

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

Condensed Consolidated Interim  
Financial Statements As At and For  
The Three-Month Period  
Ended 31 March 2016

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Balance Sheet as at 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<b>ASSETS</b>	<b>Notes</b>	<b>31 March 2016</b>	<b>31 December 2015</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	5	1,102	900
Financial Investments	6	-	62
Trade Receivables			
-Trade Receivables From Related Parties	9	2	-
-Trade Receivables From Non-Related Parties		483	361
Other Receivables			
-Other Receivables from Related Parties	9	3	3
-Other Receivables from Non-Related Parties	10	1,186	1,382
Derivative Financial Instruments	28	73	100
Inventories		215	216
Prepaid Expenses		84	74
Current Income Tax Assets	26	8	12
Other Current Assets		42	36
<b>TOTAL CURRENT ASSETS</b>		<b>3,198</b>	<b>3,146</b>
<b>Non-Current Assets</b>			
Financial Investments	6	32	1
Other Receivables			
-Other Receivables from Non-Related Parties	10	917	1,058
Investments Accounted by Using Equity Method	3	226	246
Investment Property		1	1
Property and Equipment	11	12,137	11,415
Intangible Assets			
- Other Intangible Assets	12	85	89
- Goodwill		12	12
Prepaid Expenses		454	415
<b>TOTAL NON-CURRENT ASSETS</b>		<b>13,864</b>	<b>13,237</b>
<b>TOTAL ASSETS</b>		<b>17,062</b>	<b>16,383</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Balance Sheet as at 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 March 2016</b>	<b>31 December 2015</b>
<b>Current Liabilities</b>			
Short Term Borrowings	7	250	250
Short-Term Portion of Long-Term Borrowings	7 and 13	854	763
Other Financial Liabilities	8	21	15
Trade Payables			
-Trade Payables to Related Parties	9	105	132
-Trade Payables to Non-Related Parties		542	539
Payables Related to Employee Benefits		189	121
Other Payables			
-Other Payables to Non-Related Parties		91	84
Derivative Financial Instruments	28	483	568
Deferred Income		13	13
Passenger Flight Liabilities	18	1,253	1,091
Current Tax Provision	26	-	10
Short-Term Provisions			
-Provisions for Employee Benefits	14	59	52
-Other Provisions	14	15	15
Other Current Liabilities		210	218
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,085</b>	<b>3,871</b>
<b>Non- Current Liabilities</b>			
Long-Term Borrowings	7 and 13	7,563	6,636
Other Payables			
-Other Payables to Non-Related Parties		13	12
Deferred Income		15	16
Long-Term Provisions			
-Provisions for Employee Benefits	16	127	119
Deferred Tax Liability	26	779	887
<b>TOTAL NON- CURRENT LIABILITIES</b>		<b>8,497</b>	<b>7,670</b>
<b>Equity</b>			
Share Capital	19	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	19	( 8)	( 8)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	( 76)	( 84)
-Fair Value (Losses) on Hedging Instruments Entered into for Cash Flow Hedges	19	( 276)	( 327)
Restricted Profit Reserves	19	36	36
Previous Years Profit	19	3,628	2,559
Net (Loss) / Profit for the Period		( 421)	1,069
<b>TOTAL EQUITY</b>		<b>4,480</b>	<b>4,842</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>17,062</b>	<b>16,383</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Profit or Loss and**  
**Other Comprehensive Income For the Three-Month Period Ended 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	<b>Notes</b>	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
<b><u>PROFIT OR LOSS</u></b>			
Sales Revenue	20	2,188	2,219
Cost of Sales (-)	21	( 2,069)	( 1,914)
<b>GROSS PROFIT</b>		<b>119</b>	<b>305</b>
General Administrative Expenses (-)	22	( 82)	( 73)
Marketing and Sales Expenses (-)	22	( 317)	( 267)
Other Operating Income	23	74	60
Other Operating Expenses (-)	23	( 8)	( 8)
<b>OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES</b>		<b>( 214)</b>	<b>17</b>
Income from Investment Activities	24	21	13
Share of Investments' (Loss) Accounted by Using The Equity Method	3	( 24)	( 13)
<b>OPERATING (LOSS) / PROFIT</b>		<b>( 217)</b>	<b>17</b>
Financial Income	25	16	322
Financial Expenses (-)	25	( 335)	( 92)
<b>(LOSS) / PROFIT BEFORE TAX</b>		<b>( 536)</b>	<b>247</b>
<b>Tax Income / (Expense)</b>		<b>115</b>	<b>( 94)</b>
Current Tax Expense	26	( 10)	-
Deferred Tax Income / (Expense)	26	125	( 94)
<b>(LOSS) / PROFIT FOR THE PERIOD</b>		<b>( 421)</b>	<b>153</b>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
<b>Items That May Be Reclassified Subsequently To Profit or Loss</b>		<b>59</b>	<b>86</b>
Currency Translation Adjustment		8	( 21)
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		67	124
Fair Value (Loss)/Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		( 3)	10
Income Tax Relating to Items That May Be Reclassified Subsequently to Profit or Loss		( 13)	( 27)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>59</b>	<b>86</b>
<b>TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD</b>		<b>( 362)</b>	<b>239</b>
<b>Basic (Loss) / Earning Per Share (Full US Cents)</b>	27	( 0.31)	0.11
<b>Diluted (Loss) / Earning Per Share (Full US Cents)</b>	27	( 0.31)	0.11

