

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

Consolidated Financial Statements
for the Year Ended 31 December 2014, 2013 and 2012 with
Independent Auditor's Report



**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.**

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Independent Auditors' Report

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at 31 December 2014 and 31 December 2013, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board ("IASB"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014 and 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by IASB.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 24 February 2015.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Nesrin Tuncer
Partner

24 February 2015
İstanbul, Turkey

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Türk Hava Yolları A.O.

Mersis No: 0291001097600016
Ticari Sicil No : 304099

We have audited the accompanying consolidated financial statements of Türk Hava Yolları A.O. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board ("IASB"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by IASB.

DRT Bağımsız Denetim ve S. M. M. A. Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

İstanbul, 24 February 2015

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

ASSETS	Notes	2014	2013	2012
Current Assets				
Cash and Cash Equivalents	6	635	627	760
Financial Investments	7	87	20	268
Trade Receivables				
-Trade Receivables From Related Parties	10	-	-	11
-Trade Receivables From Non-Related Parties	11	456	538	423
Other Receivables				
-Other Receivables from Related Parties	10	3	2	-
-Other Receivables from Non-Related Parties	13	1,196	645	424
Derivative Financial Instruments	38	152	30	42
Inventories	14	195	160	145
Prepaid Expenses	15	60	42	47
Current Income Tax Assets	36	8	8	11
Other Current Assets	28	39	53	35
TOTAL CURRENT ASSETS		2,831	2,125	2,166
Non-Current Assets				
Financial Investments	7	1	1	1
Other Receivables				
-Other Receivables from Non-Related Parties	13	1,059	1,256	889
Investments Accounted by Using Equity Method	4	227	183	151
Investment Property	16	36	36	33
Property and Equipment	17	9,201	8,043	7,121
Intangible Assets				
- Other Intangible Assets	18	71	53	29
- Goodwill	19	12	12	-
Prepaid Expenses	15	308	193	133
TOTAL NON-CURRENT ASSETS		10,915	9,777	8,357
TOTAL ASSETS		13,746	11,902	10,523

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Balance Sheet as at 31 December

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

LIABILITIES	Notes	2014	2013	2012
Current Liabilities				
Short-Term Portion of Long-Term Borrowings	8 and 20	613	557	486
Other Financial Liabilities	9	19	16	17
Trade Payables				
-Trade Payables to Related Parties	10	148	176	121
-Trade Payables to Non-Related Parties	11	514	504	389
Payables Related to Employee Benefits	12	128	144	103
Other Payables				
-Other Payables to Non-Related Parties	13	71	53	43
Derivative Financial Instruments	38	427	110	91
Deferred Income	15	10	22	23
Passenger Flight Liabilities	27	1,398	1,201	936
Current Tax Provision	36	1	-	-
Short-term Provisions				
-Provisions for Employee Benefits	23	58	30	23
-Other Provisions	23	16	14	20
Other Current Liabilities	28	264	290	278
TOTAL CURRENT LIABILITIES		3,667	3,117	2,530
Non- Current Liabilities				
Long-Term Borrowings	8 and 20	5,318	4,856	4,376
Trade Payables				
- Trade Payables to Non- Related Parties		1	2	-
Other Payables				
-Other Payables to Non-Related Parties	13	14	15	9
Deferred Income	15	14	15	27
Long-term Provisions				
-Provisions for Employee Benefits	25	127	117	131
Deferred Tax Liability	36	655	518	417
TOTAL NON- CURRENT LIABILITIES		6,129	5,523	4,960
Equity				
Share Capital	29	1,597	1,597	1,498
Items That Will Not Be Reclassified to Profit or Loss				
-Actuarial Losses on Retirement Pay Obligation	29	(10)	(6)	(15)
Items That Are or May Be Reclassified to Profit or Loss				
-Foreign Currency Translation Differences	29	(47)	(32)	(10)
-Fair Value Gains/Losses on Hedging Instruments Entered into for Cash Flow Hedges	29	(185)	(47)	(25)
Restricted Profit Reserves	29	36	36	25
Previous Years Profit	29	1,714	1,357	903
Net Profit for the Year	29	845	357	657
TOTAL EQUITY		3,950	3,262	3,033
TOTAL LIABILITIES AND EQUITY		13,746	11,902	10,523

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

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

<u>PROFIT OR LOSS</u>	Notes	2014	2013	2012
Sales Revenue	30	11,070	9,826	8,234
Cost of Sales (-)	31	(9,068)	(8,003)	(6,554)
GROSS PROFIT		2,002	1,823	1,680
General Administrative Expenses (-)	32	(273)	(228)	(187)
Marketing and Sales Expenses (-)	32	(1,126)	(1,018)	(875)
Other Operating Income	33	81	115	95
Other Operating Expenses (-)	33	(46)	(41)	(61)
ADJUSTED OPERATING PROFIT		638	651	652
Income from Investment Activities	34	96	76	271
Expenses from Investment Activities	34	(24)	(1)	-
Share of Investments' Profit / Loss Accounted by Using The Equity Method	4	75	55	4
OPERATING PROFIT		785	781	927
Financial Income	35	443	27	49
Financial Expenses (-)	35	(182)	(306)	(191)
PROFIT BEFORE TAX		1,046	502	785
Tax Expense of Continuing Operations		(201)	(145)	(128)
Current Tax Expense	36	(5)	-	(18)
Deferred Tax Expense	36	(196)	(145)	(110)
PROFIT FOR THE YEAR		845	357	657
<u>OTHER COMPREHENSIVE INCOME</u>				
Items That May Be Reclassified Subsequently To Profit or Loss				
Currency Translation Adjustment		(153)	(44)	8
Fair Value Gains/ (Losses) on Hedging Instruments Entered into for Cash Flow Hedges		(15)	(22)	10
Fair Value Gains/(Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(175)	(26)	3
Income Tax Relating to Items That May Be Reclassified Subsequently to Profit or Loss		3	(2)	(5)
Income Tax Relating to Items That May Be Reclassified Subsequently to Profit or Loss		34	6	-
Items That Will Not Be Reclassified Subsequently To Profit or Loss				
Actuarial Gains/(Losses) on Retirement Pay Obligation		(4)	9	(13)
Actuarial Gains/(Losses) on Retirement Pay Obligation of Investments Accounted by Using the Equity Method		(5)	11	(15)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently to Profit or Loss		-	-	(1)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently to Profit or Loss		1	(2)	3
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(157)	(35)	(5)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		688	322	652
Basic Earning Per Share (Full USD)	37	0.61	0.26	0.48
Diluted Earning Per Share (Full USD)		0.61	0.26	0.48

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 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 Profit for The Year	
As of 31 December 2013	1,597	(6)	(32)	(47)	36	1,357	357	3,262
Transfers	-	-	-	-	-	357	(357)	-
Total comprehensive income	-	(4)	(15)	(138)	-	-	845	688
As of 31 December 2014	1,597	(10)	(47)	(185)	36	1,714	845	3,950

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2013

(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 Year	
As of 31 December 2012	1,498	(15)	(10)	(25)	25	903	657	3,033
Transfers	-	-	-	-	11	646	(657)	-
Issuence of bonus shares	99	-	-	-	-	(99)	-	-
Dividends paid	-	-	-	-	-	(93)	-	(93)
Total comprehensive income	-	9	(22)	(22)	-	-	357	322
As of 31 December 2013	1,597	(6)	(32)	(47)	36	1,357	357	3,262

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2012

(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 Year	
As of 31 December 2011	1,498	(2)	(20)	(23)	25	889	14	2,381
Transfers	-	-	-	-	-	14	(14)	-
Total comprehensive income	-	(13)	10	(2)	-	-	657	652
As of 31 December 2012	1,498	(15)	(10)	(25)	25	903	657	3,033

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended 31 December

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

	Notes	2014	2013	2012
Profit for The Year		845	357	657
Adjustments to reconcile cash flows generated from operating activities:				
Adjustments for Depreciation and Amortization	17 and 18	743	650	575
Adjustments for Provision for Employee Benefits	25	33	20	34
Adjustments for Provisions, Net	23	35	10	21
Adjustments for Interest Income	34 and 35	(36)	(42)	(73)
Loss / (Gain) on Sales of Fixed Assets	34	2	(1)	(2)
Share of Investments' (Profit) / Loss Accounted for Using The Equity Method	4	(75)	(55)	(4)
Adjustments for Interest Expense		165	158	126
Change in Manufacturers' Credit	15	(2)	2	1
Unrealized Foreign Exchange Translation Differences		(622)	26	128
Tax Expense	36	201	145	128
Change in Provision for Doubtful Receivables	39	3	19	(1)
Increase in Fair Value of Investment Property	34	(3)	(10)	(2)
Change in Fair Value of Derivative Instruments		14	(16)	(14)
Reversal of Provision for Impairment for Tangible Assets and Assets Held for Sale	34	-	-	(197)
Operating profit before working capital changes		1,303	1,263	1,377
Adjustments for Change in Trade Receivables		77	(122)	(22)
Adjustments for Change in Other Short and Long Term Receivables		(229)	6	(213)
Adjustments for Change in Inventories		(35)	(15)	(12)
Adjustments for Change in Other Receivables Related to Operations		14	(19)	(6)
Adjustments for Change in Other Non- Current Assets and Prepaid Expenses		(133)	(54)	(17)
Adjustments for Change in Trade Payables		(19)	159	49
Adjustments for Change in Short and Long Term Payables Related to Operations and Deferred Income		(39)	(1)	74
Adjustments for Change in Short-Term Provisions for Employee Benefits		4	47	(51)
Adjustments for Change in Passenger Flight Liabilities		197	265	259
Cash Flows Generated From Operating Activities		1,140	1,529	1,438
Payment of Retirement Pay Liabilities	25	(15)	(15)	(14)
Taxes Paid	36	-	-	(14)
Net Cash Generated From Operating Activities		1,125	1,514	1,410
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds From Sale of Property and Equipment, Intangible Assets and Investment Property		191	22	20
Interest Received		43	49	74
Purchase of Property and Equipment and Intangible Assets (*)	17 and 18	(471)	(577)	(506)
Prepayments For The Purchase of Aircrafts		(131)	(596)	(335)
Change in Financial Investments,Net		(74)	241	(199)
Dividends Received		19	12	4
Cash Outflow Arising from Acquisition of Subsidiaries	3	-	(24)	-
Net Cash Used In Investing Activities		(423)	(873)	(942)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Financial Lease Liabilities		(544)	(537)	(425)
Decrease in Other Financial Liabilities,Net		3	(1)	16
Interest Paid		(153)	(143)	(119)
Dividends Paid		-	(93)	-
Net Cash Used In Financing Activities		(694)	(774)	(528)
NET DECREASE IN CASH AND CASH EQUIVALENTS		8	(133)	(60)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		627	760	820
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		635	627	760

(*) 1,641 USD portion of property and equipment and intangible assets purchases in total of 2,112 USD for the year ended 31 December 2014 was financed through finance leases. (31 December 2013 and 2012: 971 USD and 1,002 USD portions of property and equipment and intangible assets purchases in total of 1,548 USD and 1,508 USD respectively were 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 Consolidated Financial Statements

