

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

Interim Condensed Consolidated  
Financial Statements As At and For  
The Three-Month Period  
Ended 31 March 2015

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

**Condensed Consolidated Balance Sheet as at 31 March**

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

ASSETS	Notes	Not Reviewed	Audited
		31 March 2015	31 December 2014
<b>Current Assets</b>			
Cash and Cash Equivalents	6	552	635
Financial Investments	7	-	87
Trade Receivables			
-Trade Receivables From Related Parties	10	7	-
-Trade Receivables From Non-Related Parties		583	456
Other Receivables			
-Other Receivables from Related Parties	10	3	3
-Other Receivables from Non-Related Parties	11	1,401	1,196
Derivative Financial Instruments	29	273	152
Inventories		228	195
Prepaid Expenses		77	60
Current Income Tax Assets	27	8	8
Other Current Assets		29	39
<b>TOTAL CURRENT ASSETS</b>		<b>3,161</b>	<b>2,831</b>
<b>Non-Current Assets</b>			
Financial Investments		1	1
Other Receivables			
-Other Receivables from Non-Related Parties	11	1,004	1,059
Investments Accounted by Using Equity Method	4	200	227
Investment Property		36	36
Property and Equipment	12	9,528	9,201
Intangible Assets			
- Other Intangible Assets	13	70	71
- Goodwill	3	12	12
Prepaid Expenses		319	308
<b>TOTAL NON-CURRENT ASSETS</b>		<b>11,170</b>	<b>10,915</b>
<b>TOTAL ASSETS</b>		<b>14,331</b>	<b>13,746</b>

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

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

**Condensed Consolidated Balance Sheet as at 31 March**

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

		<b>Not Reviewed</b>	<b>Audited</b>
	<b>Notes</b>	<b>31 March 2015</b>	<b>31 December 2014</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Short-Term Portion of Long-Term Borrowings	8 and 14	607	613
Other Financial Liabilities	9	13	19
Trade Payables			
-Trade Payables to Related Parties	10	117	148
-Trade Payables to Non-Related Parties		480	514
Payables Related to Employee Benefits		122	128
Other Payables			
-Other Payables to Non-Related Parties		54	71
Derivative Financial Instruments	29	468	427
Deferred Income		19	10
Passenger Flight Liabilities	19	1,753	1,398
Current Tax Provision	27	-	1
Short-term Provisions			
-Provisions for Employee Benefits	15	56	58
-Other Provisions	15	14	16
Other Current Liabilities		260	264
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,963</b>	<b>3,667</b>
<b>Non- Current Liabilities</b>			
Long-Term Borrowings	8 and 14	5,283	5,318
Trade Payables			
- Trade Payables to Non- Related Parties		2	1
Other Payables			
-Other Payables to Non-Related Parties		13	14
Deferred Income		23	14
Long-term Provisions			
-Provisions for Employee Benefits	17	115	127
Deferred Tax Liability		743	655
<b>TOTAL NON- CURRENT LIABILITIES</b>		<b>6,179</b>	<b>6,129</b>
<b>Equity</b>			
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	( 68)	( 47)
-Fair Value Gains/Losses on Hedging Instruments Entered into for Cash Flow Hedges	20	( 78)	( 185)
Restricted Profit Reserves	20	36	36
Previous Years Profit	20	2,559	1,714
Net Profit for the Year		153	845
<b>TOTAL EQUITY</b>		<b>4,189</b>	<b>3,950</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>14,331</b>	<b>13,746</b>

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

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

		<u>Not Reviewed</u>	<u>Not Reviewed</u>
		<u>1 January -</u>	<u>1 January -</u>
	<u>Notes</u>	<u>31 March 2015</u>	<u>31 March 2014</u>
<b><u>PROFIT OR LOSS</u></b>			
Sales Revenue	21	2.219	2.315
Cost of Sales (-)	22	( 1.949)	( 2.087)
<b>GROSS PROFIT</b>		<b>270</b>	<b>228</b>
General Administrative Expenses (-)	23	( 73)	( 64)
Marketing and Sales Expenses (-)	23	( 267)	( 267)
Other Operating Income	24	60	27
Other Operating Expenses (-)	24	( 8)	( 7)
<b>ADJUSTED OPERATING LOSS</b>		<b>( 18)</b>	<b>( 83)</b>
Income from Investment Activities	25	13	13
Share of Investments' Profit / Loss Accounted by Using The Equity Method	4	( 13)	( 8)
<b>OPERATING LOSS</b>		<b>( 18)</b>	<b>( 78)</b>
Financial Income	26	322	24
Financial Expenses (-)	26	( 57)	( 83)
<b>PROFIT / (LOSS) BEFORE TAX</b>		<b>247</b>	<b>( 137)</b>
<b>Tax (Expense) /Income of Continuing Operations</b>		<b>( 94)</b>	<b>35</b>
Deferred Tax (Expense)/Income	27	( 94)	35
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>153</b>	<b>( 102)</b>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
<b>Items That May Be Reclassified Subsequently To Profit or Loss</b>			
Currency Translation Adjustment		( 21)	( 3)
Fair Value Gains/ (Losses) on Hedging Instruments Entered into for Cash Flow Hedges		124	( 1)
Fair Value Gains/(Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		10	( 1)
Income Tax Relating to Items That May Be Reclassified Subsequently to Profit or Loss		( 27)	-
<b>OTHER COMPREHENSIVE INCOME /(EXPENSE) FOR THE PERIOD</b>		<b>86</b>	<b>( 5)</b>
<b>TOTAL COMPREHENSIVE INCOME /(EXPENSE) FOR THE PERIOD</b>		<b>239</b>	<b>( 107)</b>
<b>Basic Earning/(Loss) Per Share (Full US Cents)</b>	28	0,11	( 0,07)
<b>Diluted Earning/(Loss) Per Share (Full US Cents)</b>	28	0,11	( 0,07)