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**For the Three-Month Period Ended 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		Total Equity	
	Actuarial (Losses) on Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net (Loss) / Profit for the Period		
<b>Share Capital</b>								
<b>As of 31 December 2015</b>	<b>1,597</b>	<b>(8)</b>	<b>(84)</b>	<b>(327)</b>	<b>36</b>	<b>2,559</b>	<b>1,069</b>	<b>4,842</b>
Transfers	-	-	-	-	-	1,069	(1,069)	-
Total comprehensive income /(loss)	-	-	8	51	-	-	(421)	(362)
<b>As of 31 March 2016</b>	<b>1,597</b>	<b>(8)</b>	<b>(76)</b>	<b>(276)</b>	<b>36</b>	<b>3,628</b>	<b>(421)</b>	<b>4,480</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim 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 (Losses) on Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value (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 /(loss)	-	-	(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**

**Condensed Consolidated Interim Statement of Cash Flows**

**For the Three-Month Period Ended 31 March 2016**

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

	Notes	1 January- 31 March 2016 (420)	1 January- 31 March 2015 153
(Loss) / Profit for the Period			
<b>Adjustments to reconcile cash flows generated from operating activities:</b>			
Adjustments for Depreciation and Amortization	11 and 12	270	203
Adjustments for Provisions for Employee Benefits	16	6	5
Adjustments for Provisions, Net	14	6	6
Adjustments for Interest Income	25	(17)	(8)
Adjustment for Component and Repairable Spare parts	11	5	-
Share of Investments' (Profit) Accounted for			
Using The Equity Method	3	24	13
Adjustments for Interest Expense	25	50	40
Change in Manufacturers' Credit		-	(1)
Unrealized Foreign Exchange Translation Differences		301	(342)
Tax (Expense) / Income	26	(115)	94
Change in Provision for Doubtful Receivables		-	(6)
Change in Fair Value of Derivative Instruments	28	8	47
<b>Operating profit before working capital changes</b>		<b>118</b>	<b>204</b>
Adjustments for Change in Trade Receivables		(124)	(124)
Adjustments for Change in Other Short and Long			
Term Receivables		76	(2)
Adjustments for Change in Inventories		1	(33)
Adjustments for Change in Other Receivables			
Related to Operations		(8)	10
Adjustments for Change in Other Current and			
Non- Current Assets and Prepaid Expenses		(49)	(28)
Adjustments for Change in Short Term and			
Long Term Trade Payables		(25)	(64)
Adjustments for Change in Short Term and Long Term Payables			
Related to Operations and Deferred Income		(9)	(9)
Adjustments for Change in Short-Term Provisions for			
Employee Benefits		75	-
Adjustments for Change in Passenger Flight Liabilities		162	355
<b>Cash Flows Generated From Operating Activities</b>		<b>217</b>	<b>309</b>
Payment of Retirement Pay Liabilities	16	(3)	(4)
Taxes Received	26	4	-
<b>Net Cash Generated From Operating Activities</b>		<b>218</b>	<b>305</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds From Sale of Property Equipment and Intangible Assets		-	3
Interest Received		16	7
Payments for Property and Equipment and Intangible Assets (*)	11 and 12	(233)	(171)
Prepayments for the Purchase of Aircrafts		262	(148)
Change in Financial Investments,Net		31	88
<b>Net Cash Used In Investing Activities</b>		<b>76</b>	<b>( 221)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Financial Lease Liabilities		(197)	(131)
Proceeds From Short-Term Borrowings		130	-
Interest Paid		(31)	(30)
Decrease in Other Financial and Derivative Liabilities		6	(6)
<b>Net Cash Used In Financing Activities</b>		<b>( 92)</b>	<b>( 167)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>202</b>	<b>( 83)</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT THE BEGINNING OF THE PERIOD</b>		<b>900</b>	<b>635</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT THE END OF THE PERIOD</b>		<b>1,102</b>	<b>552</b>

(\*) 760 USD portion of property and equipment and intangible assets purchases in total of 993 USD for the year ended 31 March 2016 was financed through finance leases. (31 March 2015: 361 USD portions of property and equipment and intangible assets purchases in total of 532 USD was financed through finance leases.

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

**1. COMPANY ORGANIZATION AND ITS OPERATIONS**

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

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

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 March 2016 are 28,769 (31 December 2015: 27,676). The average number of employees working for the Group for the year ended 31 March 2016 and 2015 are 28,293 and 25,269 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 31 March 2016 and 31 December 2015:

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

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



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Subsidiaries and Joint Ventures (cont'd)

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

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air 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 three-month period ended 31 March 2016 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**As At And For the Three-Month Period Ended 31 March 2016**  
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

**2.1 Basis of Presentation (cont'd)**

**Statement of Compliance (cont'd)**

Board of Directors has approved the condensed consolidated interim financial statements as of 31 March 2016 on 9 May 2016. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