For the Year Ended 31 December 2014

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 31 December 2014, 2013 and 2012, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
Republic of Turkey Prime Ministry Privatization Administration	% 49.12	% 49.12	% 49.12
Other (publicly held)	% 50.88	% 50.88	% 50.88
Total	<u>% 100.00</u>	<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 December 2014 is 25,126 (full) (31 December 2013: 23,160 (full), 31 December 2012: 19,109 (full)). The average number of employees working for the Group for the year ended 31 December 2014, 2013 and 2012 are 24,244 (full), 21,032 (full) and 18,789 (full) respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

The Company’s stocks have been traded on Borsa Istanbul since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 December 2014, 2013 and 2012:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>			<u>Country of Registration</u>
		<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>	
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	100%	Turkey
THY Habom A.Ş. (THY HABOM) (*)	Aircraft Maintenance Services	100%	100%	-	Turkey
THY Aydın Çıldır Havalimanı İşletme A.Ş. (THY Aydın Çıldır)	Training & Airport Operations	100%	100%	100%	Turkey
Habom Havacılık Bakım Onarım ve Modifikasyon A.Ş. (HABOM) (*)	Aircraft Maintenance Services	-	-	100%	Turkey

(*) Refer to Note 3.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2014

(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:

Company Name	Country of Registration and Operations	Ownership Share 31 December 2014 (*)	Voting Power 31 December 2014 (*)	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO İkram Hizmetleri A.Ş. (Turkish DO&CO)	Turkey	50%	50%	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)□	Turkey	49%	49%	Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Turkey	50%	50%	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)□	Turkey	50%	50%	Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich)	Turkey	40%	40%	Maintenance Services
Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk)	Turkey	50%	50%	Cabin Interior Products
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) (*)□	Turkey	50%	50%	Cabin Interior Products
Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Türkbine Teknik)	Turkey	50%	50%	Maintenance Services
Vergi İade Aracılık A.Ş. (**)□	Turkey	30%	30%	VAT Return and Consultancy

(*) Share percentage and voting rights for all of the joint ventures are the same in the year 2014, 2013 and 2012 except for TCI. 1% shares of TCI was sold to the other shareholder (TUSAŞ) Türk Havacılık ve Uzay Sanayi A.Ş. in the year 2014.

(**) The Company was established in the year 2014.

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 agreeing. Therefore, the Group concluded that the Group has joint control over TEC, Goodrich and Vergi İade Aracılık A.Ş..

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2014

(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 consolidated financial statements as of and for the years ended 31 December 2014, 2013 and 2012 on 24 February 2015. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

Basis of Preparation

The consolidated financial statements, except for investment property and derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services. Methods used for fair value measurement are disclosed in Note: 2.3.8 and Note: 2.3.14.

Adjustment of financial statements in hyperinflationary periods

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

Functional and Reporting Currency

Functional currency

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

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

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

Basis of the Consolidation

- a. The consolidated financial statements include the accounts of the parent company, THY, its Subsidiaries and its Joint Ventures on the basis set out in sections (b) below. Financial statements of the subsidiaries and affiliates are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.
- b. The Group has ten joint ventures (Note: 1). These joint ventures are economical activities whereby decisions about strategic finance and operating policy are jointly made by the consensus of the Group and other investors. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2014

(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)

Basis of the Consolidation (cont'd)

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 venture's 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 consolidated financial statements as at 31 December 2014 are same with those used in the preparation of the Group's consolidated financial statements as at and for the years ended 31 December 2013 and 2012.

2.3 Summary of Significant Accounting Policies

2.3.1 Revenue

Rendering of services:

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

Rendering of services (cont'd):

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

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

Dividend and interest income:

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

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

2.3.2 Inventories

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

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

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

2.3.3 Property and Equipment

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.3 Property and Equipment (cont'd)

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

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

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

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

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

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

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25 and 50	-
- Aircrafts and Engines	20	10 and 30%
- Cargo Aircraft and Engines	20	10%
- Overhaul Maintenance for Aircrafts' Fuselage	6	-
- Overhaul Maintenance for Engines	3-8	-
- Overhaul Maintenance for Spare Engines	3-13	-
- Components	7	-
- Repairable Spare Parts	3-7	-
- Simulators	20	10%
- Machinery and Equipment	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipment	4-15	-
- Leasehold Improvements	Lease period/5 years	-

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases

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

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

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

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

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

2.3.5 Intangible Assets

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

Goodwill

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

2.3.6 Impairment on Assets

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.6 Impairment on Assets (cont'd)

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

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

The differences between net book values of these assets and recoverable amounts are recognized as impairment gains or losses under income and expenses from investment activities.

2.3.7 Borrowing Costs

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

2.3.8 Financial Instruments

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

(a) Financial assets

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) *Financial assets (cont'd)*

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

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

Financial assets at fair value through profit or loss

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

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(a) *Financial assets (cont'd)*

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

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

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

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

Cash and cash equivalents

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

(b) *Financial liabilities*

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

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

Financial liabilities at fair value through profit or loss

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.8 Financial Instruments (cont'd)

(b) Financial liabilities (cont'd)

Other financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.9 Foreign Currency Transactions

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

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

The closing and average US Dollar-TL exchange rates as at 31 December 2014, 2013 and 2012 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2014	2.3189	2.1865
Year ended 31 December 2013	2.1343	1.9033
Year ended 31 December 2012	1.7826	1.7922

The closing and average US Dollar - Euro exchange rates as at 31 December 2014, 2013 and 2012 are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2014	1/ 1.2164	1/ 1.3282
Year ended 31 December 2013	1/ 1.3759	1/ 1.3287
Year ended 31 December 2012	1/ 1.3193	1/ 1.2856

2.3.10 Earnings per Share

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

2.3.11 Events After to the Balance Sheet Date

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.12 Provisions, Contingent Liabilities, Contingent Assets

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

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

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

Onerous Contracts

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

2.3.13 Segmental Information

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

2.3.14 Investment Property

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.15 Taxation and Deferred Tax

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

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

Current tax

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

Deferred Tax

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.15 Taxation and Deferred Tax (cont'd)

Deferred Tax(cont'd)

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

Current and deferred tax for the year

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

2.3.16 Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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

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

2.3.17 Employee Benefits / Retirement Pay Provision

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.18 Share Capital and Dividends

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

2.3.19 Manufacturers' Credits

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

2.3.20 Maintenance and Repair Cost

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

2.3.21 Frequent Flyer Program

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s). The amount deferred as a liability is measured based on the fair value of the awarded miles. The fair value is measured on the basis of the value of the awards for which they could be redeemed. The amount deferred is recognized as revenue on redemption of the points including a portion of the points that the Group does not expect to be redeemed by the customers ("breakage").

The Group also sells mileage credits to participating partners in "Shop and Miles" program. A portion of such revenue is deferred and amortized as transportation is provided.

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements

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

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

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

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

The Determination of Impairment on Long Term Assets:

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

Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.3.21, Group has programs called “Miles and Smiles” and “Shop & Miles” which are applied for its members. In the calculations of the liability related with concerned programs, the rate of use and mile values are determined by using statistical methods over the historical data were used.

Useful Lives and Salvage Values of Tangible Assets:

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

Deferred Tax:

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

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

A new incentive standard that reconstitutes government assistance for investments has been developed with the addition to the clause 32/A of the Corporate Tax Law to be effective from 28 February 2009 with the 9th article of the 5838 numbered Law in order to support investments through taxes on income. The new investment system becomes effective upon the issuance of the Council of Ministers’ resolution “Government Assistance for Investments” No: 2009/15199 on 14 July 2009.

Apart from the previous “investment incentive” application, which provides the deduction of certain portion of investment expenditures against corporate tax base, the new support system aims to provide incentive support to companies by deducting “contribution amount”, which is calculated by applying the “contribution rate” prescribed in the Council of Ministers’ resolution over the related investment expenditure, against the corporate tax imposed on the related investment to the extent the amount reaches to the corresponding “contribution amount”.

In 2012, one more new regulation on this subject is made and “Resolution Issued on Government Assistance for Investment” dated 15 June 2012 and numbered 2012/3305 is published in the Official Journal on 19 June 2012 and becomes effective. The support elements have changed with this decision. One of these changes is investment contribution rate; according to the Resolution No 2009/15199 investment contribution rate is set as 20% for Region I, and it has been changed to 15% by Resolution No 2012/3305.

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

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

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

The Group has obtained an Incentive Certificate dated 28 December 2010 and numbered 99256 for the finance lease aircrafts that joined its fleet between 2010 and 2014 (except December) from Turkish Ministry of Economy General Directorate of Incentive Implementation and Foreign Investments. For the related aircraft investment, 20% of investment contribution and 50% of reduction in the corporate tax rate apply. On the other hand, for the aircrafts to be joined the fleet from December 2014, according to Resolution No 2012/3305, the Group has obtained an Incentive Certificate dated 18 December 2014 and numbered 117132 and a closing petition is presented for the Incentive Certificate numbered 99956. According to the Incentive Certificate dated 18 December 2014 and numbered 117132, investment contribution rate is 15% and reduced corporate tax rate is 50%.

As new incentive has different investment contribution rate, contribution amount is calculated separately for the two documents. The total contribution amount due to the investments within these scopes of incentives as of 31 December 2014 is 1,109 USD. (31 December 2013: 898 USD 31 December 2012: 988 USD)

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

2.5 New and Revised Standards and Interpretations

In accounting policies considered in preparation of consolidated financial statements as at 31 December 2014, the Group applied all IFRS's and related appendices and interpretations that are effective as of 1 January 2014.

Accounting policies considered in preparation of consolidated financial statements as at 31 December 2014 have been applied consistently with those used in the previous year apart from IFRS standards that are effective as of 1 January 2014 and all interpretations published by IASB. Impacts of these standards and interpretations on the financial position or performance of the Group are explained in related paragraphs. The new standards, amendments and interpretations which are effective as at 1 January 2014 are as follows:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

IFRS 10 is amended for entities that meet the definition of an investment entity to qualify for the consolidation exception. According to the amendment, financial assets of an investment entity should be measured at fair value under IFRS 9 Financial Instruments, or to the extent possible under IAS 39 Financial Instruments: Recognition and Measurement. The amendments had no significant impact on the financial position or performance of the Group.

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

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

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments had no significant impact on the financial position or performance of the Group.

IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

As a consequential amendment to IFRS 13 Fair Value Measurement, some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets are modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendment has affected disclosure principles of the recoverable amounts for non-financial assets. The amendments had no significant impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

Amendments to IAS 39 Financial Instruments: Recognition and Measurement provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be innovated to a central counterparty as a result of laws or regulations. The amendments had no significant impact on the financial position or performance of the Group.

IFRIC Interpretation 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The Interpretation had no significant impact on the financial position or performance of the Group.

IAS 19 Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognize them as a reduction of the service cost in the period in which the related service is rendered. The amendments had no significant impact on the financial position or performance of the Group.

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

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

Standards issued but not yet effective and not early adopted

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.

Amendments to 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.

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations

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

IFRS 9 Financial Instruments (2014)

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

IFRS 14 Regulatory Deferral Accounts

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

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

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

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

IFRS 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 2017, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

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

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.

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.

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.

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

Annual Improvements to IFRSs – 2012–2014 Cycle (cont'd)

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.

2.6 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

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

3. BUSINESS COMBINATIONS

Acquisition of 100% shares of MNG Teknik Uçak Bakım Hizmetler 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.

The Group has consolidated operational results of MNG Teknik as at 31 December 2013 with full consolidation method. If the acquisition had occurred on 1 January 2013, it is estimated that consolidated revenue would have been higher by 20 USD and consolidated net income would have been lower by 11 USD.