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Interim Condensed Consolidated Statement of Changes in Equity**  
**For the Three-Month Period Ended 31 March 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 Gains/(Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	
<b>As of 31 December 2014</b>	<b>1,597</b>	<b>(10)</b>	<b>(47)</b>	<b>(185)</b>	<b>36</b>	<b>1,714</b>	<b>845</b>	<b>3,950</b>
Transfers	-	-	-	-	-	845	(845)	-
Total comprehensive income	-	-	(21)	107	-	-	153	239
<b>As of 31 March 2015</b>	<b>1,597</b>	<b>(10)</b>	<b>(68)</b>	<b>(78)</b>	<b>36</b>	<b>2,559</b>	<b>153</b>	<b>4,189</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Interim Condensed Consolidated Statement of Changes in Equity**  
**For the Three-Month Period Ended 31 March 2014**  
(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 Gains/(Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net Loss for The Period	
<b>As of 31 December 2013</b>	<b>1,597</b>	<b>(6)</b>	<b>(32)</b>	<b>(47)</b>	<b>36</b>	<b>1,357</b>	<b>357</b>	<b>3,262</b>
Transfers	-	-	-	-	-	357	(357)	-
Total comprehensive income	-	-	(3)	(2)	-	-	(102)	(107)
<b>As of 31 March 2014</b>	<b>1,597</b>	<b>(6)</b>	<b>(35)</b>	<b>(49)</b>	<b>36</b>	<b>1,714</b>	<b>(102)</b>	<b>3,155</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Interim Condensed Consolidated Statement of Cash Flows**  
**For the Three-Month Period Ended 31 March**  
(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- 31 March 2015</u>	<u>1 January- 31 March 2014</u>
Profit/(Loss) for the Period		153	(102)
<b>Adjustments to reconcile cash flows generated from operating activities:</b>			
Adjustments for Depreciation and Amortization	12 and 13	203	174
Adjustments for Provision for Employee Benefits	17	5	7
Adjustments for Provisions, Net	15	6	12
Adjustments for Interest Income	25 and 26	(8)	(9)
Share of Investments' (Profit) / Loss Accounted for Using The Equity Method	4	13	8
Adjustments for Interest Expense	26	40	40
Change in Manufacturers' Credit		(1)	(3)
Unrealized Foreign Exchange Translation Differences		(342)	(18)
Tax Expense/(Income)	27	94	(35)
Change in Provision for Doubtful Receivables		(6)	3
Change in Fair Value of Derivative Instruments		47	(19)
<b>Operating profit before working capital changes</b>		<b>204</b>	<b>58</b>
Adjustments for Change in Trade Receivables		(124)	(143)
Adjustments for Change in Other Short and Long Term Receivables		(2)	29
Adjustments for Change in Inventories		(33)	(7)
Adjustments for Change in Other Receivables Related to Operations		10	(15)
Adjustments for Change in Other Non- Current Assets and Prepaid Expenses		(28)	(43)
Adjustments for Change in Trade Payables		(64)	(26)
Adjustments for Change in Short and Long Term Payables Related to Operations and Deferred Income		(9)	43
Adjustments for Change in Passenger Flight Liabilities		355	380
<b>Cash Flows Generated From Operating Activities</b>		<b>309</b>	<b>276</b>
Payment of Retirement Pay Liabilities	17	(4)	(7)
<b>Net Cash Generated From Operating Activities</b>		<b>305</b>	<b>269</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds From Sale of Property and Equipment, Intangible Assets and Investment Property		3	1
Interest Received		7	16
Purchase of Property and Equipment and Intangible Assets (*)	12 and 13	(171)	(92)
Prepayments for the Purchase of Aircrafts		(148)	10
Change in Financial Investments,Net		88	13
<b>Net Cash Used In Investing Activities</b>		<b>( 221)</b>	<b>( 52)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Financial Lease Liabilities		(131)	( 107)
Decrease in Other Financial Liabilities,Net		(6)	2
Interest Paid		(30)	(33)
<b>Net Cash Used In Financing Activities</b>		<b>( 167)</b>	<b>( 138)</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>( 83)</b>	<b>79</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>635</b>	<b>627</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>552</b>	<b>706</b>

(\*) 361 USD portion of property and equipment and intangible assets purchases in total of 532 USD for the year ended 31 March 2015 was financed through finance leases. (31 March 2014: 376 USD portion of property and equipment and intangible assets purchases in total of 468 USD was financed through finance leases.)