**Basis of Preparation**

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

**Adjustment of Financial Statements in Hyperinflationary Periods**

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

**Functional and Reporting Currency**

*Functional currency*

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

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

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

**Basis of Consolidation**

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

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

### **2.1 Basis of Presentation (cont'd)**

#### **Basis of Consolidation (cont'd)**

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

#### **Business Combinations**

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

### **2.2 Changes and Errors in Accounting Estimates**

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

### **2.3 Summary of Significant Accounting Policies**

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

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

### **2.4 New and Revised Standards and Interpretations**

#### **Standards issued but not yet effective and not early adopted**

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

#### *IFRS 9 - Financial Instruments – Classification and measurement*

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

#### *IFRS 9 Financial Instruments – Hedge Accounting and amendments to TFRS 9, TFRS 7 and TAS 39 - IFRS 9 (2013)*

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

#### *IFRS 9 Financial Instruments (2014)*

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

#### *IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

##### *IFRS 16 Leases*

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

##### *Amendments to IAS 7 – Disclosure Initiative*

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

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

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

### **2.5 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. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD**

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Sun Express	59	90
Turkish DO&CO	60	54
TGS	43	40
THY Opet	29	28
TEC	29	26
Turkbine Teknik	2	2
TCI	2	3
Uçak Koltuk	1	2
Goodrich	1	1
Vergi İade Aracılık (*)	-	-
	<u>226</u>	<u>246</u>

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

Financial information for Sun Express as of 31 March 2016 and 2015 are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	823	813
Total liabilities	705	633
Shareholders' equity	118	180
Group's share in joint venture's shareholders' equity	59	90
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	166	166
(Loss) for the period	(62)	(29)
Group's share in joint venture's (loss) for the period	(31)	(15)

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	187	174
Total liabilities	68	66
Shareholders' equity	119	108
Group's share in joint venture's shareholders' equity	60	54
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	87	87
Profit for the period	8	9
Group's share in joint venture's profit for the period	4	4

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

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	149	139
Total liabilities	62	59
Shareholders' equity	87	80
Group's share in joint venture's shareholders' equity	43	40
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	62	57
Profit for the period	5	2
Group's share in joint venture's profit for the period	2	1

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	207	213
Total liabilities	149	157
Shareholders' equity	58	56
Group's share in joint venture's shareholders' equity	29	28
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	287	414
(Loss) for the period	-	(8)
Group's share in joint venture's (loss) for the period	-	(4)

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	156	151
Total liabilities	97	97
Shareholders' equity	59	54
Group's share in joint venture's shareholders' equity	29	26
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	69	58
Profit for the period	5	3
Group's share in joint venture's profit for the period	2	2

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

Financial information for Turbine Teknik as of 31 March 2016 and 2015 are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	5	5
Total liabilities	-	-
Shareholders' equity	5	5
Group's share in joint venture's shareholders' equity	2	2
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	-	1
(Loss) for the period	-	-
Group's share in joint venture's profit/(loss) for the period	-	-

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	12	11
Total liabilities	8	6
Shareholders' equity	4	5
Group's share in joint venture's shareholders' equity	2	3
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	3	1
(Loss) for the period	(1)	(2)
Group's share in joint venture's (loss) for the period	-	(1)

Financial information for Uçak Koltuk as of 31 March 2016 and 2015 are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	14	17
Total liabilities	12	13
Shareholders' equity	2	4
Group's share in joint venture's shareholders' equity	1	2
	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Revenue	1	1
(Loss) for the period	(2)	(1)
Group's share in joint venture's (loss) for the period	(1)	-



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

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Total assets	5	4
Total liabilities	3	2
Shareholders' equity	2	2
Group's share in joint venture's shareholders' equity	1	1
	<u>1 January -</u> <u>31 March 2016</u>	<u>1 January -</u> <u>31 March 2015</u>
Revenue	2	1
Profit 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:

	<u>1 January -</u> <u>31 March 2016</u>	<u>1 January -</u> <u>31 March 2015</u>
Sun Express	(31)	(15)
Turkish DO&CO	4	4
TGS	2	1
THY Opet	-	(4)
TEC	2	2
TCI	-	(1)
Uçak Koltuk	(1)	-
	<u>(24)</u>	<u>(13)</u>

**4. SEGMENTAL REPORTING**

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

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

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

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

**4.1 Total Assets and Liabilities**

	<b>31 March 2016</b>	<b>31 December 2015</b>
Total Assets	<u>16,908</u>	<u>16,200</u>
Aviation	16,908	16,200
Technical	1,182	1,198
Total	<u>18,090</u>	<u>17,398</u>
Less: Eliminations due to consolidation	<u>(1,028)</u>	<u>(1,015)</u>
Total assets in consolidated financial statements	<u><u>17,062</u></u>	<u><u>16,383</u></u>

	<b>31 March 2016</b>	<b>31 December 2015</b>
Total Liabilities	<u>12,486</u>	<u>11,438</u>
Aviation	12,486	11,438
Technical	454	508
Total	<u>12,940</u>	<u>11,946</u>
Less: Eliminations due to consolidation	<u>(358)</u>	<u>(405)</u>
Total liabilities in consolidated financial statements	<u><u>12,582</u></u>	<u><u>11,541</u></u>

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

Segment Results:

<b>1 January - 31 March 2016</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to External Customers	2,153	35	-	2,188
Inter-Segment Sales	9	216	(225)	-
Revenue	<u>2,162</u>	<u>251</u>	<u>(225)</u>	<u>2,188</u>
Cost of Sales (-)	<u>(2,114)</u>	<u>(180)</u>	<u>225</u>	<u>(2,069)</u>
Gross Profit	<u>48</u>	<u>71</u>	<u>-</u>	<u>119</u>
Administrative Expenses (-)	(56)	(28)	2	(82)
Marketing and Sales Expenses (-)	(316)	(1)	-	(317)
Other Operating Income	72	8	(6)	74
Other Operating Expenses (-)	<u>(7)</u>	<u>(5)</u>	<u>4</u>	<u>(8)</u>
Operating (Loss) / Profit Before Investment Activities	<u>(259)</u>	<u>45</u>	<u>-</u>	<u>(214)</u>
Income from Investment Activities	21	-	-	21
Share of Investments' Profit Accounted by Using The Equity Method	<u>(26)</u>	<u>2</u>	<u>-</u>	<u>(24)</u>
Operating (Loss) / Profit	<u>(264)</u>	<u>47</u>	<u>-</u>	<u>(217)</u>
Financial Income	19	-	(3)	16
Financial Expense (-)	<u>(335)</u>	<u>(3)</u>	<u>3</u>	<u>(335)</u>
(Loss) / Profit Before Tax	<u><u>(580)</u></u>	<u><u>44</u></u>	<u><u>-</u></u>	<u><u>(536)</u></u>

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

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

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 (-)	(1,933)	(151)	170	(1,914)
Gross Profit	250	56	(1)	305
Administrative Expenses (-)	(47)	(29)	3	(73)
Marketing and Sales Expenses (-)	(266)	(1)	-	(267)
Other Operating Income	74	10	(24)	60
Other Operating Expenses (-)	(24)	(6)	22	(8)
Operating Profit Before Investment Activities	(13)	30	-	17
Income from Investment Activities	13	-	-	13
Share of Investments' Profit Accounted by Using The Equity Method	(14)	1	-	(13)
Operating Profit	(14)	31	-	17
Financial Income	323	2	(3)	322
Financial Expense (-)	(92)	(3)	3	(92)
Profit Before Tax	217	30	-	247

**4.3 Investment Operations**

<b>1 January - 31 March 2016</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of property and equipment and intangible assets	956	37	-	993
Current period depreciation and amortization change	240	30	-	270
Investments accounted by using the equity method	193	33	-	226

  

<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

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**5. CASH AND CASH EQUIVALENTS**

	<u>31 March 2016</u>	<u>31 December 2015</u>
Cash	2	2
Banks – Time deposits	963	823
Banks – Demand deposits	134	69
Other liquid assets	3	6
	<u>1,102</u>	<u>900</u>

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2016</u>
1,404	TL	9.89% - 11.94%	June 2016	499
336	USD	0.50% - 2.67%	May 2016	336
113	EUR	0.82% - 1.56%	April 2016	128
				<u>963</u>

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

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

**6. FINANCIAL INVESTMENTS**

Short-term financial investments are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Time deposits with maturity more than 3 months	-	62

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

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

Long-term financial investments are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Debt to securities/held to maturity		
- Eurobonds	31	-
Other	1	1
	<u>32</u>	<u>1</u>

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**6. FINANCIAL INVESTMENTS (cont'd)**

Details of Eurobonds as of 31 March 2016 is as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2016</u>
31	USD	4.75% - 6.88%	June 2019 - February 2025	31

Other long-term financial investments are as follows:

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

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

Details of the long-term financial investments of the Group at 31 March 2016 are as follows:

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

**7. BORROWINGS**

Short term borrowings are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Short term borrowings	<u>250</u>	<u>250</u>

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

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 March 2016</u>
250	USD	0.94%	June 2016	250

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**7. BORROWINGS (cont'd)**

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

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

Short term portions of long term borrowings are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Finance lease obligations (Note: 13)	847	763
Bank borrowings	7	-
	<u>854</u>	<u>763</u>

Long term borrowings are as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Finance lease obligations (Note:13)	7,440	6,636
Bank borrowings	123	-
	<u>7,563</u>	<u>6,636</u>

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Less than 1 year	7	-
Between 1 – 5 years	110	-
Over 5 years	13	-
	<u>130</u>	<u>-</u>

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

**8. OTHER FINANCIAL LIABILITIES**

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Other financial liabilities	21	15

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

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**9. RELATED PARTY TRANSACTIONS**

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Sun Express	<u>2</u>	<u>-</u>

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Turkish DO&CO (*)	<u>3</u>	<u>3</u>

(\*) The amounts are dividend receivables of 2014.

The Group also made advance payments to Sun Express at the amount of 1 USD included in the prepaid expenses in accompanying consolidated financial statements.

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
THY Opet	44	54
Turkish DO&CO	30	28
TEC	17	19
TGS	14	11
Sun Express	-	19
Goodrich	-	1
	<u>105</u>	<u>132</u>

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

a) Sales to related parties:

	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Sun Express	8	11
TEC	5	4
TGS	1	1
Sun Express Deutschland	1	-
	<u>15</u>	<u>16</u>

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

Transactions with related parties for the year ended 31 March 2016 and 2015 are as follows (cont'd):

b) Purchases from related parties:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
THY Opet	245	349
Turkish DO&CO	81	80
TGS	60	50
Sun Express	57	57
TEC	50	45
Goodrich	1	1
	<u>494</u>	<u>582</u>

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

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are 1 USD (1 January-31 March 2015:1 USD).