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3. BUSINESS COMBINATIONS (cont'd)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<u>Note</u>	<u>Pre- acquisition value</u>	<u>Fair value adjustment</u>	<u>Acquisition value</u>
Property and equipment	17	53	2	55
Intangible assets	18	-	15	15
Trade and other receivables		2	-	2
Other current assets		4	-	4
Cash and cash equivalents		-	-	-
Financial debts		(41)	-	(41)
Trade and other payables		(14)	-	(14)
Other liabilities		(7)	-	(7)
Deferred tax liabilities		-	(1)	(1)
Identifiable assets and liabilities		<u>(3)</u>	<u>16</u>	<u>13</u>
Goodwill arising from acquisition	19			12
Cash consideration paid				24
Cash and cash equivalents acquired				-
Net cash outflow arising from acquisition				<u><u>24</u></u>

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

	<u>31 December 2014</u>	<u>31 December 2013</u>
Company licenses	10	10
Rent contract	5	5
Total intangible assets recognized at the acquisition	<u><u>15</u></u>	<u><u>15</u></u>

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:

	31 December 2014	31 December 2013	31 December 2012
Sun Express	61	36	5
Turkish DO&CO	52	43	34
TGS	42	39	36
THY Opet	40	35	37
TEC	22	22	31
Turkbine Teknik	4	4	4
TCI	4	2	2
Uçak Koltuk	1	2	2
Goodrich	1	-	-
Air Bosna (*)	-	-	-
Vergi İade Aracılık (**)	-	-	-
	227	183	151

(*) The Group's ownership is dissolved as of 2012.

(**) Since the joint venture has been established during the 2014, the Group's share in its shareholders' equity is less than 1 million USD.

Financial information for Sun Express as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	631	499	363
Total liabilities	510	428	354
Shareholders'equity	121	71	9
Group's share in joint venture's shareholders' equity	61	36	5
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	1,330	1,321	968
Profit/ (loss) for the year	57	58	(11)
Group's share in joint venture's profit/(loss) for the year	28	29	(6)

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

Financial information for Turkish DO&CO as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	172	150	140
Total liabilities	69	65	72
Shareholders'equity	103	85	68
Group's share in joint venture's shareholders' equity	52	43	34
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	371	315	260
Profit/ (loss) for the year	33	32	10
Group's share in joint venture's profit/(loss) for the year	17	16	5

Financial information for TGS as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	140	116	108
Total liabilities	56	38	36
Shareholders'equity	84	78	72
Group's share in joint venture's shareholders' equity	42	39	36
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	270	230	185
Profit/ (loss) for the year	25	19	7
Group's share in joint venture's profit/(loss) for the year	13	9	4

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' (Note 15) to be amortized during the contract period and has been amortized during the year 2014.

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

Financial information for THY Opet as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	303	328	324
Total liabilities	223	258	249
Shareholders'equity	80	70	75
Group's share in joint venture's shareholders' equity	40	35	37
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	2,743	2,364	2,152
Profit/ (loss) for the year	36	23	34
Group's share in joint venture's profit/(loss) for the year	18	11	17

Financial information for TEC as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	129	145	127
Total liabilities	84	101	66
Shareholders'equity	45	44	61
Group's share in joint venture's shareholders' equity	22	22	31
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	195	126	91
Profit/ (loss) for the year	1	(17)	(19)
Group's share in joint venture's profit/(loss) for the year	1	(9)	(9)

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

Financial information for Turbine Teknik as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	6	7	9
Total liabilities	(1)	(1)	1
Shareholders' equity	7	8	8
Group's share in joint venture's shareholders' equity	4	4	4
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	1	1	1
Profit/ (loss) for the year	(1)	-	-
Group's share in joint venture's profit/(loss) for the year	-	-	-

Financial information for TCI as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	13	8	4
Total liabilities	5	4	1
Shareholders' equity	8	4	3
Group's share in joint venture's shareholders' equity	4	2	2
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	3	1	1
Profit/ (loss) for the year	(3)	(2)	(4)
Group's share in joint venture's profit/(loss) for the year	(2)	(1)	(2)

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

Financial information for Uçak Koltuk as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	11	7	5
Total liabilities	9	3	1
Shareholders'equity	2	4	4
Group's share in joint venture's shareholders' equity	1	2	2
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	5	-	-
Profit/ (loss) for the year	(1)	(1)	5
Group's share in joint venture's profit/(loss) for the year	-	-	3

Financial information for Goodrich as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	3	4	5
Total liabilities	2	3	4
Shareholders'equity	1	1	1
Group's share in joint venture's shareholders' equity	1	-	-
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	8	7	14
Profit/ (loss) for the year	-	(1)	(3)
Group's share in joint venture's profit/(loss) for the year	-	-	(2)

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

Financial information for Air Bosna as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Total assets	-	-	-
Total liabilities	-	-	-
Shareholders'equity	-	-	-
Group's share in joint venture's shareholders' equity	-	-	-
	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Revenue	-	-	-
Profit/ (loss) for the year	-	-	-
Group's share in joint venture's profit/(loss) for the year	-	-	(6)

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

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Sun Express	28	29	(6)
Turkish DO&CO	17	16	5
TGS	13	9	4
THY Opet	18	11	17
TEC	1	(9)	(9)
TCI	(2)	(1)	(2)
Uçak Koltuk	-	-	3
Goodrich	-	-	(2)
AirBosna	-	-	(6)
Turkbine Teknik	-	-	-
Vergi İade	-	-	-
	75	55	4

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5. SEGMENTAL REPORTING

Group management makes decisions regarding resource allocation to departments based upon the results and the activities of its air transport and aircraft technical maintenance services departments for the purpose of department's performance evaluation. The Group's main business of 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 on the sales data of the Group is given in Note 33.

5.1 Total Assets and Liabilities

	31 December 2014	31 December 2013	31 December 2012
Total Assets			
Aviation	13,677	11,823	10,421
Technical	1,110	882	693
Total	14,787	12,705	11,114
Less: Eliminations due to consolidation	(1,041)	(803)	(591)
Total assets in consolidated financial statements	13,746	11,902	10,523
	31 December 2014	31 December 2013	31 December 2012
Total Liabilities			
Aviation	9,732	8,541	7,407
Technical	477	288	174
Total	10,209	8,829	7,581
Less: Eliminations due to consolidation	(413)	(189)	(91)
Total liabilities in consolidated financial statements	9,796	8,640	7,490

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5. SEGMENTAL REPORTING (cont'd)

5.2 Profit / (Loss) before Tax

Segment Results:

1 January - 31 December 2014	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	10,867	203	-	11,070
Inter-Segment Sales	38	624	(662)	-
Revenue	10,905	827	(662)	11,070
Cost of Sales (-)	(9,044)	(674)	650	(9,068)
Gross Profit	1,861	153	(12)	2,002
Administrative Expenses (-)	(181)	(109)	17	(273)
Marketing and Sales Expenses (-)	(1,122)	(5)	1	(1,126)
Other Operating Income	78	9	(6)	81
Other Operating Expenses (-)	(39)	(7)	-	(46)
Adjusted Operating Profit / (Loss)	597	41	-	638
Income from Investment Activities	96	-	-	96
Expenses from Investment Activities	(24)	-	-	(24)
Share of Investments' Profit / (Loss) Accounted by Using The Equity Method	75	-	-	75
Operating Profit / (Loss) before Financial Income / (Expense)	744	41	-	785
Financial Income	459	4	(20)	443
Financial Expense (-)	(191)	(11)	20	(182)
Profit Before Tax	1,012	34	-	1,046

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5. SEGMENTAL REPORTING (cont'd)

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

1 January - 31 December 2013	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	9,662	164	-	9,826
Inter-Segment Sales	16	406	(422)	-
Revenue	9,678	570	(422)	9,826
Cost of Sales (-)	(7,913)	(508)	418	(8,003)
Gross Profit	1,765	62	(4)	1,823
Administrative Expenses (-)	(180)	(61)	13	(228)
Marketing and Sales Expenses (-)	(1,013)	(5)	-	(1,018)
Other Operating Income	112	13	(10)	115
Other Operating Expenses (-)	(33)	(9)	1	(41)
Adjusted Operating Profit / (Loss)	651	-	-	651
Income from Investment Activities	76	-	-	76
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Profit / (Loss) Accounted by Using The Equity Method	64	(9)	-	55
Operating Profit / (Loss) before Financial Income/(Expense)	790	(9)	-	781
Financial Income	32	3	(8)	27
Financial Expense (-)	(309)	(5)	8	(306)
Profit / (Loss) Before Tax	513	(11)	-	502

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5. SEGMENTAL REPORTING (cont'd)

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

1 January - 31 December 2012	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	8,130	104	-	8,234
Inter-Segment Sales	26	363	(389)	-
Revenue	8,156	467	(389)	8,234
Cost of Sales (-)	(6,559)	(380)	385	(6,554)
Gross Profit	1,597	87	(4)	1,680
Administrative Expenses (-)	(145)	(49)	7	(187)
Marketing and Sales Expenses (-)	(870)	(5)	-	(875)
Other Operating Income	88	7	-	95
Other Operating Expenses (-)	(54)	(3)	(4)	(61)
Adjusted Operating Profit / (Loss)	616	37	(1)	652
Income from Investment Activities	271	-	-	271
Expenses from Investment Activities	-	-	-	-
Share of Investments' Profit/Loss Accounted by Using The Equity Method	15	(11)	-	4
Operating Profit/Loss before Financial Income/(Expense)	902	26	(1)	927
Financial Income	49	-	-	49
Financial Expense (-)	(189)	(2)	-	(191)
Profit / Before Tax	762	24	(1)	785

5.3 Investment Operations

1 January - 31 December 2014	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible fixed assets	1,934	178	-	2,112
Current year depreciation and amortization change	668	75	-	743
Investments accounted by using the equity method	199	28	-	227

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5. SEGMENTAL REPORTING (cont'd)

5.3 Investment Operations (cont'd)

1 January - 31 December 2013	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible fixed assets	1,382	166	-	1,548
Current year depreciation and amortization change	607	43	-	650
Investments accounted by using the equity method	156	27	-	183

1 January - 31 December 2012	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible fixed assets	1,394	114	-	1,508
Current year depreciation and amortization change	538	37	-	575
Investments accounted by using the equity method	117	34	-	151

6. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013	31 December 2012
Cash	2	1	1
Banks – Time deposits	503	367	629
Banks – Demand deposits	114	243	125
Other liquid assets	16	16	5
	635	627	760

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
				503

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

6. CASH AND CASH EQUIVALENTS (cont'd)

Details of the time deposits as of 31 December 2013 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2013</u>
106	TL	6.41% - 9.00%	January 2014	50
37	EUR	0.82% - 2.54%	January 2014	51
265	USD	2.14% - 2.91%	March 2014	266
				<u>367</u>

Details of the time deposits as of 31 December 2012 are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2012</u>
814	TL	7.14% - 9.22%	March 2013	463
125	EUR	2.81% - 3.27%	March 2013	166
				<u>629</u>

7. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Time deposits with maturity more than 3 months	<u>87</u>	<u>20</u>	<u>268</u>

Time deposits with maturity of more than 3 months:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2014</u>
200	TL	10.54%	April 2015	<u>87</u>
<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2013</u>
20	USD	2.79%	April 2014	<u>20</u>
<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2012</u>
42	USD	3.53%	April 2013	42
170	TL	6.93%-7.27%	April 2013	96
98	EUR	3.19%-3.20%	September 2013	130
				<u>268</u>