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 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 31 March 2015 and 31 December 2014, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 March 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 31 March 2015 is 25,028 (full) (31 December 2014: 25,126 (full)). The average number of employees working for the Group for the three-month period ended 31 March 2015 and 2014 are 25,269 (full) and 23,322 (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 BIST (Borsa İstanbul) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 March 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>31 March 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%	100%	Turkey
THY Aydın Çıldır Havalimanı İşletme A.Ş. (THY Aydın Çıldır)	Training & Airport Operations	100%	100%	Turkey



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 2015**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Company as of 31 March 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 interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The interim condensed consolidated financial statements as at and for the three-month period ended 31 March 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 Interim Condensed Consolidated Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 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 interim condensed consolidated financial statements as of 31 March 2015 on 11 May 2015. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

**Basis of Preparation**

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

**Adjustment of financial statements in hyperinflationary periods**

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

**Functional and Reporting Currency**

*Functional currency*

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

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

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

**Basis of the Consolidation**

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

## **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 interim condensed consolidated financial statements as at 31 March 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 interim condensed consolidated financial statements as at 31 March 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 interim condensed 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.

#### *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.

#### *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*.

## **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)**

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

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

##### *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.

#### **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).

##### *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 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.

## **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 (cont'd)**

##### *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.

### **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**

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 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.

	<b>Pre- acquisition value</b>	<b>Fair value adjustment</b>	<b>Acquisition value</b>
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)
<b>Identifiable assets and liabilities</b>	<b>(4)</b>	<b>16</b>	<b>12</b>
<b>Goodwill arising from acquisition</b>			<b>12</b>
Cash consideration paid			24
Cash and cash equivalents acquired			-
<b>Net cash outflow arising from acquisition</b>			<b>24</b>

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

Company licenses	10
Rent contract	5
<b>Total intangible assets recognized at the acquisition</b>	<b>15</b>

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:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Sun Express	46	61
Turkish DO&CO	50	52
TGS	39	42
THY Opet	32	40
TEC	24	22
Turkbine Teknik	4	4
TCI	4	4
Uçak Koltuk	1	1
Goodrich	-	1
Vergi İade Aracılık (*)	-	-
	<u>200</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 31 March 2015 and 2014 are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Total assets	625	631
Total liabilities	533	510
Shareholders'equity	92	121
Group's share in joint venture's shareholders' equity	46	61
	<u>1 January - 31 March 2015</u>	<u>1 January - 31 March 2014</u>
Revenue	166	191
Profit/ (loss) for the period	(29)	(33)
Group's share in joint venture's profit/(loss) for the period	(15)	(16)

Financial information for Turkish DO&CO as of 31 March 2015 and 2014 are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Total assets	168	172
Total liabilities	69	69
Shareholders'equity	99	103
Group's share in joint venture's shareholders' equity	50	52

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

Financial information for Turkish DO&CO as of 31 March 2015 and 2014 are as follows (cont'd):

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Revenue	87	79
Profit/ (loss) for the period	9	6
Group's share in joint venture's profit/(loss) for the period	4	3

Financial information for TGS as of 31 March 2015 and 2014 are as follows:

	<b>31 March 2015</b>	<b>31 December 2014</b>
Total assets	131	140
Total liabilities	54	56
Shareholders'equity	77	84
Group's share in joint venture's shareholders' equity	39	42
	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Revenue	57	53
Profit/ (loss) for the period	2	3
Group's share in joint venture's profit/(loss) for the period	1	2

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.

Financial information for THY Opet as of 31 March 2015 and 2014 are as follows:

	<b>31 March 2015</b>	<b>31 December 2014</b>
Total assets	253	303
Total liabilities	190	223
Shareholders'equity	63	80
Group's share in joint venture's shareholders' equity	32	40

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

Financial information for THY Opet as of 31 March 2015 and 2014 are as follows (cont'd):

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Revenue	414	623
Profit/ (loss) for the period	(8)	9
Group's share in joint venture's profit/(loss) for the period	(4)	4

Financial information for TEC as of 31 March 2015 and 2014 are as follows:

	<b>31 March 2015</b>	<b>31 December 2014</b>
Total assets	139	129
Total liabilities	91	84
Shareholders'equity	48	45
Group's share in joint venture's shareholders' equity	24	22
	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Revenue	58	44
Profit/ (loss) for the period	3	(1)
Group's share in joint venture's profit/(loss) for the period	2	(1)

Financial information for Turkbine Teknik as of 31 March 2015 and 2014 are as follows:

	<b>31 March 2015</b>	<b>31 December 2014</b>
Total assets	8	6
Total liabilities	-	(1)
Shareholders'equity	8	7
Group's share in joint venture's shareholders' equity	4	4
	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Revenue	1	-
Profit/ (loss) for the period	-	-
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 TCI as of 31 March 2015 and 2014 are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Total assets	16	13
Total liabilities	7	5
Shareholders'equity	9	8
Group's share in joint venture's shareholders' equity	4	4
	<u>1 January - 31 March 2015</u>	<u>1 January - 31 March 2014</u>
Revenue	1	-
Profit/ (loss) for the period	(2)	-
Group's share in joint venture's profit/(loss) for the period	(1)	-

Financial information for Uçak Koltuk as of 31 March 2015 and 2014 are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Total assets	10	11
Total liabilities	9	9
Shareholders'equity	1	2
Group's share in joint venture's shareholders' equity	1	1
	<u>1 January - 31 March 2015</u>	<u>1 January - 31 March 2014</u>
Revenue	1	3
Profit/ (loss) for the period	(1)	-
Group's share in joint venture's profit/(loss) for the period	-	-

Financial information for Goodrich as of 31 March 2015 and 2014 are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Total assets	3	3
Total liabilities	2	2
Shareholders'equity	1	1
Group's share in joint venture's shareholders' equity	-	1

