	2	1	2	1
Rediscount interest expenses	-	-	1	-
Other operating expenses	6	2	4	3
	<u>16</u>	<u>9</u>	<u>13</u>	<u>6</u>

(*) Rediscount interest expense, amounting to 1 USD which was disclosed under “Other Operating Expenses” in the interim period 1 January – 31 March 2015 is reclassified to discount interest income which is disclosed under “Other Operating Income” in the interim period 1 January – 30 June 2015.

25. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Income from investment incentives	30	19	27	15
Interest income from financial investments	3	1	2	1
Gain on sale of fixed assets	1	1	-	-
	<u>34</u>	<u>21</u>	<u>29</u>	<u>16</u>

Breakdown of expense from investment activities is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Loss on sale of fixed assets	-	-	4	4

26. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Foreign exchange gains from financial activities	433	117	-	-
Interest income	8	4	14	7
Rediscount interest income from prepayments of aircrafts	2	-	2	1
Fair value gains on derivative financial instruments	-	-	10	-
	<u>443</u>	<u>121</u>	<u>26</u>	<u>8</u>

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26. FINANCIAL INCOME/ EXPENSES (cont'd)

Breakdown of financial expenses is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Finance lease interest expenses	77	38	79	40
Fair value losses on derivative financial instruments (*)	14	2	-	6
Aircraft financing expenses	10	6	4	2
Interest expenses on employee benefits	2	1	2	1
Foreign exchange losses on financial activities	-	-	54	14
Other financial expenses	6	5	3	2
	<u>109</u>	<u>52</u>	<u>142</u>	<u>65</u>

(*) Fair value gain on derivative financial instruments, amounting to 6 USD which was disclosed under "Financial Income" in the interim period 1 January – 31 March 2014 is reclassified to fair value loss on derivative financial instruments under "Financial Expense" in the interim period 1 January - 30 June 2014.

27. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	30 June 2015	31 December 2014
Prepaid taxes	<u>6</u>	<u>8</u>

Tax liability is as follows:

	30 June 2015	31 December 2014
Provisions for corporate tax	-	5
Prepaid taxes and funds	-	(4)
Tax liability	<u>-</u>	<u>1</u>

Tax expense / (income) is as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Current period tax expense	-	-	4	4
Deferred tax expense / (income)	166	72	(12)	23
Tax expense / (income)	<u>166</u>	<u>72</u>	<u>(8)</u>	<u>27</u>

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27. TAX ASSETS AND LIABILITIES (cont'd)

Tax effect related to other comprehensive income is as follows:

	1 January - 30 June 2015			1 January - 30 June 2014		
	Amount before tax	Tax expense	Amount after tax	Amount tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	(26)	-	(26)	2	-	2
Change in cash flow hedge reserve	170	(34)	136	24	(5)	19
Other comprehensive income	144	(34)	110	26	(5)	21

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 income tax rate is also 20%. Losses can be carried forward for offset against future taxable income for up to 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 tax returns between 1-25 April following the close of the accounting year to which they relate. 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 companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax is in use since 22 July 2006. Commencing from 22 July 2006, the rate has been changed to 15% from 10% upon the Council of Ministers' Resolution No: 2006/10731. 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 disclosed separately.

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27. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

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

	30 June 2015	31 December 2014
Fixed assets	(1,044)	(884)
Provisional income	(32)	(14)
Fair value corrections of business combinations	(1)	(1)
Tax loss carried forward	63	24
Accruals for expenses	49	54
Income and expense accruals	35	28
Miles accruals	43	32
Change in fair value of derivative instruments	25	55
Provisions for employee benefits	24	25
Provisions for unused vacation	12	11
Long-term lease obligations	5	5
Allowance for doubtful receivables	5	5
Provision for impairment of inventories	3	2
Other	1	3
Deferred tax liabilities	<u>(812)</u>	<u>(655)</u>

The changes of deferred tax liability for interim periods 1 January – 30 June 2015 and 2014 are as follows:

	1 January - 30 June 2015	1 January - 30 June 2014
Opening balance at 1 January	655	518
Deferred tax expense / (income)	166	(12)
Tax expense from hedging reserves	33	5
Foreign currency translation difference	(42)	(5)
Deferred tax liability at the end of the period	<u>812</u>	<u>506</u>

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27. TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation with current tax charge for interim periods 1 January – 30 June 2015 and 2014 are as follows:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
Profit from operations before tax	572	325	80	217
Domestic income tax rate of 20%	114	66	16	43
Taxation effects on:				
- income from investment certificates	(5)	(3)	(4)	(2)
- non-deductible expenses	2	2	1	-
- foreign currency translation difference	63	26	4	(2)
- equity method	(2)	(15)	(4)	(12)
- adjustment for prior year loss	(6)	(4)	(21)	-
Tax charge in statement of profit or loss	<u>166</u>	<u>72</u>	<u>(8)</u>	<u>27</u>

28. EARNINGS PER SHARE

Earnings per share disclosed in the condensed consolidated interim 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.