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7. FINANCIAL INVESTMENTS (cont'd)

Long-term financial investments are as follows:

	31 December 2014	31 December 2013	31 December 2012
Sita Inc.	1	1	1
Star Alliance Gmbh	< 1	< 1	< 1
Emek İnşaat ve İşletme A.Ş.	< 1	< 1	< 1
UATP Inc.	< 1	< 1	< 1
	<u>1</u>	<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 December 2014 are as follows:

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

8. BORROWINGS

Short term portions of long term borrowings are as follows:

	31 December 2014	31 December 2013	31 December 2012
Finance lease obligations (Note: 20)	<u>613</u>	<u>557</u>	<u>486</u>

Long term borrowings are as follows:

	31 December 2014	31 December 2013	31 December 2012
Finance lease obligations (Note: 20)	<u>5,318</u>	<u>4,856</u>	<u>4,376</u>

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9. OTHER FINANCIAL LIABILITIES

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

	31 December	31 December	31 December
	2014	2013	2012
Other financial liabilities	<u>19</u>	<u>16</u>	<u>17</u>

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:

	31 December	31 December	31 December
	2014	2013	2012
TEC	<u>-</u>	<u>-</u>	<u>7</u>
Sun Express	<u>-</u>	<u>-</u>	<u>4</u>
	<u>-</u>	<u>-</u>	<u>11</u>

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

	31 December	31 December	31 December
	2014	2013	2012
Turkish DO&CO (*)	<u>3</u>	<u>-</u>	<u>-</u>
TCI	<u>-</u>	<u>2</u>	<u>-</u>
	<u>3</u>	<u>2</u>	<u>-</u>

(*) It is consists of dividend receivables of 2013.

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

	31 December	31 December	31 December
	2014	2013	2012
THY Opet	<u>82</u>	<u>87</u>	<u>78</u>
Turkish DO&CO	<u>27</u>	<u>32</u>	<u>9</u>
TGS	<u>15</u>	<u>16</u>	<u>16</u>
Sun Express	<u>14</u>	<u>25</u>	<u>11</u>
TEC	<u>10</u>	<u>15</u>	<u>7</u>
Goodrich	<u>-</u>	<u>1</u>	<u>-</u>
	<u>148</u>	<u>176</u>	<u>121</u>

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10. RELATED PARTY TRANSACTIONS (cont'd)

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

Sales

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Sun Express	69	54	23
TGS	16	12	6
TEC	14	6	7
Turkish DO&CO	1	2	1
THY Opet	1	1	-
Türkbine Teknik	1	-	-
TCI	-	-	1
Goodrich	-	-	1
	<u>102</u>	<u>75</u>	<u>39</u>

Purchases

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
THY Opet	2,268	2,063	950
Turkish DO&CO	332	279	104
Sun Express	317	233	41
TGS	215	203	92
TEC	180	101	8
Goodrich	-	-	5
	<u>3,312</u>	<u>2,879</u>	<u>1,200</u>

Transactions between the Group and Sun Express are related to seat and aircraft rental 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 the 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 Chairman and the Members of Board of Directors, General Manager, General Coordinator and Deputy General Managers are 4 USD (31 December 2013: 4 USD ; 31 December 2012: 4 USD).

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11. TRADE RECEIVABLES AND PAYABLES

Trade receivables from non-related parties as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Trade receivables	523	604	464
Allowance for doubtful receivables	(67)	(66)	(41)
	<u>456</u>	<u>538</u>	<u>423</u>

Provision for doubtful receivables has been determined based on last experiences for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 39.

Trade payables to non-related parties as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Trade payables	513	504	388
Other trade payables	1	-	1
	<u>514</u>	<u>504</u>	<u>389</u>

12. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Salary accruals	105	122	83
Social security premiums payable	23	20	20
Labor union agreement accrual (*)	-	2	-
	<u>128</u>	<u>144</u>	<u>103</u>

(*) The accrual for the Labor Union Agreement consists of increases in salaries according to the agreement of THY HABOM signed on 25 February 2014 and effective from 1 August 2013.

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13. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables from non-related parties as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Predelivery payments made for aircrafts	990	521	267
Receivables from purchasing transactions abroad	124	59	55
The bank deposits at banks at countries with limitations on transfer of funds (*)	20	40	90
Receivables from flight training of pilot candidates	12	14	2
Value added tax receivables	48	8	7
Receivables from employees	1	2	1
Other receivables	1	1	2
	<u>1,196</u>	<u>645</u>	<u>424</u>

(*) As of 31 December 2014, the balance of this account is bank deposits in Sudan, Ghana, Ethiopia, Uzbekistan, Morroca, Bangladesh, Egypt, Niger and Argentina.

Other long-term receivables from non-related parties as of 31 December 2014, 2013 and 2012 are as follows:

	31 December 2014	31 December 2013	31 December 2012
Predelivery payments made for aircrafts	650	993	655
Receivables from investment assistance (Note 2.3.16)	140	94	60
The bank deposits at banks at countries with limitations on transfer of funds (*)	6	87	99
Receivables from flight training of pilot candidates	59	48	25
Interest and commodity swap agreement deposits	192	25	25
Deposits and guarentees given	11	7	15
Income accruals on withholding tax return	-	1	9
Other receivables	1	1	1
	<u>1,059</u>	<u>1,256</u>	<u>889</u>

(**) As of 31 December 2013 and 2012 this amount stems from the accounts in Iran and Syria. It is obligated by Iran Civil Aviation Authority that until November 2012 parity for the ticket sales should be used according to the Iranian Exchange Rate (IRR), which is published by Iranian Central Bank (CB Level 1) as official parity. After devaluation in Iran, Iranian Central Bank does not allow using CB Level 1 parity for foreign exchange money transfers since July 2012. The Group has EUR 60 million according to the CB Level 1 due to the sales made up to November 2012. After negotiations with Iranian Civil Aviation Authority and Iranian Central Bank, it is agreed to use CB Level 1 party for foreign transfer of this amount. Parity for the related period is determined as 1 EUR=15,966 IRR (full). As of 31 December 2013 and 2012 this amount is reflected at this parity at the balance sheet date. Receipt has been realized during the year 2014.

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13. OTHER RECEIVABLES AND PAYABLES (cont'd)

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

	31 December 2014	31 December 2013	31 December 2012
Taxes and funds payable	51	38	23
Deposits and guarantees received	12	8	12
Payables to insurance companies	6	4	2
Other liabilities	2	3	6
	<u>71</u>	<u>53</u>	<u>43</u>

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

	31 December 2014	31 December 2013	31 December 2012
Deposits and guarantees received	<u>14</u>	<u>15</u>	<u>9</u>

14. INVENTORIES

	31 December 2014	31 December 2013	31 December 2012
Spare parts	148	135	129
Other inventories	59	32	26
	207	167	155
Provision for impairment (-)	(12)	(7)	(10)
	<u>195</u>	<u>160</u>	<u>145</u>

The change in the value of provision for impairment for the years ended 31 December 2014, 2013 and 2012 is as follows.

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Provision at the beginning of the year	7	10	9
Charges/(reversals) during the year	5	(3)	1
Provision at the end of the year	<u>12</u>	<u>7</u>	<u>10</u>

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15. PREPAID EXPENSES AND DEFERRED INCOME

Prepaid expenses and deferred incomes as of 31 December 2014, 2013 and 2012 are as follows:

Short-term prepaid expenses

	31 December 2014	31 December 2013	31 December 2012
Prepaid sales commissions	12	14	12
Prepaid operating lease expenses	12	8	8
Prepaid advertising expenses	10	7	2
Advances given for purchases	15	4	20
Prepaid other rent expenses	2	2	-
Other prepaid expenses	9	7	5
	<u>60</u>	<u>42</u>	<u>47</u>

Long-term prepaid expenses

	31 December 2014	31 December 2013	31 December 2012
Prepaid engine maintenance expense	228	146	82
Advances given for fixed asset purchases	48	24	34
Prepaid aircraft financing expenses	26	16	16
Prepaid operating lease expenses	1	1	1
Other prepaid expenses	5	6	-
	<u>308</u>	<u>193</u>	<u>133</u>

Short-term deferred income

	31 December 2014	31 December 2013	31 December 2012
Advances received	7	6	12
Unearned bank protocol revenue accruals	2	6	4
Other income accruals	1	2	-
Unearned revenue from share transfer of TGS (Note: 4)	-	8	7
	<u>10</u>	<u>22</u>	<u>23</u>

Long-term deferred income

	31 December 2014	31 December 2013	31 December 2012
Gross manufacturer's credits	33	28	27
Accumulated depreciation of manufacturer's credit	(20)	(17)	(14)
Unearned revenue accruals	-	1	1
Unearned bank protocol revenue accruals	1	3	6
Unearned revenue from share transfer of TGS (Note: 4)	-	-	7
	<u>14</u>	<u>15</u>	<u>27</u>

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16. INVESTMENT PROPERTY

	1 January- 31 December 2014	1 January- 31 December 2013	1 January- 31 December 2012
Opening balance	36	33	29
Foreign currency translation difference	(3)	(7)	2
Valuation gain (Note: 37)	3	10	2
Closing balance	<u>36</u>	<u>36</u>	<u>33</u>

Valuation was performed by the independent valuation firm, which is authorized by Turkish Capital Markets Board with reference to market prices for similar properties.

The Group does not have any rent income and direct operating expenses from investment property.

Determination of fair value of investment property is within the scope of Level 2 in terms of valuation technique.

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17. PROPERTY AND EQUIPMENT

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
<u>Cost</u>									
Opening balance at 1 January 2014	116	230	161	9,883	365	263	98	559	11,675
Additions	48	65	22	1,706	77	100	58	26	2,102
Transfers (*)	-	-	2	161	-	-	290	(474)	(21)
Transfers between the account	-	(5)	5	(26)	26	-	-	-	-
Disposals	-	(6)	(46)	(423)	(9)	(17)	-	-	(501)
Closing balance at 31 December 2014	164	284	144	11,301	459	346	446	111	13,255
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2014	44	109	117	3,102	115	103	42	-	3,632
Depreciation charge	3	22	18	589	32	41	25	-	730
Transfers	-	(1)	1	(21)	21	-	-	-	-
Disposals	-	(5)	(46)	(240)	(5)	(12)	-	-	(308)
Closing balance at 31 December 2014	47	125	90	3,430	163	132	67	-	4,054
Net book value 31 December 2014	117	159	54	7,871	296	214	379	111	9,201

(*) Tangible asset amounting to 21 USD is transferred to intangible assets.