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

Financial information for Goodrich as of 31 March 2015 and 2014 are as follows (cont'd):

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Revenue	1	1
Profit/ (loss) for the period	-	-
Group's share in joint venture's profit/(loss) for the period	-	-

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

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Sun Express	(15)	(16)
Turkish DO&CO	4	3
TGS	1	2
THY Opet	(4)	4
TEC	2	(1)
TCI	(1)	-
	<b>(13)</b>	<b>(8)</b>

**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 of the Group is given in Note 21.

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

**5.1 Total Assets and Liabilities**

	<b>31 March 2015</b>	<b>31 December 2014</b>
Total Assets		
Aviation	14,188	13,677
Technical	1,101	1,110
Total	15,289	14,787
Less: Eliminations due to consolidation	(958)	(1,041)
Total assets in consolidated financial statements	14,331	13,746

	<b>31 March 2015</b>	<b>31 December 2014</b>
Total Liabilities		
Aviation	10,027	9,732
Technical	464	477
Total	10,491	10,209
Less: Eliminations due to consolidation	(349)	(413)
Total liabilities in consolidated financial statements	10,142	9,796

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

Segment Results:

<b>1 January - 31 March 2015</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	2,173	46	-	2,219
Inter-Segment Sales	10	161	(171)	-
Revenue	2,183	207	(171)	2,219
Cost of Sales (-)	(1,968)	(151)	170	(1,949)
Gross Profit	215	56	(1)	270
Administrative Expenses (-)	(47)	(29)	3	(73)
Marketing and Sales Expenses (-)	(266)	(1)	0	(267)
Other Operating Income	57	5	(2)	60
Other Operating Expenses (-)	(3)	(5)	-	(8)
Adjusted Operating Profit / (Loss)	(44)	26	-	(18)
Income from Investment Activities	13	-	-	13
Share of Investments' Profit / (Loss) Accounted by Using The Equity Method	(14)	1	-	(13)
Operating Profit / (Loss) Before Financial Income / (Expense)	(45)	27	-	(18)
Financial Income	330	7	(15)	322
Financial Expense (-)	(68)	(4)	15	(57)
Profit Before Tax	217	30	-	247

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

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

<b>1 January - 31 March 2014</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	2,261	54	-	2,315
Inter-Segment Sales	4	122	(126)	-
Revenue	2,265	176	(126)	2,315
Cost of Sales (-)	(2,071)	(136)	120	(2,087)
Gross Profit	194	40	(6)	228
Administrative Expenses (-)	(43)	(27)	6	(64)
Marketing and Sales Expenses (-)	(265)	(2)	-	(267)
Other Operating Income	25	4	(2)	27
Other Operating Expenses (-)	(3)	(4)	-	(7)
Adjusted Operating Profit / (Loss)	(92)	11	(2)	(83)
Income from Investment Activities	13	-	-	13
Share of Investments' Profit / (Loss) Accounted by Using The Equity Method	(7)	(1)	-	(8)
Operating Profit / (Loss) Before Financial Income/(Expense)	(86)	10	(2)	(78)
Financial Income	26	1	(3)	24
Financial Expense (-)	(84)	(2)	3	(83)
Profit / (Loss) Before Tax	(144)	9	(2)	(137)

**5.3 Investment Operations**

<b>1 January - 31 March 2015</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	497	35	-	532
Current period depreciation and amortization change	178	25	-	203
Investments accounted by using the equity method	170	30	-	200

  

<b>1 January - 31 March 2014</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	437	31	-	468
Current period depreciation and amortization change	158	16	-	174
Investments accounted by using the equity method	145	26	-	171

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**6. CASH AND CASH EQUIVALENTS**

	<u>31 March 2015</u>	<u>31 December 2014</u>
Cash	1	2
Banks – Time deposits	431	503
Banks – Demand deposits	113	114
Other liquid assets	7	16
	<u>552</u>	<u>635</u>

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2015</u>
287	TL	10.08% - 11.01%	April 2015	112
174	USD	2.07%	April 2015	174
133	EUR	1.08% - 2.2%	May 2015	145
				<u>431</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>31 March 2015</u>	<u>31 December 2014</u>
Time deposits with maturity more than 3 months	-	87

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



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**8. BORROWINGS**

Short term portions of long term borrowings are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Finance lease obligations (Note: 14)	607	613

Long term borrowings are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Finance lease obligations (Note: 14)	5,283	5,318

**9. OTHER FINANCIAL LIABILITIES**

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
Other financial liabilities	13	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**

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
Sun Express	7	-

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

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

(\*) It consists of the dividend receivables of 2013, which was paid in April 2015.

The Group also made advance payments to Sun Express at the amount of 3 USD included in the prepaid expenses in accompanying financial statements.

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
THY Opet	52	82
Turkish DO&CO	32	27
TEC	20	10
TGS	12	15
Goodrich	1	-
Sun Express	-	14
	<u>117</u>	<u>148</u>

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

Transactions with related parties for the three-month period ended 31 March 2015 and 2014 are as follows:

a) Sales to related parties:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Sun Express	11	18
TEC	4	5
TGS	1	3
	<u>16</u>	<u>26</u>

b) Purchases from related parties:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
THY Opet	349	536
Turkish DO&CO	80	77
Sun Express	57	77
TGS	50	44
TEC	45	43
Goodrich	1	-
	<u>582</u>	<u>777</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 1 USD (1 January-31 March 2014: 1 USD).