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28. EARNINGS PER SHARE (cont'd)

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

Number of total shares and calculation of earnings per share at 1 January – 30 June 2015 and 2014:

	1 January - 30 June 2015	1 April - 30 June 2015	1 January - 30 June 2014	1 April - 30 June 2014
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)	<u>138,000,000,000</u>	<u>138,000,000,000</u>	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Weighted average number of shares outstanding during the period (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Net profit for period	406	253	88	190
Basic profit per share (Full US Cents) (*)	0.29	0.18	0.06	0.14

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

29. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 30 June 2015 and 31 December 2014 are as follows:

<u>Derivative financial assets</u>	30 June 2015	31 December 2014
Cross currency rate swap agreements	131	138
Derivative instruments for interest rate cash flow hedge	12	12
Derivative instruments for fuel prices cash flow hedge	25	2
	<u>168</u>	<u>152</u>
<u>Derivative financial liabilities</u>	30 June 2015	31 December 2014
Derivative instruments for fuel prices cash flow hedge	215	358
Derivative instruments for interest rate cash flow hedge	57	68
Cross currency rate swap agreements	18	1
	<u>290</u>	<u>427</u>

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30. 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 of monetary and non-monetary items are as follows:

	30 June 2015					
	USD EQUIVALENT	TL	EUR	GBP	JPY	OTHER
1.Trade Receivables	465	109	126	30	9	191
2a.Monetary Financial Assets	803	54	667	1	4	77
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	391	238	59	11	3	80
4.Current Assets (1+2+3)	1,659	401	852	42	16	348
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	63	3	52	-	-	8
8.Non Current Assets (5+6+7)	63	3	52	-	-	8
9.Total Assets (4+8)	1,722	404	904	42	16	356
10.Trade Payables	445	251	146	10	1	37
11.Financial Liabilities	464	6	278	-	159	21
12a.Other Liabilities, Monetary	450	345	84	1	13	7
12b.Other Liabilities, Non Monetary	75	75	-	-	-	-
13.Current Liabilities (10+11+12)	1,434	677	508	11	173	65
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	4,338	-	2,122	-	1,978	238
16a.Other Liabilities, Monetary	14	1	8	-	-	5
16b.Other Liabilities, Non Monetary	119	119	-	-	-	-
17.Non Current Liabilities (14+15+16)	4,471	120	2,130	-	1,978	243
18.Total Liabilities (13+17)	5,905	797	2,638	11	2,151	308
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)	(4,183)	(393)	(1,734)	31	(2,135)	48
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(4,443)	(440)	(1,845)	20	(2,138)	(40)
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

Foreign currency risk management (cont'd)

	31 December 2014					
	USD EQUIVALENT	TL	EUR	GBP	JPY	OTHER
1.Trade Receivables	421	73	115	43	7	183
2a.Monetary Financial Assets	649	268	288	2	1	90
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	393	289	55	10	2	37
4.Current Assets (1+2+3)	1,463	630	458	55	10	310
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	61	2	50	-	-	9
8.Non Current Assets (5+6+7)	61	2	50	-	-	9
9.Total Assets (4+8)	1,524	632	508	55	10	319
10.Trade Payables	449	232	148	10	2	57
11.Financial Liabilities	411	19	282	-	110	-
12a.Other Liabilities, Monetary	428	331	68	1	21	7
12b.Other Liabilities, Non Monetary	74	74	-	-	-	-
13.Current Liabilities (10+11+12)	1,362	656	498	11	133	64
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	3,690	-	2,219	-	1,471	-
16a.Other Liabilities, Monetary	13	1	7	-	-	5
16b.Other Liabilities, Non Monetary	127	127	-	-	-	-
17.Non Current Liabilities (14+15+16)	3,830	128	2,226	-	1,471	5
18.Total Liabilities (13+17)	5,192	784	2,724	11	1,604	69
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)	(3,668)	(152)	(2,216)	44	(1,594)	250
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(3,921)	(242)	(2,321)	34	(1,596)	204
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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30. 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, TL and GBP. The following table details the Group's sensitivity to a 10% increase and decrease in EURO, JPY, TL and GBP. 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 June 2015	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u> </u>	<u> </u>
1- TL net asset / liability	(39)	39
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>(39)</u>	<u>39</u>
4- Euro net asset / liability	(173)	173
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(173)</u>	<u>173</u>
7- JPY net asset / liability	(214)	214
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	<u>(214)</u>	<u>214</u>
10- GBP net asset / liability	3	(3)
11- Part hedged from GBP risk (-)	-	-
12- GBP net effect (10+11)	<u>3</u>	<u>(3)</u>
13- Other foreign currency net asset / liability	5	(5)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>5</u>	<u>(5)</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>(418)</u></u>	<u><u>418</u></u>

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

Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

	31 December 2014	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u> </u>	<u> </u>
1- TL net asset / liability	(15)	15
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>(15)</u>	<u>15</u>
4- Euro net asset / liability	(222)	222
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(222)</u>	<u>222</u>
7- JPY net asset / liability	(159)	159
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	<u>(159)</u>	<u>159</u>
10- GBP net asset / liability	4	(4)
11- Part hedged from GBP risk (-)	-	-
12- GBP net effect (10+11)	<u>4</u>	<u>(4)</u>
13- Other foreign currency net asset / liability	25	(25)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>25</u>	<u>(25)</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u><u>(367)</u></u>	<u><u>367</u></u>