As at 31 December 2014, carrying value of the aircrafts and spare engines acquired through finance leases is 7,379 USD (31 December 2013: 6,185 USD ; 31 December 2012: 5,529 USD)

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17. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
<u>Cost</u>									
Opening balance at 1 January 2013	111	212	135	8,764	346	210	44	381	10,203
Additions	9	34	18	1,164	46	71	4	185	1,531
Additions from business combination	-	6	10	-	-	-	50	-	66
Transfers (*)	5	1	-	-	-	-	-	(7)	(1)
Disposals	(9)	(23)	(2)	(45)	(27)	(18)	-	-	(124)
Closing balance at 31 December 2013	116	230	161	9,883	365	263	98	559	11,675
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2013	42	113	99	2,613	105	81	29	-	3,082
Depreciation charge	5	17	17	534	32	30	6	-	641
Additions from business combination	-	2	3	-	-	-	7	-	12
Disposals	(3)	(23)	(2)	(45)	(22)	(8)	-	-	(103)
Closing balance at 31 December 2013	44	109	117	3,102	115	103	42	-	3,632
Net book value 31 December 2013	72	121	44	6,781	250	160	56	559	8,043

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

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17. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
<u>Cost</u>									
Opening balance at 1 January 2012	102	250	69	6,571	319	209	51	186	7,757
Additions	4	16	12	1,176	27	63	2	199	1,499
Disposals	-	(2)	(1)	(3)	-	(62)	(1)	-	(69)
Transfer from assets held-for-sale	-	-	-	1,019	-	-	-	-	1,019
Transfers (*)	5	(52)	55	1	-	-	(8)	(4)	(3)
Closing balance at 31 December 2012	111	212	135	8,764	346	210	44	381	10,203
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2012	35	148	36	1,476	70	95	33	-	1,893
Depreciation charge	2	17	14	467	35	31	4	-	570
Disposals	-	(2)	(1)	(3)	-	(45)	-	-	(51)
Transfer from assets held-for-sale	-	-	-	673	-	-	-	-	673
Transfers (*)	5	(50)	50	-	-	-	(8)	-	(3)
Closing balance at 31 December 2012	42	113	99	2,613	105	81	29	-	3,082
Net book value 31 December 2012	69	99	36	6,151	241	129	15	381	7,121
Net book value 31 December 2011	67	102	33	5,095	249	114	18	186	5,864

* Due to the implementation of ERP system which was implemented in 1 July 2012, the Group made some changes in classification of tangible and intangible assets. Tangible assets and accumulated depreciation amounting to 3 USD was transferred to Intangible Assets.

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18. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
<u>Cost</u>				
Opening balance at 1 January 2014	23	90	5	118
Additions	-	10	-	10
Transfers	-	21	-	21
Closing balance at 31 December 2014	<u>23</u>	<u>121</u>	<u>5</u>	<u>149</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2014	-	65	-	65
Amortization charge	-	12	1	13
Closing balance at 31 December 2014	<u>-</u>	<u>77</u>	<u>1</u>	<u>78</u>
Net book value at 31 December 2014	<u><u>23</u></u>	<u><u>44</u></u>	<u><u>4</u></u>	<u><u>71</u></u>
	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
<u>Cost</u>				
Opening balance at 1 January 2013	13	72	-	85
Additions	-	17	-	17
Additions from business combination (Note:3)	10	-	5	15
Transfers	-	1	-	1
Closing balance at 31 December 2013	<u>23</u>	<u>90</u>	<u>5</u>	<u>118</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2013	-	56	-	56
Amortization charge	-	9	-	9
Disposals	-	-	-	-
Closing balance at 31 December 2013	<u>-</u>	<u>65</u>	<u>-</u>	<u>65</u>
Net book value at 31 December 2013	<u><u>23</u></u>	<u><u>25</u></u>	<u><u>5</u></u>	<u><u>53</u></u>

The Group considers slot rights and licenses obtained by purchase of MNG Teknik amounting to 10 USD that are included in the other right above, as intangible assets having indefinite useful lives due to those slot rights and licenses do not have expiry dates and the Group consider to use them in the foreseeable future.

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18. OTHER INTANGIBLE ASSETS (cont'd)

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
<u>Cost</u>				
Opening balance at 1 January 2012	13	60	-	73
Additions	-	9	-	9
Transfers	-	3	-	3
Closing balance at 31 December 2012	<u>13</u>	<u>72</u>	<u>-</u>	<u>85</u>
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2012	-	48	-	48
Amortization charge	-	5	-	5
Transfers	-	3	-	3
Closing balance at 31 December 2012	<u>-</u>	<u>56</u>	<u>-</u>	<u>56</u>
Net book value at 31 December 2012	<u>13</u>	<u>16</u>	<u>-</u>	<u>29</u>

The Group considers the slot rights as intangible assets having indefinite useful life.

19. GOODWILL

	31 December 2014	31 December 2013	31 December 2012
<u>Cost</u>			
Opening balance	12	-	-
Additions (Note: 3)	-	12	-
Closing balance	<u>12</u>	<u>12</u>	<u>-</u>

The goodwill recognized from the acquisition of MNG Teknik has been recognized in the consolidated financial statements. In 2014, an impairment test has been implemented by the Company and no impairment has been noted on the net book value of goodwill.

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20. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	31 December 2014	31 December 2013	31 December 2012
Less than 1 year	736	686	599
Between 1 – 5 years	2,848	2,722	2,407
Over 5 years	3,067	2,797	2,594
	<u>6,651</u>	<u>6,205</u>	<u>5,600</u>
Less: Future interest expenses	<u>(720)</u>	<u>(792)</u>	<u>(738)</u>
Principal value of future rentals stated in financial statements	<u>5,931</u>	<u>5,413</u>	<u>4,862</u>
	31 December 2014	31 December 2013	31 December 2012
Interest Range:			
Floating rate obligations	3,176	2,377	1,882
Fixed rate obligations	2,755	3,036	2,980
	<u>5,931</u>	<u>5,413</u>	<u>4,862</u>

The Group leased certain of its aircrafts and spare engines under finance leases. The average lease term is 10 years (2013: 10 years ; 2012: 10 years). The Group has options to purchase related asset for an insignificant amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased asset.

As of 31 December 2014, the US Dollars, Euro and JPY denominated lease obligations' weighted average interest rates are 3.69 % (31 December 2013: 3.80% ; 31 December 2012: 4.14%) for the fixed rate obligations and 0.98 % (31 December 2013: 0.88% ; 31 December 2012: 0.61%) for the floating rate obligations.

21. GOVERNMENT GRANTS AND INCENTIVES

Incentive certificates No: 28.12.2010 / 99256 and No: 18.12.2014 / 117132 were obtained from Turkish Treasury for financing the aircrafts. According to this certificate, the Company will use the advantages for reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.3.16 for the accounting of the related investment contribution.

22. BORROWING COSTS

During the year of 2014, there is no capitalized borrowing cost on property and equipment. (31 December 2013: None ; 31 December 2012: None).

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Notes to the Consolidated Financial Statements

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23. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 December 2014, 2013 and 2012 are as follows:

(a) Short-term provisions for employee benefits

	31 December 2014	31 December 2013	31 December 2012
Provisions for unused vacation	<u>58</u>	<u>30</u>	<u>23</u>

Changes in the provisions during 31 December 2014, 2013 and 2012 periods are set out below:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Provision at the beginning of the year	<u>30</u>	<u>23</u>	<u>6</u>
Additions from business combination	-	1	-
Provision for the current year	32	12	16
Foreign currency translation differences	<u>(4)</u>	<u>(6)</u>	<u>1</u>
Provision at the end of the year	<u>58</u>	<u>30</u>	<u>23</u>

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

(b) Other short-term provisions:

	31 December 2014	31 December 2013	31 December 2012
Provisions for legal claims	<u>16</u>	<u>14</u>	<u>20</u>

Changes in the provisions for legal claims during 31 December 2014, 2013 and 2012 periods are set out below:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Provision at the beginning of the year	<u>14</u>	<u>20</u>	<u>14</u>
Provision for the current year	6	2	9
Provisions released	(3)	(5)	(4)
Foreign currency translation differences	<u>(1)</u>	<u>(3)</u>	<u>1</u>
Provision at the end of the year	<u>16</u>	<u>14</u>	<u>20</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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24. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the group: Amount of letter of guarantees given as of 31 December 2014 is 58 USD (31 December 2013: 78 USD; 31 December 2012: 58 USD).

	<u>31 December 2014</u>		<u>31 December 2013</u>		<u>31 December 2012</u>	
	<u>Original currency amount</u>	<u>USD equivalent</u>	<u>Original currency amount</u>	<u>USD equivalent</u>	<u>Original currency amount</u>	<u>USD equivalent</u>
A. Total amounts of GPM given on the behalf of its own legal entity	-	58	-	78	-	58
-Collaterals						
TL	27	11	20	9	12	7
EUR	8	10	10	14	7	9
USD	35	35	53	53	41	41
Other	-	2	-	2	-	1
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	-	-	-	-	-	-
		<u>58</u>		<u>78</u>		<u>58</u>

The ratio of the other GPM given by the group to its equity is 0% as of 31 December 2014 (31 December 2013: 0%)

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

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Less than 1 year	190	144	158
Between 1 – 5 years	530	313	455
More than 5 years	96	71	46
	<u>816</u>	<u>528</u>	<u>659</u>

c) Other operational leasing debts:

The Group also 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 with these lease agreements are as follows:

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24. COMMITMENTS (cont'd)

c) Other operational leasing debts (cont'd):

The Group also 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 minimum lease payments the Group has related to these lease agreements are as follows:

	31 December	31 December	31 December
	2014	2013	2012
Less than 1 year	5	5	1
Between 1 – 5 years	24	24	9
More than 5 years	47	55	28
	<u>76</u>	<u>84</u>	<u>38</u>

d) Future aircraft purchase commitments:

To be delivered between the years 2010-2015, the Group signed a contract for 92 aircrafts with a total value of 11.8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 10 of these aircrafts were delivered in 2010, 29 of these aircrafts were delivered in 2011, 20 of these aircrafts were delivered in 2012, 18 of these aircrafts were delivered in 2013 and 10 of these aircrafts were delivered in 2014. To be delivered between the years 2013-2021, the Group signed a contract for 252 aircrafts with a total value of 37.5 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 2 of these aircrafts were delivered in 2013 and 10 of these aircrafts were delivered in 2014. The Group has made an advance payment of 1,660 million US Dollars relevant to these purchases as of 31 December 2014.

25. EMPLOYEE BENEFITS

Provision for long-term retirement pay liability as of 31 December 2014, 2013 and 2012 is comprised of the following:

	31 December	31 December	31 December
	2014	2013	2012
Provisions for retirement pay liability	<u>127</u>	<u>117</u>	<u>131</u>

Provision for retirement pay liability is recorded according to following explanations:

Under labor laws effective in Turkey, it is an obligation to make legal retirement pay to employees whose employment is terminated in such way to receive retirement payments. In addition, according to Article 60 of Social Security Law numbered 506 which was changed by the laws numbered 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is also an obligation to make legal retirement pay to those who entitled to leave their work by receiving retirement pay. Some transfer provisions related to service conditions prior to retirement are removed from the Law by the change made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,527 (full) as of 1 January 2015 (1 January 2014: US Dollar 1,611 (full) ; 1 January 2013: US Dollar 1,755 (full)).

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

25. EMPLOYEE BENEFITS (cont'd)

Retirement pay liability is unfunded and is not subject to minimum legal funding requirement legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees.

IAS 19 ("Employee Benefits") stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. According to those requirements, actuarial assumptions used in calculation of total liabilities are described as follows:

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2014 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 2013: 6.00% ; 31 December 2012: 5.00%) and 9.00 % interest rate. (31 December 2013: 10.20%; 31 December 2012: 7.63%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 2.40% (31 December 2013: 2.37% ; 31 December 2012: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,527 (full) which is in effect since 1 January 2015 is used in the calculation of Group's provision for retirement pay liability.