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**11. OTHER RECEIVABLES**

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

	<b>31 March 2015</b>	<b>31 December 2014</b>
Predelivery payments made for aircrafts	1,150	990
Receivables from technical purchases	144	124
Bank deposits with transfer limitations (*)	47	20
Value added tax receivables	43	48
Receivables from pilots for flight training	14	12
Receivables from employees	1	1
Other receivables	2	1
	<u>1,401</u>	<u>1,196</u>

(\*) As of 31 March 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 31 March 2015 and 31 December 2014 are as follows:

	<b>31 March 2015</b>	<b>31 December 2014</b>
Predelivery payments made for aircrafts	638	650
Interest and commodity swap agreement deposits	158	192
Receivables related to investment certificates	135	140
Receivables from pilots for flight training	56	59
Deposits and guarantees given	11	11
Bank deposits with transfer limitations (*)	5	6
Other receivables	1	1
	<u>1,004</u>	<u>1,059</u>

(\*) As of 31 March 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
<b><u>Cost</u></b>									
Opening balance at 1 January 2015	164	284	144	11,301	459	346	446	111	13,255
Additions	-	2	5	459	1	27	-	34	528
Transfer	-	-	-	11	-	-	-	(11)	-
Disposals	-	-	-	(3)	-	(3)	-	-	(6)
Closing balance at 31 March 2015	164	286	149	11,768	460	370	446	134	13,777
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2015	47	125	90	3,430	163	132	67	-	4,054
Depreciation charge	2	6	5	156	8	13	8	-	198
Disposals	-	-	-	(3)	-	-	-	-	(3)
Closing balance at 31 March 2015	49	131	95	3,583	171	145	75	-	4,249
Net book value 31 March 2015	115	155	54	8,185	289	225	371	134	9,528
Net book value 31 December 2014	117	159	54	7,871	296	214	379	111	9,201

As at 31 March 2015, carrying value of the aircrafts and spare engines acquired through finance leases is 7,707 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
<b><u>Cost</u></b>									
Opening balance at 1 January 2014	116	230	161	9,883	365	263	98	559	11,675
Additions	-	13	4	380	13	12	-	44	466
Transfers	-	-	-	-	-	-	146	(146)	-
Transfers between accounts	-	(5)	5	-	-	-	-	-	-
Disposals	-	(1)	(2)	(3)	(2)	(4)	-	-	(12)
Closing balance at 31 March 2014	116	237	168	10,260	376	271	244	457	12,129
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2014	44	109	117	3,102	115	103	42	-	3,632
Depreciation charge	4	5	4	138	9	10	1	-	171
Transfers between accounts	-	(1)	1	-	-	-	-	-	-
Disposals	-	-	(2)	(3)	(2)	(4)	-	-	(11)
Closing balance at 31 March 2014	48	113	120	3,237	122	109	43	-	3,792
Net book value 31 March 2014	68	124	48	7,023	254	162	201	457	8,337

As at 31 March 2014, carrying value of the aircrafts and spare engines acquired through finance leases is 6,450 USD.

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**13. OTHER INTANGIBLE ASSETS**

	<b>Slot Rights and Acquired Technical Licenses</b>	<b>Other Rights</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<b><u>Cost</u></b>				
Opening balance at 1 January 2015	23	121	5	149
Additions	-	4	-	4
Closing balance at 31 March 2015	<u>23</u>	<u>125</u>	<u>5</u>	<u>153</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2015	-	77	1	78
Amortization charge	-	5	-	5
Closing balance at 31 March 2015	<u>-</u>	<u>82</u>	<u>1</u>	<u>83</u>
Net book value at 31 March 2015	<u>23</u>	<u>43</u>	<u>4</u>	<u>70</u>
Net book value at 31 December 2014	<u>23</u>	<u>44</u>	<u>4</u>	<u>71</u>

	<b>Slot Rights and Acquired Technical Licenses</b>	<b>Other Rights</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<b><u>Cost</u></b>				
Opening balance at 1 January 2014	23	90	5	118
Additions	-	2	-	2
Closing balance at 31 March 2014	<u>23</u>	<u>92</u>	<u>5</u>	<u>120</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2014	-	65	-	65
Amortization charge	-	3	-	3
Closing balance at 31 March 2014	<u>-</u>	<u>68</u>	<u>-</u>	<u>68</u>
Net book value at 31 March 2014	<u>23</u>	<u>24</u>	<u>5</u>	<u>52</u>

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

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**14. LEASING TRANSACTIONS**

Maturities of finance lease obligations are as follows:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Less than 1 year	727	736
Between 1 – 5 years	2,830	2,848
Over 5 years	3,057	3,067
	<u>6,614</u>	<u>6,651</u>
Less: Future interest expenses	(724)	(720)
Principal value of future rentals stated in financial statements	<u>5,890</u>	<u>5,931</u>
	<u>31 March 2015</u>	<u>31 December 2014</u>
Interest Range:		
Floating rate obligations	3,156	3,176
Fixed rate obligations	2,734	2,755
	<u>5,890</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 31 March 2015, the US Dollars, Euro and JPY denominated lease obligations' weighted average interest rates are 3.75% ( 31 December 2014: 3.69%) for the fixed rate obligations and 1.00 % (31 December 2014: 0.98% ) for the floating rate obligations.