**10. OTHER RECEIVABLES**

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

	<b>31 March 2016</b>	<b>31 December 2015</b>
Predelivery payments made for aircrafts	956	1,139
Receivables from technical purchases	105	133
Bank deposits with transfer limitations (*)	71	59
Value added tax receivables	40	38
Receivables from pilots for flight training	11	11
Receivables from employees	1	1
Other receivables	2	1
	<u>1,186</u>	<u>1,382</u>

(\*) As of 31 March 2016, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Egypt, Argentina, Algeria, Greece, Nigeria, Ukraine, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique and Benin.



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**10. OTHER RECEIVABLES (cont'd)**

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Predelivery payments made for aircrafts	321	392
Interest and commodity swap agreement deposits	316	418
Receivables related to investment certificates	195	172
Receivables from pilots for flight training	67	58
Deposits and guarentees given	12	12
Bank deposits with transfer limitations (*)	5	5
Other receivables	1	1
	<u>917</u>	<u>1,058</u>

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

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**11. PROPERTY AND EQUIPMENT**

	Land, Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<b><u>Cost</u></b>									
Opening balance at 1 January 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	-	13	6	836	39	31	-	67	992
Transfers (*)	-	-	-	22	-	-	-	(23)	(1)
Disposals	-	-	(1)	(38)	(11)	(14)	-	-	(64)
Closing balance at 31 March 2016	216	331	174	14,746	574	505	472	196	17,214
<b><u>Accumulated Depreciation</u></b>									
Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	3	7	6	210	11	18	9	-	264
Disposals	-	-	(1)	(38)	(11)	(9)	-	-	(59)
Closing balance at 31 March 2016	59	153	109	4,272	195	181	108	-	5,077
Net book value 31 March 2016	157	178	65	10,474	379	324	364	196	12,137
Net book value 31 December 2015	160	172	65	9,826	351	316	373	152	11,415

As at 31 March 2016, carrying value of the aircrafts and spare engines acquired through finance leases is 10,115 USD (31 December 2015: 9,432 USD)

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

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**11. PROPERTY AND EQUIPMENT (cont'd)**

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<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
Transfers	-	-	-	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

As of 31 March 2015, carrying value of the aircrafts and spare engines acquired through finance leases is 7,707 USD.

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**12. 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 2016	44	137	5	186
Additions	-	1	-	1
Transfers	-	1	-	1
Closing balance at 31 March 2016	<u>44</u>	<u>139</u>	<u>5</u>	<u>188</u>
<b><u>Accumulated Amortization</u></b>				
Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	6	-	6
Closing balance at 31 March 2016	<u>-</u>	<u>102</u>	<u>1</u>	<u>103</u>
Net book value at 31 March 2016	<u>44</u>	<u>37</u>	<u>4</u>	<u>85</u>
Net book value at 31 December 2015	<u>44</u>	<u>41</u>	<u>4</u>	<u>89</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 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>

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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**13. LEASING TRANSACTIONS**

Maturities of finance lease obligations are as follows:

	<u><b>31 March 2016</b></u>	<u><b>31 December 2015</b></u>
Less than 1 year	994	896
Between 1 – 5 years	3,916	3,419
Over 5 years	4,404	3,898
	<u>9,314</u>	<u>8,213</u>
Less: Future interest expenses	(1,027)	(814)
Principal value of future rentals stated in financial statements	<u>8,287</u>	<u>7,399</u>
	<u><b>31 March 2016</b></u>	<u><b>31 December 2015</b></u>
Interest Range:		
Floating rate obligations	4,837	4,038
Fixed rate obligations	3,450	3,361
	<u>8,287</u>	<u>7,399</u>

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

As of 31 March 2016, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 3.09% (31 December 2015: 3.13%) for the fixed rate obligations and 1.04% (31 December 2015: 1.06%) for the floating rate obligations.

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

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

Short-term provision for employee benefits is as follows:

	<u><b>31 March 2016</b></u>	<u><b>31 December 2015</b></u>
Provisions for unused vacation	59	52

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

	<u><b>1 January - 31 March 2016</b></u>	<u><b>1 January - 31 March 2015</b></u>
Provisions at the beginning of the period	52	58
Provisions for the current period	6	5
Foreign currency translation differences	1	(7)
Provisions at the end of the period	<u>59</u>	<u>56</u>

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

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

Other short-term provision is as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Provisions for legal claims	15	15

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

	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Provisions at the beginning of the period	15	16
Provisions for the current period	1	2
Provisions released	(2)	(1)
Foreign currency translation differences	1	(3)
Provisions at the end of the period	<u>15</u>	<u>14</u>

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

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**15. COMMITMENTS**

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letter of guarantees given as of 31 March 2016 is 340 USD (31 December 2015: 316 USD).

	<b>31 March 2016</b>		<b>31 December 2015</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	-	340	-	316
-Collaterals				
TL	29	10	27	9
EUR	30	34	11	13
USD	293	293	291	291
Other	-	3	-	3
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>340</u>		<u>316</u>

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

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

	<b>31 March 2016</b>	<b>31 December 2015</b>
Less than 1 year	283	286
Between 1 – 5 years	733	738
More than 5 years	204	176
	<u>1,220</u>	<u>1,200</u>

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**15. COMMITMENTS (cont'd)**

c) Other operational lease debts :

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Less than 1 year	5	5
Between 1 – 5 years	22	21
More than 5 years	34	37
	<u>61</u>	<u>63</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, 33 were delivered in 2015 and 13 were delivered in the first three-month period of 2016. The Group has made an advance payment of 1.3 billion US Dollars (full) relevant to these purchases as of 31 March 2016.