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

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Provisions at the beginning of the year	117	131	101
Effect of business combination	-	1	-
Service charge for the year	28	30	19
Interest charges	4	5	3
Actuarial gains / (losses)	5	(11)	15
Payments	(15)	(15)	(14)
Foreign currency translation difference	(12)	(24)	7
Provisions at the end of the year	<u>127</u>	<u>117</u>	<u>131</u>

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26. EXPENSES BY NATURE

Expenses by nature for the years ended 31 December 2014, 2013 and 2012 are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Fuel expenses	3,845	3,442	2,887
Personnel expenses	1,694	1,582	1,376
Depreciation expenses	744	650	575
Ground services expenses	627	555	461
Passenger service catering expenses	558	465	348
Air traffic control expenses	534	452	354
Landing and navigation expenses	408	347	277
Short term leasing expenses	372	299	68
Maintenance expenses	368	315	222
Commission and incentives paid	356	331	292
Reservation systems expense	214	205	166
Operating lease expenses	171	149	175
Advertising and promotion expenses	168	130	106
Service expenses	111	65	66
Other rent expenses	50	46	47
Communication and information expenses	37	31	20
Insurance expenses	36	40	49
Transportation expenses	24	19	18
Other taxes and duties expenses	23	19	15
Consultancy expenses	12	13	7
Utility expenses	8	8	11
Membership fees	6	6	7
System use and membership expenses	5	5	3
Other expenses	96	75	66
	<u>10,467</u>	<u>9,249</u>	<u>7,616</u>

27. PASSENGER FLIGHT LIABILITIES

Passenger flight liability is as follows;

	31 December 2014	31 December 2013	31 December 2012
Flight liability generating from ticket sales	1,203	988	713
Flight liability generating from sales of mileage and frequent flyer programme	195	213	223
	<u>1,398</u>	<u>1,201</u>	<u>936</u>

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28. OTHER ASSETS AND LIABILITIES

Details of other current assets as of 31 December 2014, 2013 and 2012 are as follows:

	<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
Value added tax receivable	38	48	32
Personnel and business advances	1	4	2
Other current assets	-	1	1
	<u>39</u>	<u>53</u>	<u>35</u>

Other short-term liabilities as of 31 December 2014, 2013 and 2012 are as follows:

	<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
Accruals for maintenance expenses of aircraft under operating lease	258	287	270
Accruals for other expenses	5	2	7
Other liabilities	1	1	1
	<u>264</u>	<u>290</u>	<u>278</u>

29. SHAREHOLDERS' EQUITY

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

			<u>31 December</u>			<u>31 December</u>			<u>31 December</u>	
	<u>Class</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2012</u>			
Republic of Turkey Prime Ministry Privatization Administration (*)	A, C	49.12	678	49.12	678	49.12	589			
Other (publicly held)	A	50.88	<u>702</u>	50.88	<u>702</u>	50.88	<u>611</u>			
Paid-in capital			1,380		1,380		1,200			
Inflation adjustment on share capital (**)			<u>1,124</u>		<u>1,124</u>		<u>1,124</u>			
Historic capital (***)			<u>2,504</u>		<u>2,504</u>		<u>2,324</u>			
USD Equivalent			<u>1,597</u>		<u>1,597</u>		<u>1,498</u>			

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

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

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

As of 31 December 2014, 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:

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29. SHAREHOLDERS' EQUITY (cont'd)

Articles of Association 7: Positive vote of the board member representing class C share and approval of the Board of Directors are 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 chosen by an election between class A shareholder's top rated.

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

- a) As defined in Article 3.1. of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- b) Suggesting change in the Articles of Association at General Assembly,
- c) Increasing share capital,
- d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- e) Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),
- f) Making decisions relating to mergers and liquidation,
- g) Making decisions to cancel flight routes or significantly decrease number of flights except for the ones that cannot recover even its 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 the method defined in 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.

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29. SHAREHOLDERS' EQUITY (cont'd)

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.

30. REVENUE

Details of gross profit are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Passenger revenue			
Scheduled	9,774	8,682	7,323
Unscheduled	84	71	67
Total passenger revenue	<u>9,858</u>	<u>8,753</u>	<u>7,390</u>
Cargo revenue			
Carried by passenger aircraft	555	488	455
Carried by cargo aircraft	418	383	267
Total cargo revenue	<u>973</u>	<u>871</u>	<u>722</u>
Total passenger and cargo revenue	<u>10,831</u>	<u>9,624</u>	<u>8,112</u>
Technical revenue	203	164	105
Other revenue	<u>36</u>	<u>38</u>	<u>17</u>
Net sales	11,070	9,826	8,234
Cost of sales (-)	<u>(9,068)</u>	<u>(8,003)</u>	<u>(6,554)</u>
Gross profit	<u><u>2,002</u></u>	<u><u>1,823</u></u>	<u><u>1,680</u></u>

Geographical details of revenue from the passenger revenue and cargo revenue are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
- Europe	3,547	3,193	2,628
- Far East	2,525	2,213	1,814
- Middle East	1,259	1,077	1,056
- America	1,221	1,037	842
- Africa	<u>894</u>	<u>804</u>	<u>548</u>
Total international flights	<u>9,446</u>	<u>8,324</u>	<u>6,888</u>
Domestic flights	<u>1,385</u>	<u>1,300</u>	<u>1,224</u>
Total scheduled flights	<u><u>10,831</u></u>	<u><u>9,624</u></u>	<u><u>8,112</u></u>

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31. COST OF SALES

The details of the cost of sales are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Fuel expenses	3,844	3,441	2,886
Personnel expenses	1,274	1,182	1,032
Depreciation expenses	693	621	551
Ground services expenses	627	555	461
Passenger service and catering expenses	558	465	348
Air traffic control expenses	534	452	354
Landing and navigation expenses	408	347	277
Short term aircraft leasing expenses	372	299	68
Maintenance expenses	365	312	218
Operating lease expenses	171	149	175
Service expenses	85	47	47
Insurance expenses	34	39	48
Transportation expenses	24	19	18
Other rent expenses	22	27	24
Other taxes and duties expenses	11	10	10
Utility expenses	4	6	7
Other expenses	42	32	30
	<u>9,068</u>	<u>8,003</u>	<u>6,554</u>

32. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

General administrative expenses are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Personnel expenses	140	139	113
Depreciation expenses	44	23	18
Communication and information expenses	28	23	15
Service expenses	18	12	16
Rent expenses	10	5	5
System usage and membership expenses	5	5	3
Consultancy expenses	4	5	2
Utility expenses	4	2	4
Maintenance expenses	3	3	4
Insurance expenses	2	1	1
Other general administrative expenses	15	10	6
	<u>273</u>	<u>228</u>	<u>187</u>

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

Marketing and sales expenses are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Commissions and incentive expenses	356	331	292
Personnel expenses	280	261	231
Reservation systems expense	214	205	166
Advertising and promotion expenses	168	130	106
Rent expenses	18	14	18
Other taxes and duties expenses	12	9	5
Communication and information expenses	9	8	5
Consultancy expenses	8	8	5
Service expenses	8	6	3
Depreciation expenses	7	6	6
Membership fees	6	6	7
Fuel expenses	1	1	1
Other sales and marketing expenses	39	33	30
	<u>1,126</u>	<u>1,018</u>	<u>875</u>

33. OTHER OPERATING INCOME / EXPENSES

Other operating income consists of the following:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Insurance, indemnities, penalties income	22	28	26
Grant credit income	19	9	9
Turnover premium from suppliers	10	4	3
Provisions released	8	8	12
TGS share premium (Note: 4)	5	6	8
Non- interest income from banks	5	5	5
Discount interest income	1	1	4
Rent income	1	4	2
Foreign exchange gains on operational assets and liabilities	-	34	-
Other operating income	10	16	26
	<u>81</u>	<u>115</u>	<u>95</u>

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

Other operating expenses consist of the following:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Foreign exchange losses on operational assets and liabilities	20	-	34
Provision expenses	14	22	16
Indemnity and penalty expense	4	3	3
Discount interest expenses	3	2	3
Other operating expenses	5	14	5
	<u>46</u>	<u>41</u>	<u>61</u>

34. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Incomes from investment activities are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Income from investment incentive	57	49	34
Gain on sale of fixed assets	22	2	2
Financial investment interest income	14	15	36
Fair value gain on investment property	3	10	2
Reversal of provision for impairment for tangible assets and assets held-for-sale (*)	-	-	197
	<u>96</u>	<u>76</u>	<u>271</u>

(*) Consist of a reversal of an impairment charge recognized in 2011 of seven A-340 type aircrafts, which were classified as assets held for sale in 2011 and reclassified to property and equipment in 2012 due to change in sales plan. The Company had decided to dispose in 2011 A-340 type aircraft in 2011. However at the end of 2012 due to increasing operations, the Company has decided to continue to utilize these aircraft in its fleet rather than selling.

Expenses from investment activities are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Loss on sale of fixed assets	24	1	-

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35. FINANCIAL INCOME/EXPENSES

Financial income consists of the following:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Foreign exchange gains on financial liabilities	397	-	-
Fair value gains on derivative financial instruments	24	-	12
Interest income	22	27	37
	<u>443</u>	<u>27</u>	<u>49</u>

Finance expenses are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Finance lease interest expense	156	131	117
Administrative expenses for aircraft financing	11	14	8
Discount interest expense related to prepayments for the aircrafts purchases	5	3	7
Cost of employee termination benefits interest	4	5	3
Foreign exchange losses on financial liabilities	-	126	53
Fair value losses on derivative financial instruments	-	23	-
Other financial expense	6	4	3
	<u>182</u>	<u>306</u>	<u>191</u>

36. TAX ASSETS AND LIABILITIES

Assets related to current tax consists of the following items:

	31 December 2014	31 December 2013	31 December 2012
Prepaid taxes	<u>8</u>	<u>8</u>	<u>11</u>

Tax expense consists of the following items:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Current period tax expense	5	-	18
Deferred tax expense	196	145	110
Tax expense	<u>201</u>	<u>145</u>	<u>128</u>

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36. TAX ASSETS AND LIABILITIES (cont'd)

Tax effect related to other comprehensive income is as follows:

	1 January - 31 December 2014			1 January - 31 December 2013			1 January - 31 December 2012		
	Amount before tax	Tax (expense) income	Amount after tax	Amount before tax	Tax (expense) income	Amount after tax	Amount before tax	Tax (expense) income	Amount after tax
Changes in foreign currency translation difference	(15)	-	(15)	(22)	-	(22)	10	-	10
Change in cash flow hedge reserve	(172)	34	(138)	(28)	6	(22)	(2)	-	(2)
Change in actuarial losses from retirement pay obligation	(5)	1	(4)	11	(2)	9	(16)	3	(13)
Other comprehensive income	(192)	35	(157)	(39)	4	(35)	(8)	3	(5)

There is no taxation effect related to the change in foreign currency translation adjustment that is included in other comprehensive income for the period.

Corporate Tax

The effective tax rate in 2014 is 20% (2013: 20% ; 2012: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2014 is 20%. Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax is in use since 22 July 2006. Commencing from 22 July 2006, the rate has been changed to 15% from 10% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

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

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36. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

For calculation of deferred tax asset and liabilities, the 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.