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

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

(a) Short-term provisions for employee benefits

	<u>31 March 2015</u>	<u>31 December 2014</u>
Provisions for unused vacation	56	58

Changes in the provisions during 31 March 2015 and 2014 periods are set out below:

	<u>1 January - 31 March 2015</u>	<u>1 January - 31 March 2014</u>
Provision at the beginning of the year	58	30
Provision for the current period	5	10
Foreign currency translation differences	(7)	(1)
Provision at the end of the period	<u>56</u>	<u>39</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:

	<u>31 March 2015</u>	<u>31 December 2014</u>
Provisions for legal claims	<u>14</u>	<u>16</u>

Changes in the provisions for legal claims during 31 March 2015 and 2014 periods are set out below:

	<u>1 January - 31 March 2015</u>	<u>1 January - 31 March 2014</u>
Provision at the beginning of the year	16	14
Provision for the current period	2	2
Provisions released	(1)	-
Foreign currency translation differences	(3)	(1)
Provision at the end of the period	<u>14</u>	<u>15</u>

The Group recognizes provisions for lawsuits against it 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 during 2015.



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**16. COMMITMENTS**

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

	<b>31 March 2015</b>		<b>31 December 2014</b>	
	<b>Original currency amount</b>	<b>USD equivalent</b>	<b>Original currency amount</b>	<b>USD equivalent</b>
A. Total amounts of GPM given on the behalf of its own legal entity	-	59	-	58
-Collaterals				
TL	27	10	27	11
EUR	11	12	8	10
USD	35	35	35	35
Other	-	2	-	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 the other GPM given by the group to its equity is 0% as of 31 March 2015 (31 December 2014: 0%)

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

	<b>31 March 2015</b>	<b>31 December 2014</b>
Less than 1 year	187	190
Between 1 – 5 years	501	530
More than 5 years	79	96
	<u>767</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>31 March 2015</u>	<u>31 December 2014</u>
Less than 1 year	5	5
Between 1 – 5 years	22	24
More than 5 years	42	47
	<u>69</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 4 were delivered in the first three-month period of 2015. The Group has made an advance payment of 1.8 billion US Dollars (full) relevant to these purchases as of 31 March 2015.

**17. EMPLOYEE BENEFITS**

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
Provisions for retirement pay liability	115	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 1,357 (full) as of 1 January 2015 (1 January 2014: US Dollar 1,611 (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 interim condensed consolidated financial statements as of 31 March 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 2.24% (31 December 2014: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,357 (full) in effect from 1 January 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:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Provisions at the beginning of the year	127	117
Service charge for the year	5	7
Interest charges	1	1
Payments	(4)	(7)
Foreign currency translation difference	(14)	(3)
Provisions at the end of the period	<u>115</u>	<u>115</u>

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**18. EXPENSES BY NATURE**

Expenses by nature for the three-month period ended 31 March 2015 and 2014 are as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Fuel expenses	720	887
Personnel expenses	412	398
Depreciation expenses	203	174
Ground services expenses	144	145
Passenger services and catering expenses	137	126
Air traffic control expenses	112	124
Aircraft maintenance expenses	95	93
Airport expenses	91	95
Commissions and incentives	79	78
Wet Lease expenses	61	91
Reservation systems expenses	59	56
Operating lease expenses	49	36
Advertisement and promotion expenses	37	38
Service expenses	15	12
Rents	14	10
Insurance expenses	9	8
IT&communication expenses	9	9
Other marketing and sales expenses	9	8
Other expenses	8	10
Transportation expenses	6	6
Taxes and duties	6	4
Utility expenses	4	2
Other general administrative expenses	3	2
Systems use and associateship expenses	2	1
Consultancy expenses	2	2
Consultancy expenses	1	1
Maintenance expenses	1	1
Membership fees	1	1
	<u>2,289</u>	<u>2,418</u>

**19. PASSENGER FLIGHT LIABILITIES**

Passenger flight liability is as follows;

	<b>31 March 2015</b>	<b>31 December 2014</b>
Flight liability generating from ticket sales	1,577	1,203
Flight liability generating from FFP programme	176	195
	<u>1,753</u>	<u>1,398</u>

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**20. SHAREHOLDERS' EQUITY**

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

	<b>Class</b>	<b>%</b>	<b>31 March 2015</b>	<b>%</b>	<b>31 December 2014</b>
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 31 March 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",

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

- e) Every decision or action which directly or indirectly put the Company under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board (this sentence will expire when the Company's shares held by Turkish State decrease under 20%).
- f) Decisions relating to merges and liquidation,
- g) Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

### **Restricted Profit Reserves**

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 February 1, 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:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Passenger revenue		
Scheduled	1,935	2,009
Unscheduled	6	13
Total passenger revenue	1,941	2,022
Cargo revenue		
Carried by passenger aircraft	131	126
Carried by cargo aircraft	93	103
Total cargo revenue	224	229
Total passenger and cargo revenue	2,165	2,251
Technical revenue	46	54
Other revenue	8	10
Net sales	2,219	2,315
Cost of sales (-)	(1,949)	(2,087)
Gross profit	270	228

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

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
- Europe	639	703
- Far East	520	548
- Middle East	282	288
- America	252	226
- Africa	188	210
Total international flights	1,881	1,975
Domestic flights	284	276
Total passenger and cargo revenue	2,165	2,251