**16. EMPLOYEE BENEFITS**

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Provisions for retirement pay liability	127	119

Provisions for retirement pay liability are recorded as follows:

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

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,444 (full) as of 31 March 2016.

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



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**16. EMPLOYEE BENEFITS (cont'd)**

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 March 2016 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.00% annual inflation rate (31 December 2015: 7.00%) and 11.00% interest rate (31 December 2015: 11.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.25% (31 December 2015: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,444 (full) which is in effect since 1 January 2016 is used in the calculation of Group’s provision for retirement pay liability.

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

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Provisions at the beginning of the period	119	127
Service charge for the period	6	5
Interest charges	1	1
Payments	(3)	(4)
Foreign currency translation difference	4	(14)
Provisions at the end of the period	<u>127</u>	<u>115</u>

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**17. EXPENSES BY NATURE**

Expenses by nature for the three-month period ended 31 March 2016 and 2015 are as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Fuel expenses	604	685
Personnel expenses	493	412
Depreciation expenses	270	203
Ground services expenses	154	144
Aircraft maintenance expenses	143	95
Passenger services and catering expenses	142	137
Air traffic control expenses	121	112
Airport expenses	103	91
Commissions and incentives	85	79
Wet lease expenses	69	61
Reservation systems expenses	64	59
Operating lease expenses	55	49
Advertisement and promotion expenses	53	37
Service expenses	18	15
Rent expenses	16	14
Insurance expenses	13	9
Taxes and duties	12	6
IT & communication expenses	11	9
Transportation expenses	7	6
Consultancy expenses	3	3
Utility expenses	2	4
Systems use and associateship expenses	2	2
Membership fees	1	1
Other expenses	27	21
	<b>2,468</b>	<b>2,254</b>

**18. PASSENGER FLIGHT LIABILITIES**

Passenger flight liability is as follows;

	<b>31 March 2016</b>	<b>31 December 2015</b>
Flight liability generating from ticket sales	1,041	833
Flight liability generating from frequent flyer program	212	258
	<b>1,253</b>	<b>1,091</b>

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**19. SHAREHOLDERS' EQUITY**

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

	<b>Class</b>	<b>%</b>	<b>31 March 2016</b>	<b>%</b>	<b>31 December 2015</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			1,380		1,380
Inflation adjustment on share capital (**)			1,124		1,124
Historic capital (***)			2,504		2,504
USD Equivalent			1,597		1,597

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

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

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

As of 31 March 2016, the Group's issued and paid-in share capital consists of 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are registered. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

- 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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#### 19. 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

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

#### Foreign Currency Translation Differences

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

#### Distribution of Dividends

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

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

#### Actuarial Differences on Defined Benefit Plans

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

#### Gains/Losses from Cash Flow Hedges

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

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**20. REVENUE**

Breakdown of gross profit is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Passenger revenue		
Scheduled	1,925	1,935
Unscheduled	6	6
Total passenger revenue	1,931	1,941
Cargo revenue		
Carried by passenger aircraft	129	129
Carried by cargo aircraft	82	95
Total cargo revenue	211	224
Total passenger and cargo revenue	2,142	2,165
Technical revenue	35	46
Other revenue	11	8
Net sales	2,188	2,219
Cost of sales (-)	(2,069)	(1,914)
Gross profit	119	305

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

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
- Europe	600	638
- Far East	490	520
- Middle East	281	283
- America	283	252
- Africa	217	189
Total international flights	1,871	1,882
Domestic flights	271	283
Total passenger and cargo revenue	2,142	2,165

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**21. COST OF SALES**

Breakdown of the cost of sales is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Fuel expenses	604	685
Personnel expenses	379	314
Depreciation expenses	252	185
Ground services expenses	154	144
Aircraft maintenance expenses	143	95
Passenger services and catering expenses	142	137
Air traffic control expenses	121	112
Airport expenses	103	91
Wet lease expenses	69	60
Operating lease expenses	55	50
Insurance expenses	13	9
Service expenses	8	8
Rent expenses	8	6
Transportation expenses	7	6
Taxes and duties	2	2
Utility expenses	1	2
IT & communication expenses	1	1
Other expenses	7	7
	<b>2,069</b>	<b>1,914</b>

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

Breakdown of general administrative expenses is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Personnel expenses	40	33
Depreciation expenses	16	16
IT & communication expenses	8	7
Service expenses	7	5
Rent expenses	3	3
Systems use and associateship expenses	2	2
Utility expenses	1	2
Consultancy expenses	1	1
Other general administrative expenses	4	4
	<b>82</b>	<b>73</b>

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

Breakdown of marketing and sales expenses is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Commissions and incentives	85	79
Personnel expenses	74	65
Reservation systems expenses	64	59
Advertisement and promotion expenses	53	37
Taxes and duties	10	4
Rent expenses	5	5
Service expenses	3	2
Consultancy expenses	2	2
IT & communication expenses	2	2
Depreciation expenses	2	2
Membership fees	1	1
Other marketing and sales expenses	16	9
	<u>317</u>	<u>267</u>