The deferred tax assets / (liabilities) are as follows:

	31 December	31 December	31 December
	2014	2013	2012
Fixed assets	(884)	(735)	(516)
Provisional income	(14)	(30)	(51)
Fair value corrections of business combinations	(1)	(1)	-
Change in fair value of derivative instruments	55	16	10
Accruals for expenses	54	57	25
Miles accruals	32	30	28
Income and expense for future periods	28	19	15
Provisions for employee benefits	25	23	26
Tax loss carried forward	24	86	-
Provisions for unused vacation	11	6	7
Long-term lease obligations	5	5	7
Allowance for doubtful receivables	5	4	3
Provision for impairment of inventories	2	2	2
Other	3	-	27
Deferred tax liabilities	<u>(655)</u>	<u>(518)</u>	<u>(417)</u>

The changes of deferred tax liability as of 31 December 2014, 2013 and 2012 are as follows:

	1 January -	1 January -	1 January -
	31 December	31 December	31 December
	2014	2013	2012
Opening balance at 1 January	518	417	304
Deferred tax expense	196	145	110
Tax income from hedging reserves	(35)	(5)	1
Tax expenses of actuarial losses on retirement pay obligation	(1)	2	(3)
Foreign currency translation difference	(23)	(41)	5
Deferred tax liability	<u>655</u>	<u>518</u>	<u>417</u>
at the end of the year	<u>655</u>	<u>518</u>	<u>417</u>

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36. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
<u>Reconciliation of effective tax charge:</u>			
Profit from operations before tax	1,046	502	785
Domestic income tax rate of 20%	209	100	157
Taxation effects on:			
- income from investment assistance	(11)	(10)	(7)
- non-deductible expenses	1	4	1
- foreign currency translation difference	38	63	(22)
- equity method	(15)	(11)	(1)
- adjustment for prior year loss	(21)	-	-
- other	-	(1)	-
Tax charge in statement of profit or loss	<u>201</u>	<u>145</u>	<u>128</u>

37. EARNINGS PER SHARE

Earnings per share disclosed in the 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.

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 31 December 2014, 2013 and 2012:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Number of shares outstanding at 1 January (in full)	138,000,000,000	120,000,000,000	120,000,000,000
New bonus shares issued (in full)	-	18,000,000,000	18,000,000,000
Number of shares outstanding at 31 December (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Weighted average number of shares outstanding during the year (in full)	<u>138,000,000,000</u>	<u>138,000,000,000</u>	<u>138,000,000,000</u>
Net profit for year	845	357	657
Basic profit per share (cent per share) (*)	0.61	0.26	0.48

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

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38. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial assets and liabilities of the Group as of 31 December 2014, 2013 and 2012 are as follows:

<u>Derivative financial assets</u>	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Cross currency rate swap agreements	138	6	12
Derivative instruments for interest rate cash flow hedge	12	19	24
Derivative instruments for fuel prices cash flow hedge	2	5	6
	<u>152</u>	<u>30</u>	<u>42</u>

<u>Derivative financial liabilities</u>	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Derivative instruments for fuel prices cash flow hedge	358	9	-
Derivative instruments for interest rate cash flow hedge	68	48	80
Cross currency rate swap agreements	1	53	11
	<u>427</u>	<u>110</u>	<u>91</u>

39. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**(a) Capital risk management**

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

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

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

The overall strategy of the Group does not change compared to 2013 and 2012.

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

	31 December	31 December	31 December
	2014	2013	2012
Total debts	6,613	6,111	5,389
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(722)	(647)	(1,028)
Net debt (A)	5,891	5,464	4,361
Total shareholders' equity (B)	3,950	3,262	3,033
Total capital stock (A+B)	9,841	8,726	7,394
Net debt/total capital stock ratio	0.60	0.63	0.59

(b) Financial Risk Factors

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

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

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

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management

31 December 2014	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of balance sheet date (*)	-	456	3	2,255	704	152
-The part of maximum risk under guarantee with collateral etc. (**)	-	22	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	234	3	2,255	704	152
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	222	-	-	-	-
-The part under guarantee with collateral etc.	-	7	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	67	-	-	-	-
-Impairment(-)	-	(67)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

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

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

(b) Financial Risk Factors (cont'd)

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

31 December 2013	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of balance sheet date (*)	-	538	2	1,901	631	30
-The part of maximum risk under guarantee with collateral etc. (**)	-	15	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	357	2	1,901	631	30
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	181	-	-	-	-
-The part under guarantee with collateral etc.	-	5	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	66	-	-	-	-
-Impairment(-)	-	(66)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

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

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

(b) Financial Risk Factors (cont'd)

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

31 December 2012	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of balance sheet date (*)	11	423	-	1,313	1,022	42
-The part of maximum risk under guarantee with collateral etc. (**)	-	6	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	11	246	-	1,313	1,022	42
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	177	-	-	-	-
-The part under guarantee with collateral etc.	-	2	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	41	-	-	-	-
-Impairment(-)	-	(41)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

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

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

(b) Financial Risk Factors (cont'd)

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

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

The Group's credit risk is related to its receivables, cash and derivative financial assets. The balance shown in the consolidated balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economy conditions. Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration.

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

(b) Financial Risk Factors (cont'd)

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

The aging of past due receivables as of 31 December 2014 are as follows:

31 December 2014	<u>Receivables</u>					<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>	
Past due 1-30 days	49	-	-	-	-	49
Past due 1-3 months	51	-	-	-	-	51
Past due 3-12 months	182	-	-	-	-	182
Past due 1-5 years	7	-	-	-	-	7
Past due more than 5 years	-	-	-	-	-	-
Total past due receivables	289	-	-	-	-	289
The part under guarantee with collateral etc.	7	-	-	-	-	7

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

(b) Financial Risk Factors (cont'd)

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

The aging of past due receivables as of 31 December 2013 are as follows:

31 December 2013	<u>Receivables</u>					<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>	
Past due 1-30 days	39	-	-	-	-	39
Past due 1-3 months	42	-	-	-	-	42
Past due 3-12 months	158	-	-	-	-	158
Past due 1-5 years	8	-	-	-	-	8
Past due more than 5 years	-	-	-	-	-	-
Total past due receivables	<u>247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247</u>
The part under guarantee with collateral etc.	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>

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

(b) Financial Risk Factors (cont'd)

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

The aging of past due receivables as of 31 December 2012 are as follows:

31 December 2012	<u>Receivables</u>					<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>	
Past due 1-30 days	103	-	-	-	-	103
Past due 1-3 months	53	-	-	-	-	53
Past due 3-12 months	45	-	-	-	-	45
Past due 1-5 years	17	-	-	-	-	17
Past due more than 5 years	-	-	-	-	-	-
Total past due receivables	218	-	-	-	-	218
The part under guarantee with collateral etc.	2	-	-	-	-	2

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

(b) Financial Risk Factors (cont'd)

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

As of balance sheet date, total amount of cash collateral and letter of guarantee, which is received by Group for past due not impaired receivable, is 7 USD (31 December 2013: 5 USD ; 31 December 2012: 2 USD).

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

b.2) Impairment

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

Changes in provisions for doubtful receivables for the years ended 31 December 2014, 2013 and 2012 are as follows:

	1 January - 31 December 2014	1 January - 31 December 2013	1 January - 31 December 2012
Opening Balance	66	41	42
Additions from business combinations	-	2	-
Charge for the year	8	20	7
Collections during the year	(5)	(3)	(8)
Currency translation adjustment	(2)	10	-
Receivables written-off	-	(4)	-
Closing Balance	<u>67</u>	<u>66</u>	<u>41</u>

b.3) Liquidity risk management

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

Liquidity risk table:

31 December 2014

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Finance lease obligations	5,931	6,651	167	569	2,848	3,067
Trade payables	663	663	662	-	1	-
Other financial liabilities	19	19	19	-	-	-
Total	6,613	7,333	848	569	2,849	3,067

31 December 2013

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Finance lease obligations	5,413	6,205	159	527	2,722	2,797
Trade payables	682	682	680	-	2	-
Other financial liabilities	16	16	16	-	-	-
Total	6,111	6,903	855	527	2,724	2,797

31 December 2012

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Finance lease obligations	4,862	5,600	137	462	2,407	2,594
Trade payables	510	510	510	-	-	-
Other financial liabilities	17	17	17	-	-	-
Total	5,389	6,127	664	462	2,407	2,594

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

(b) Financial Risk Factors (cont'd)

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

31 December 2014

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	(275)	(254)	(28)	(126)	(102)	2

31 December 2013

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	(80)	(66)	(15)	(27)	(31)	7

31 December 2012

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	(49)	(40)	(9)	(5)	(22)	(4)

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

(b) Financial Risk Factors (cont'd)

b.4) *Market risk management*

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

b.4.1) *Foreign currency risk management*

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:

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

(b) Financial Risk Factors (cont'd)

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

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

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

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

(b) Financial Risk Factors (cont'd)

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

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

	31 December 2013					
	USD EQUIVALENT	TL	EUR	GBP	JPY	OTHER
1.Trade Receivables	472	94	129	30	10	209
2a.Monetary Financial Assets	254	73	71	1	11	98
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	182	87	40	5	1	49
4.Current Assets (1+2+3)	908	254	240	36	22	356
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	123	7	41	-	-	75
8.Non Current Assets (5+6+7)	123	7	41	-	-	75
9.Total Assets (4+8)	1,031	261	281	36	22	431
10.Trade Payables	455	212	149	10	2	82
11.Financial Liabilities	353	16	293	-	44	-
12a.Other Liabilities, Monetary	230	151	69	1	-	9
12b.Other Liabilities, Non Monetary	45	44	1	-	-	-
13.Current Liabilities (10+11+12)	1,083	423	512	11	46	91
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	3,027	-	2,393	-	634	-
16a.Other Liabilities, Monetary	12	1	6	-	-	5
16b.Other Liabilities, Non Monetary	117	117	-	-	-	-
17.Non Current Liabilities (14+15+16)	3,156	118	2,399	-	634	5
18.Total Liabilities (13+17)	4,239	541	2,911	11	680	96
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(3,208)	(280)	(2,630)	25	(658)	335
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(3,351)	(213)	(2,710)	20	(659)	211
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

(b) Financial Risk Factors (cont'd)

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

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

	31 December 2012					
	USD EQUIVALENT	TL	EUR	GBP	JPY	OTHER
1.Trade Receivables	356	14	197	37	16	92
2a.Monetary Financial Assets	932	411	315	1	14	191
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	66	23	27	-	1	15
4.Current Assets (1+2+3)	1,354	448	539	38	31	298
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	186	181	5	-	-	-
8.Non Current Assets (5+6+7)	186	181	5	-	-	-
9.Total Assets (4+8)	1,540	629	544	38	31	298
10.Trade Payables	340	238	54	6	-	42
11.Financial Liabilities	282	17	265	-	-	-
12a.Other Liabilities, Monetary	83	39	18	1	2	23
12b.Other Liabilities, Non Monetary	35	35	-	-	-	-
13.Current Liabilities (10+11+12)	740	329	337	7	2	65
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	2,288	-	2,288	-	-	-
16a.Other Liabilities, Monetary	8	-	4	-	-	4
16b.Other Liabilities, Non Monetary	131	131	-	-	-	-
17.Non Current Liabilities (14+15+16)	2,427	131	2,292	-	-	4
18.Total Liabilities (13+17)	3,167	460	2,629	7	2	69
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(1,627)	169	(2,085)	31	29	229
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(1,713)	131	(2,117)	31	28	214
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

(b) Financial Risk Factors (cont'd)

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

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

Foreign currency sensitivity (cont'd)