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**22. COST OF SALES**

Breakdown of the cost of sales is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Fuel expenses	720	887
Personnel expenses	314	289
Depreciation expenses	185	163
Ground services expenses	144	145
Passenger services and catering expenses	137	126
Air traffic control expenses	112	124
Aircraft maintenance expenses	95	93
Airport expenses	91	95
Wet Lease expenses	61	91
Operating lease expenses	49	36
Insurance expenses	9	8
Service expenses	8	6
Transportation expenses	6	6
Rents	6	5
Taxes and duties	2	2
Utility expenses	2	1
Other expenses	8	10
	<u>1,949</u>	<u>2,087</u>

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

Breakdown of General administrative expenses is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Personnel expenses	33	37
Depreciation expenses	16	9
IT&communication expenses	7	7
Service expenses	5	4
Rents	3	1
Systems use and associateship expenses	2	1
Utility expenses	2	1
Consultancy expenses	1	1
Maintenance expenses	1	1
Other general administrative expenses	3	2
	<u>73</u>	<u>64</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:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Commissions and incentives	79	78
Personnel expenses	65	72
Reservation systems expenses	59	56
Advertisement and promotion expenses	37	38
Rents	5	4
Taxes and duties	4	2
IT&communication expenses	2	2
Consultancy expenses	2	2
Service expenses	2	2
Depreciation expenses	2	2
Membership fees	1	1
Other marketing and sales expenses	9	8
	<u>267</u>	<u>267</u>

**24. OTHER OPERATING INCOME / EXPENSES**

Breakdown of other operating income is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Foreign exchange gains from commercial activities, net	24	7
Manufacturers' credits	19	1
Provisions released	7	2
Insurance, indemnities, penalties income	5	5
Non- interest income from banks	1	1
Rent income	1	1
TGS share premium (Note: 4)	-	2
Other operating income	3	8
	<u>60</u>	<u>27</u>

Breakdown of other operating expenses is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Provisions	2	4
Indemnity and penalty expenses	1	1
Rediscount interest expenses	1	1
Other operating expenses	4	1
	<u>8</u>	<u>7</u>

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

Breakdown of income from investment activities is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Income from investment incentives	11	12
Interest income from financial investments	2	1
	<u>13</u>	<u>13</u>

**26. FINANCIAL INCOME/EXPENSES**

Breakdown of financial income is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Foreign exchange gains from financial activities	316	-
Interest income	4	7
Rediscount interest income from prepayments of aircrafts	2	1
Fair value gains on derivative financial instruments	-	16
	<u>322</u>	<u>24</u>

Breakdown of financial expenses is as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Finance lease interest expenses	39	39
Fair value losses on derivative financial instruments	12	-
Aircraft financing expenses	4	2
Interest expenses on employee benefits	1	1
Foreign exchange losses on financial activities	-	40
Other financial expenses	1	1
	<u>57</u>	<u>83</u>

**27. TAX ASSETS AND LIABILITIES**

Breakdown of assets related to current tax is as follows:

	<b>31 March 2015</b>	<b>31 December 2014</b>
Prepaid taxes	<u>8</u>	<u>8</u>

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

Tax liability is as follows:

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

Tax expense / (income) is as follows:

	<u>1 January - 31 March 2015</u>	<u>1 January - 31 March 2014</u>
Current period tax expense	-	-
Deferred tax expense / (income)	94	(35)
Tax expense / (income)	<u>94</u>	<u>(35)</u>

Tax effect related to other comprehensive income is as follows:

	<u>1 January - 31 March 2015</u>			<u>1 January - 31 March 2014</u>		
	Amount before tax	Tax income	Amount tax	Amount tax	Tax income	Amount tax
Changes in foreign currency translation difference	(21)	-	(21)	(3)	-	(3)
Change in cash flow hedge reserve	134	(27)	107	(2)	-	(2)
Other comprehensive income	<u>113</u>	<u>(27)</u>	<u>86</u>	<u>(5)</u>	<u>-</u>	<u>(5)</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 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.

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

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.

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
Fixed assets	(1,005)	(884)
Tax loss carried forward	66	24
Accruals for expenses	54	54
Change in fair value of derivative instruments	39	55
Miles accruals	30	32
Income and expense accruals	25	28
Provisions for employee benefits	23	25
Provisions for unused vacation	11	11
Long-term lease obligations	5	5
Allowance for doubtful receivables	4	5
Provision for impairment of inventories	2	2
Provisional income	1	(14)
Fair value corrections of business combinations	(1)	(1)
Other	3	3
Deferred tax liabilities	<u>(743)</u>	<u>(655)</u>

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

*Deferred Tax (cont'd)*

The changes of deferred tax liability for interim periods 1 January – 31 March 2015 and 2014 are as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Opening balance at 1 January	655	518
Deferred tax expense / (income)	94	(35)
Tax expense from hedging reserves	25	-
Foreign currency translation difference	(31)	(8)
Deferred tax liability at the end of the period	<u>743</u>	<u>475</u>

Reconciliation with current tax charge for interim periods 1 January – 31 March 2015 and 2014 are as follows:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Profit from operations before tax	247	(137)
Domestic income tax rate of 20%	49	(27)
Taxation effects on:		
- income from investment certificates	(2)	(2)
- non-deductible expenses	-	1
- foreign currency translation difference	36	6
- equity method	13	8
- adjustment for prior year loss	(2)	(21)
- other	-	-
Tax charge in statement of profit or loss	<u>94</u>	<u>(35)</u>