**23. OTHER OPERATING INCOME / EXPENSES**

Breakdown of other operating income is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Foreign exchange gains from operational activities, net	35	24
Manufacturers' credits	16	19
Insurance, indemnities, penalties income	10	5
Provisions released	4	7
Non- interest income from banks	2	1
Rent income	1	1
Rediscount interest income	1	-
Other operating income	5	3
	<u>74</u>	<u>60</u>

Breakdown of other operating expenses is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Provisions	3	2
Indemnity and penalty expenses	1	1
Rediscount interest expenses	-	1
Other operating expenses	4	4
	<u>8</u>	<u>8</u>

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

Breakdown of income from investment activities is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Income from investment incentives	18	11
Interest income from financial investment	3	2
	<u>21</u>	<u>13</u>

**25. FINANCIAL INCOME/ EXPENSES**

Breakdown of financial income is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Interest income	7	4
Rediscount interest income from repayments of aircrafts	7	2
Foreign exchange gains from financial activities, net	-	316
Other financial incomes	2	-
	<u>16</u>	<u>322</u>

Breakdown of financial expenses is as follows:

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Foreign exchange losses on financial activities	273	-
Finance lease interest expenses	49	39
Fair value losses on derivative financial instruments	9	47
Aircraft financing expenses	3	4
Interest expenses on employee benefits	1	1
Other financial expenses	-	1
	<u>335</u>	<u>92</u>

**26. TAX ASSETS AND LIABILITIES**

Breakdown of assets related to current tax is as follows:

	<b>31 March 2016</b>	<b>31 December 2015</b>
Prepaid taxes	<u>8</u>	<u>12</u>



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

Tax liability is as follows:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Provisions for corporate tax	22	12
Prepaid taxes and funds	(22)	(2)
Corporate tax liability	<u>-</u>	<u>10</u>

Tax expense is as follows:

	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Current period tax expense	10	-
Deferred tax (income) / expense	(125)	94
Tax (income) / expense	<u>(115)</u>	<u>94</u>

Tax effect related to other comprehensive income is as follows:

	<u>1 January - 31 March 2016</u>			<u>1 January - 31 March 2015</u>		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	8	-	8	(21)	-	(21)
Change in cash flow hedge reserve	64	(13)	51	134	(27)	107
Change in actuarial losses from retirement pay obligation	-	-	-	-	-	-
Other comprehensive income	<u>72</u>	<u>(13)</u>	<u>59</u>	<u>113</u>	<u>(27)</u>	<u>86</u>

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

Corporate Tax

The effective tax rate is 20%.

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

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

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**26. 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 dividend receiving companies who are Turkish residents and Turkish branches of foreign companies. Income withholding tax rate is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

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

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

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

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

	<b>31 March 2016</b>	<b>31 December 2015</b>
Fixed assets	(1,112)	(1,138)
Adjustments for passenger flight liabilities	(97)	(75)
Tax loss carried forward	165	47
Change in fair value of derivative instruments	82	94
Income and expense for future periods	54	47
Accruals for expenses	41	45
Miles accruals	36	46
Provisions for employee benefits	25	24
Provisions for unused vacation	12	10
Other	15	13
Deferred tax liabilities	<u>(779)</u>	<u>(887)</u>

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

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Opening balance at 1 January	887	655
Deferred tax (income) / expense	(125)	94
Tax expense from hedging reserves	13	25
Foreign currency translation difference	4	(31)
Deferred tax liability at the end of the period	<u>779</u>	<u>743</u>

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

*Deferred Tax (cont'd)*

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

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Reconciliation of effective tax charge:		
(Loss) / profit from operations before tax	(536)	247
Domestic income tax rate of 20%	(107)	49
Taxation effects on:		
- income from investment accounted by equity method	5	3
- income from investment assistance	(4)	(2)
- adjustment for prior year loss	(1)	(2)
- non-deductible expenses	-	-
- foreign currency translation difference	(8)	46
Tax (income) / charge in statement of profit or loss	(115)	94

**27. EARNINGS PER SHARE**

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

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

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

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

	<b>1 January - 31 March 2016</b>	<b>1 January - 31 March 2015</b>
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
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 period (in full)	138,000,000,000	138,000,000,000
Net (loss) / profit for the period	( 421)	153
Basic (loss)/profit per share (Full US Cents) (*)	( 0.31)	0.11

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

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**28. DERIVATIVE FINANCIAL INSTRUMENTS**

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

<u>Derivative financial assets</u>	<u>31 March 2016</u>	<u>31 December 2015</u>
Cross currency rate swap agreements	39	77
Derivative instruments for fuel prices cash flow hedge	25	14
Derivative instruments for interest rate cash flow hedge	9	9
	<u>73</u>	<u>100</u>
 <u>Derivative financial liabilities</u>	 <u>31 March 2016</u>	 <u>31 December 2015</u>
Derivative instruments for fuel prices cash flow hedge	369	485
Derivative instruments for interest rate cash flow hedge	96	68
Cross currency rate swap agreements	18	15
	<u>483</u>	<u>568</u>

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**29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