	31 December 2013	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u> </u>	<u> </u>
1- TL net asset / liability	(28)	28
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>(28)</u>	<u>28</u>
4- Euro net asset / liability	(263)	263
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(263)</u>	<u>263</u>
7- GBP net asset / liability	3	(3)
8- Part hedged from GBP risk (-)	-	-
9- GBP net effect (7+8)	<u>3</u>	<u>(3)</u>
10- JPY net asset / liability	(66)	66
11- Part hedged from JPY risk (-)	-	-
12- JPY net effect (10+11)	<u>(66)</u>	<u>66</u>
13- Other foreign currency net asset / liability	34	(34)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>34</u>	<u>(34)</u>
TOTAL (3 + 6 + 9 + 12+15)	<u><u>(320)</u></u>	<u><u>320</u></u>

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

(b) Financial Risk Factors (cont'd)

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

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

Foreign currency sensitivity (cont'd)

	31 December 2012	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
	<u>10 %</u>	<u>10 %</u>
1- TL net asset / liability	17	(17)
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	<u>17</u>	<u>(17)</u>
4- Euro net asset / liability	(209)	209
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(209)</u>	<u>209</u>
7- GBP net asset / liability	3	(3)
8- Part hedged from GBP risk (-)	-	-
9- GBP net effect (7+8)	<u>3</u>	<u>(3)</u>
10- JPY net asset / liability	3	(3)
11- Part hedged from JPY risk (-)	-	-
12- JPY net effect (10+11)	<u>3</u>	<u>(3)</u>
13- Other foreign currency net asset / liability	23	(23)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	<u>23</u>	<u>(23)</u>
TOTAL (3 + 6 + 9 + 12+15)	<u>(163)</u>	<u>163</u>

b.4.2) Interest rate risk management

Group has been borrowing at both fixed and variable interest rates with the majority of current borrowings at with variable interest rates. In financing recent aircrafts purchases, the Group tried to create a partial balance between borrowings with fixed and variable interest rates by increasing the amount of the borrowings with fixed interest rate if available at reasonable rates. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, exposure to local interest rate is low.

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

(b) Financial Risk Factors (cont'd)

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

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

Interest Rate Position Table

	<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
<u>Instruments with fixed interest rate</u>			
Financial Liabilities	2,755	3,036	2,980
<u>Financial Instruments with Variable Interest Rate</u>			
Financial Liabilities	3,176	2,377	1,882
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(17)	(13)	(7)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(40)	(17)	(33)

As indicated in Note 40, the Group fixed the interest rate for 177 USD of floating–interest-rated financial liabilities via an interest rate swap contract as of 31 December 2014.

Interest rate sensitivity

The following sensitivity analysis is determined according to the interest rate exposure in the reporting date and possible changes on this rate and it is fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the interest rates of the borrowings with variable interest rates, fluctuate 0.5% and reports these to the top management.

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

Current profit for the year of the Group will decrease by USD 16 (As of 31 December 2013 profit before tax will decrease by 12 USD ; 31 December 2012 9 USD). In contrast, if Libor and Euribor interest rate decreases by 0.5%, net current profit for the year will increase by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in the event of a 0.5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by USD 43 excluding the deferred tax effect. (For the year ended 31 December 2013 and 2012, the shareholders' equity of the Group will increase by 31 USD and 8 USD respectively excluding the deferred tax effect.) In the event of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amount excluding the deferred tax effect..

b.4.3) Fuel prices sensitivity

As explained in Note 47, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases beginning from 2009. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by 53 USD excluding the deferred tax effect. In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by 67 USD excluding the deferred tax effect.

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40. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

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

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

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40. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2014 Balance Sheet	Loans and Receivables	Derivative instruments accounted for <u>hedge accounting</u>	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	635	-	-	-	-	635	6
Financial investments and derivative financial instruments	87	119	33	1	-	240	7 and 38
Trade receivables	456	-	-	-	-	456	11
Other receivables	2,258	-	-	-	-	2,258	13
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	5,931	5,931	8
Other financial liabilities and derivative financial instruments	-	398	29	-	19	446	9 and 38
Trade payables	-	-	-	-	663	663	11

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40. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2013 Balance Sheet	Loans and <u>Receivables</u>	Derivative instruments accounted for <u>hedge accounting</u>	Derivative instruments <u>at fair value through profit/(loss)</u>	Investments available for sale <u>at cost value</u>	Financial liabilities <u>at amortized cost</u>	<u>Book Value</u>	<u>Note</u>
<u>Financial Assets</u>							
Cash and cash equivalents	627	-	-	-	-	627	6
Financial investments and derivative financial instruments	20	5	25	1	-	51	7 and 38
Trade receivables	538	-	-	-	-	538	11
Other receivables	1,903	-	-	-	-	1,903	13
	-	-	-	-	-		
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	5,413	5,413	8
Other financial liabilities and derivative financial instruments	-	67	43	-	16	126	9 and 38
Trade payables	-	-	-	-	682	682	11

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40. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2012 Balance Sheet	Loans and <u>Receivables</u>	Derivative instruments accounted for <u>hedge accounting</u>	Derivative instruments <u>at fair value through profit/(loss)</u>	Investments available for sale <u>at cost value</u>	Financial liabilities <u>at amortized cost</u>	<u>Book Value</u>	<u>Note</u>
<u>Financial Assets</u>							
Cash and cash equivalents	760	-	-	-	-	760	6
Financial investments and derivative financial instruments	268	5	37	1	-	311	7 and 38
Trade receivables	434	-	-	-	-	434	11
Other receivables	1,313	-	-	-	-	1,313	13
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	4,862	4,862	8
Other financial liabilities and derivative financial instruments	-	33	58	-	17	108	9 and 38
Trade payables	-	-	-	-	510	510	11

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40. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

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

- Level 1: Financial assets and liabilities are valued using the stock exchange prices in the active market for identical assets and liabilities.
- Level 2: Financial assets and liabilities are valued using mainly observable inputs obtained from stock exchange prices of similar assets or liabilities.
- Level 3: Financial assets and liabilities are valued using mainly unobservable inputs.

Financial assets and liabilities, which are measured at their fair values and any level reclassifications, are as follows:

	31 December 2014	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Financial assets				
Financial assets at fair value through profit or loss				
Derivative instruments	33	-	33	-
Financial assets subject to hedge accounting				
Derivative instruments	119	-	119	-
Total	152	-	152	-
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative instruments	29	-	29	-
Financial liabilities subject to hedge accounting				
Derivative instruments	398	-	398	-
Total	427	-	427	-

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40. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

	31 December 2013	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Financial assets				
Financial assets at fair value through profit or loss				
Derivative instruments	25	-	25	-
Financial assets subject to hedge accounting				
Derivative instruments	5	-	5	-
Total	30	-	30	-
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative instruments	43	-	43	-
Financial liabilities subject to hedge accounting				
Derivative instruments	67	-	67	-
Total	110	-	110	-

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40. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

Financial assets	31 December 2012	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Financial assets at fair value through profit or loss				
Derivative instruments	37	-	37	-
Financial assets subject to hedge accounting				
Derivative instruments	5	-	5	-
Total	42	-	42	-
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss				
Derivative instruments	58	-	58	-
Financial liabilities subject to hedge accounting				
Derivative instruments	33	-	33	-
Total	91	-	91	-

Derivative Instruments and Hedging Transactions

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

The floating-rate financial liabilities of the Group are explained in Note 39 b.4.2. Beginning from September 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group made fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities whose maturities are after the second half of 2010 and account for approximately 26% of floating rate USD and Euro denominated liabilities. Effective part of the change in the fair values of those derivative instruments which are subject to hedge accounting for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity.

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40. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

In 2010, in order to control risk arising from fluctuations in price of fuel which is approximately 37% of cost of sales to lessen the effects of fluctuations in oil prices on fuel expenses, the Group began hedging transactions for approximately 20% of annual jet fuel consumption. For this purpose, the Group made forward fuel purchase contracts settled on a cash basis. In accordance with the Company's BOD resolution issued on 21 January 2011, hedging rate which corresponds to 20% of the currently applied monthly consumption rate will be applied as 50% after 12 months and this rate will be gradually increased by 2.5% in each month. In addition, the Company started to use zero cost 4 way collars in 2011 instead of forward fuel purchase contracts to hedge cash flow risk of fuel prices. The effective portion of fair value hedge of derivative instruments that are subject to cash flow hedge accounting due to future fuel purchases is recognized under hedge accounting fund in equity.

Group's derivative instruments arisen from transactions stated above and their balances as of 31 December 2014, 31 December 2013 and 31 December 2012 are as follows:

31 December 2014	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(40)	(40)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	2	(90)	(88)
Collar contracts for hedging against cash flow risk of fuel prices		(268)	(268)
Forward currency contracts for hedging purposes	117	-	117
Fair values of derivative instruments for hedging purposes	119	(398)	(279)
Cross-currency swap contracts not subject to hedge accounting	9	(1)	8
Interest rate swap contracts not subject to hedge accounting	11	(28)	(17)
Forward currency contracts not for hedging purposes	13	-	13
Fair values of derivative instruments not for hedging purposes	33	(29)	4
Total	152	(427)	(275)

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40. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

31 December 2013	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(17)	(17)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	(9)	(9)
Collar contracts for hedging against cash flow risk of fuel prices	5	-	5
Forward currency contracts for hedging purposes	-	(41)	(41)
Fair values of derivative instruments for hedging purposes	<u>5</u>	<u>(67)</u>	<u>(62)</u>
Cross-currency swap contracts not subject to hedge accounting	8	(8)	-
Interest rate swap contracts not subject to hedge accounting	17	(30)	(13)
Forward currency contracts not for hedging purposes	-	(5)	(5)
Fair values of derivative instruments not for hedging purposes	<u>25</u>	<u>(43)</u>	<u>(18)</u>
Total	<u><u>30</u></u>	<u><u>(110)</u></u>	<u><u>(80)</u></u>
	Positive fair value	Negative fair value	Total
31 December 2012			
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(33)	(33)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	-	-
Collar contracts for hedging against cash flow risk of fuel prices	6	-	6
Fair values of derivative instruments for hedging purposes	<u>6</u>	<u>(33)</u>	<u>(27)</u>
Cross-currency swap contracts not subject to hedge accounting	11	(20)	(9)
Interest rate swap contracts not subject to hedge accounting	23	(30)	(7)
Forward currency contracts not for hedging purposes	2	(8)	(6)
Fair values of derivative instruments not for hedging purposes	<u>36</u>	<u>(58)</u>	<u>(22)</u>
Total	<u><u>42</u></u>	<u><u>(91)</u></u>	<u><u>(49)</u></u>

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40. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	(356)	(40)	117	(279)
The amount of financial expenses inside hedge	-	-	-	-
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	48	2	-	50
Foreign currency translation differences		(2)		(2)
Total	(308)	(40)	117	(231)
Deferred tax	62	8	(23)	46
Hedge reserve as of 31 December 2014	(246)	(32)	94	(185)

	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	(4)	(17)	(41)	(62)
The amount of financial expenses inside hedge	-	3	-	3
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	9	-	-	9
Foreign currency translation differences	-	(8)	-	(8)
Total	5	(22)	(41)	(58)
Deferred tax	(1)	4	8	11
Hedge reserve as of 31 December 2013	4	(18)	(33)	(47)

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40. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	6	(33)	-	(27)
The amount of financial expenses inside hedge	-	(1)	-	(1)
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	3	-	-	3
Foreign currency translation differences	(1)	(5)	-	(6)
Total	8	(39)	-	(31)
Deferred tax	(2)	8	-	6
Hedge reserve as of 31 December 2012	6	(31)	-	(25)