**28. EARNINGS PER SHARE**

Earnings per share disclosed in the interim condensed consolidated statements of profit or loss are 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 – 31 March 2015 and 2014:

	<b>1 January - 31 March 2015</b>	<b>1 January - 31 March 2014</b>
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
New bonus shares issued (in full)	-	-
Number of shares outstanding at 31 March (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net profit / (loss) for period	153	(102)
Basic profit per share (cent per share) (*)	0.11	(0.07)

(\*) 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 31 March 2015 and 31 December 2014 are as follows:

<u>Derivative financial assets</u>	<b>31 March 2015</b>	<b>31 December 2014</b>
Cross currency rate swap agreements	214	138
Derivative instruments for interest rate cash flow hedge	11	12
Derivative instruments for fuel prices cash flow hedge	48	2
	<u>273</u>	<u>152</u>
<u>Derivative financial liabilities</u>	<b>31 March 2015</b>	<b>31 December 2014</b>
Derivative instruments for fuel prices cash flow hedge	380	358
Derivative instruments for interest rate cash flow hedge	86	68
Cross currency rate swap agreements	2	1
	<u>468</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:

	31 March 2015					
	USD EQUIVALENT	TL	EUR	GBP	JPY	OTHER
1.Trade Receivables	499	115	106	38	11	229
2a.Monetary Financial Assets	375	124	158	4	3	86
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	366	237	56	9	2	62
<b>4.Current Assets (1+2+3)</b>	<b>1,240</b>	<b>476</b>	<b>320</b>	<b>51</b>	<b>16</b>	<b>377</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	59	5	46	-	-	8
<b>8.Non Current Assets (5+6+7)</b>	<b>59</b>	<b>5</b>	<b>46</b>	<b>-</b>	<b>-</b>	<b>8</b>
<b>9.Total Assets (4+8)</b>	<b>1,299</b>	<b>481</b>	<b>366</b>	<b>51</b>	<b>16</b>	<b>385</b>
10.Trade Payables	368	206	122	4	1	35
11.Financial Liabilities	386	13	256	-	117	-
12a.Other Liabilities, Monetary	423	331	65	1	18	8
12b.Other Liabilities, Non Monetary	70	70	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,247</b>	<b>620</b>	<b>443</b>	<b>5</b>	<b>136</b>	<b>43</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	3,508	-	1,975	-	1,533	-
16a.Other Liabilities, Monetary	13	1	7	-	-	5
16b.Other Liabilities, Non Monetary	115	115	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>3,636</b>	<b>116</b>	<b>1,982</b>	<b>-</b>	<b>1,533</b>	<b>5</b>
<b>18.Total Liabilities (13+17)</b>	<b>4,883</b>	<b>736</b>	<b>2,425</b>	<b>5</b>	<b>1,669</b>	<b>48</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(3,584)</b>	<b>(255)</b>	<b>(2,059)</b>	<b>46</b>	<b>(1,653)</b>	<b>337</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(3,824)</b>	<b>(312)</b>	<b>(2,161)</b>	<b>37</b>	<b>(1,655)</b>	<b>267</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Foreign currency risk management (cont'd)

	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
<b>4.Current Assets (1+2+3)</b>	<b>1,463</b>	<b>630</b>	<b>458</b>	<b>55</b>	<b>10</b>	<b>310</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	61	2	50	-	-	9
<b>8.Non Current Assets (5+6+7)</b>	<b>61</b>	<b>2</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>9.Total Assets (4+8)</b>	<b>1,524</b>	<b>632</b>	<b>508</b>	<b>55</b>	<b>10</b>	<b>319</b>
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	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,362</b>	<b>656</b>	<b>498</b>	<b>11</b>	<b>133</b>	<b>64</b>
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	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>3,830</b>	<b>128</b>	<b>2,226</b>	<b>-</b>	<b>1,471</b>	<b>5</b>
<b>18.Total Liabilities (13+17)</b>	<b>5,192</b>	<b>784</b>	<b>2,724</b>	<b>11</b>	<b>1,604</b>	<b>69</b>
<b>19.Net asset / liability position of off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(3,668)</b>	<b>(152)</b>	<b>(2,216)</b>	<b>44</b>	<b>(1,594)</b>	<b>250</b>
<b>21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(3,921)</b>	<b>(242)</b>	<b>(2,321)</b>	<b>34</b>	<b>(1,596)</b>	<b>204</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23.Hedged foreign currency assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



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**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.

	<b>31 March 2015</b>	
	<b>Profit / (Loss)</b>	
	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	(206)	206
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(206)</u>	<u>206</u>
7- JPY net asset / liability	(165)	165
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (10+11)	<u>(165)</u>	<u>165</u>
10- GBP net asset / liability	5	(5)
11- Part hedged from GBP risk (-)	-	-
12- GBP net effect (7+8)	<u>5</u>	<u>(5)</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>
<b>TOTAL (3 + 6 + 9 + 12+15)</b>	<u><u>(358)</u></u>	<u><u>358</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)

	<b>31 December 2014</b>	
	<b>Profit / (Loss)</b>	
	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 (10+11)	<u>(159)</u>	<u>159</u>
10- GBP net asset / liability	4	(4)
11- Part hedged from GBP risk (-)	-	-
12- GBP net effect (7+8)	<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>
<b>TOTAL (3 + 6 + 9 + 12+15)</b>	<u><u>(367)</u></u>	<u><u>367</u></u>