Foreign currency risk management

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

	31 March 2016					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	388	83	75	3	10	217
2a.Monetary Financial Assets	742	510	171	4	2	55
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	376	216	64	4	5	87
<b>4.Current Assets (1+2+3)</b>	<b>1,506</b>	<b>809</b>	<b>310</b>	<b>11</b>	<b>17</b>	<b>359</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	67	3	57	-	-	7
<b>8.Non Current Assets (5+6+7)</b>	<b>67</b>	<b>3</b>	<b>57</b>	<b>-</b>	<b>-</b>	<b>7</b>
<b>9.Total Assets (4+8)</b>	<b>1,573</b>	<b>812</b>	<b>367</b>	<b>11</b>	<b>17</b>	<b>366</b>
10.Trade Payables	444	251	132	1	3	57
11.Financial Liabilities	632	17	386	209	20	-
12a.Other Liabilities, Monetary	705	563	101	40	1	-
12b.Other Liabilities, Non Monetary	74	74	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,855</b>	<b>905</b>	<b>619</b>	<b>250</b>	<b>24</b>	<b>57</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	5,801	-	3,262	2,322	217	-
16a.Other Liabilities, Monetary	7	-	5	-	-	2
16b.Other Liabilities, Non Monetary	127	127	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>5,935</b>	<b>127</b>	<b>3,267</b>	<b>2,322</b>	<b>217</b>	<b>2</b>
<b>18.Total Liabilities (13+17)</b>	<b>7,790</b>	<b>1,032</b>	<b>3,886</b>	<b>2,572</b>	<b>241</b>	<b>59</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>(6,217)</b>	<b>(220)</b>	<b>(3,519)</b>	<b>(2,561)</b>	<b>(224)</b>	<b>307</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>(6,459)</b>	<b>(238)</b>	<b>(3,640)</b>	<b>(2,565)</b>	<b>(229)</b>	<b>213</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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**29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

*Foreign currency risk management (cont'd)*

	31 December 2015					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	327	40	111	4	9	163
2a.Monetary Financial Assets	994	185	760	1	1	47
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	376	222	62	4	5	83
<b>4.Current Assets (1+2+3)</b>	<b>1,697</b>	<b>447</b>	<b>933</b>	<b>9</b>	<b>15</b>	<b>293</b>
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	60	4	49	-	-	7
<b>8.Non Current Assets (5+6+7)</b>	<b>60</b>	<b>4</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>7</b>
<b>9.Total Assets (4+8)</b>	<b>1,757</b>	<b>451</b>	<b>982</b>	<b>9</b>	<b>15</b>	<b>300</b>
10.Trade Payables	417	220	136	1	2	58
11.Financial Liabilities	531	15	305	191	20	-
12a.Other Liabilities, Monetary	515	407	82	25	1	-
12b.Other Liabilities, Non Monetary	67	67	-	-	-	-
<b>13.Current Liabilities (10+11+12)</b>	<b>1,530</b>	<b>709</b>	<b>523</b>	<b>217</b>	<b>23</b>	<b>58</b>
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	4,916	-	2,367	2,333	216	-
16a.Other Liabilities, Monetary	7	-	5	-	-	2
16b.Other Liabilities, Non Monetary	119	119	-	-	-	-
<b>17.Non Current Liabilities (14+15+16)</b>	<b>5,042</b>	<b>119</b>	<b>2,372</b>	<b>2,333</b>	<b>216</b>	<b>2</b>
<b>18.Total Liabilities (13+17)</b>	<b>6,572</b>	<b>828</b>	<b>2,895</b>	<b>2,550</b>	<b>239</b>	<b>60</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>(4,815)</b>	<b>(377)</b>	<b>(1,913)</b>	<b>(2,541)</b>	<b>(224)</b>	<b>240</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>(5,065)</b>	<b>(417)</b>	<b>(2,024)</b>	<b>(2,545)</b>	<b>(229)</b>	<b>150</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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**29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

*Foreign currency risk management (cont'd)*

*Foreign currency sensitivity*

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

	<b>31 March 2016</b>	
	<b>Profit / (Loss)</b>	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u>                    </u>	<u>                    </u>
1- TL net asset / liability	(22)	22
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>(22)</u>	<u>22</u>
4- Euro net asset / liability	(352)	352
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(352)</u>	<u>352</u>
7- JPY net asset / liability	(256)	256
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	<u>(256)</u>	<u>256</u>
10- CHF net asset / liability	(22)	22
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	<u>(22)</u>	<u>22</u>
13- Other foreign currency net asset / liability	31	(31)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>31</u>	<u>(31)</u>
<b>TOTAL (3 + 6 + 9 + 12 + 15)</b>	<u><u>(621)</u></u>	<u><u>621</u></u>

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

*Foreign currency risk management (cont'd)*

*Foreign currency sensitivity (cont'd)*

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

**30. EVENTS AFTER THE BALANCE SHEET DATE**

None.



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

Condensed consolidated interim financial statements of the Group are prepared comparatively with the prior period in order to help analyzing financial position and performance. To keep consistency, with current year consolidated interim financial statements, comparative information is reclassified and significant changes are disclosed if necessary. So, the Group has made below reclassifications in the prior year consolidated interim financial statements in order to maintain consistency with current year consolidated interim financial statements.

- Fair value loss of fuel derivative instruments amounting to 35 USD, which was disclosed under “Cost of Sales” in the period 1 January – 31 March 2015 is reclassified to fair value gain/ losses on derivative financial instruments, which is disclosed under “Financial Expenses”.