TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Financial Statements As at and for The Year Ended 31 December 2017 with Independent Auditor's Report

KPMG

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Independent Auditors' Report

To the Shareholders of Türk Hava Yolları Anonim Ortaklığı

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in *Turkey*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The recognition of the revenue, passenger liability and the Frequent Flyer Program

Refer to the note respectively, 2.3.1; 2.3.1 and 2.3.21 for "Revenue", "Passenger Liability" and "Frequent Flyer Program" for the relevant accounting policies, discussions and assumptions of significant accounting estimates.

Key Audit Matter	How the matter was adressed in our audit
The major part of the Group's revenue consists of the passenger revenue. The passenger revenue is recognized when the transportation service is completed. Unused tickets are recognized as passenger flight liabilities. The The timing of revenue recognition for unused tickets requires significant management judgement. Group makes estimated computations for unredeemed tickets using assumptions historical statistics and data. Total estimated unredeemed tickets are recognized as passenger revenue in consolidated financial statements. The determination of the amount of passenger revenue to be recognised for each flight includes complex internal information technology systems and involves the exchange of information and high volume of transactions. Since timing of revenue recognition for unused tickets requires significant management judgement and recognition of passenger revenue accurately through the complex internal information technology (IT) systems and involves the exchange of high volume of transactions, the passenger revenue and the passenger flight liability have been determined as key audit matters. 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).	Our audit procedures performed related to this matter are listed below: — For the revenue recognition of passenger revenue; — We have tested the effectiveness and appropriateness of IT systems and internal control that are designed to account passenger revenue. Additionally, we have tested key manual controls to ensure of effectiveness and appropriateness of internal control. During these tests, our IT specialists were involved. — We have tested application controls of the systems configured systems to recognize passenger revenues. — The selected application controls tested included those relating to the completeness of transfers of data between systems, the existence of a ticket verification.and price specification regarding to each all flight throughout — We have performed expectation analysis with external market data and traffic data tested by IT specialists. For the revenue recognition of unused tickets;

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The amount 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. Management uses estimates to determine the fair value of the awards for which the miles will be redeemed. These estimates are based on historical redemption patterns. An estimate is made of the number of miles that will expire without use based on historical expiry patterns and the anticipated impact of changes to the programme. Revenue is recognised when Miles and Smiles members fly, or when it is assessed that the miles awarded will expire without use. The accounting of frequent flyer program has been identified as one of the key audit matter, as accounting policies and estimates to determination of the breakage amount to which unused tickets, are complex and include some judgments and estimates.	We have tested their sale date, recording area/period and validity by using sample size determinations. Moreover, we have tested consistency and mathematical accuracy of applied methods in order to determine price flight attributing to unused tickets with historical data and estimation. — We have evaluated the assumptions in the mathematical models that are used in order to determine fair values of Miles and Smiles rewards. — We have verified the fair value measurement of usage and derived parametres and assumption concluded from that for purpose of evaluation appropriateness of Miles liability in computed mile programs as of balance sheet date. — We have also involved IT specialists. With IT specialist's contribution, we have tested the internal controls, the effectiveness and the appropriateness of IT systems founded for accounting miles liabilities. Additionally, we have tested effectiveness and appropriateness of manual key internal controls. — We have aimed to test calculation of bonus (payoff) value by comparing statistical redemption model, history and observable market price. We tested controls that applied in models. We have also tested the accuracy of the miles amount that are going to lose its validity with respect to the historical experience and statistical mile-usage history.

	— Among the application controls that are identified to tests comprise the completeness of data transfer between systems, miles verifying to detect data errors and gained/used miles statements for each flight. — Key manual controls were also tested in order to ensure whether processing exceptions are in proper way.

The Component Accounting of Aircrafts

Refer to the note 2.3.3 for the assumptions, accounting policies and considerations about the component accounting of aircrafts

Key Audit Matter	How the matter was addressed in our audit
The accounting of aircrafts has a material impact for the Group due to the value of aircrafts and their long useful lives. Significant key assumptions and judgment are listed below: — Identifying residual values and useful lives of aircrafts with respect to physical, economic and commercial environments. — Determining the components of aircrafts. — Reviewing of carrying values of aircraft allocated to different parts of the business that use the aircraft (cash generating units (CGUs)). 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.	Our audit procedures performed related to this matter are listed below: — We have compared the estimations of useful lives, residual values with the group's future fleet plan, the purchasing transactions of the aircraft and contractual rights. — We have compared the useful lives of the components of aircrafts with the sector benchmark — We have analyzed the Group's depreciation policies, predictive useful lives, residual value of aircrafts and purchasing and disposal future, flight plan. — We have compared useful lives of aircraft components with average sector range. — We have recalculated the aircraft depreciation expenses based on previously determined useful lives.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the (consolidated) financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member of KPMG International Cooperative

Hatice Nesrin Tuncer
Partner
5 March 2018
İstanbul, Türkiye

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

ASSETS	**Notes**	**31 December 2017**	**31 December 2016**
Current Assets			
Cash and Cash Equivalents	5	1,891	1,466
Financial Investments	6	195	349
Trade Receivables			
-Trade Receivables From Non-Related Parties	10	592	379
Other Receivables			
-Other Receivables from Related Parties	9	-	3
-Other Receivables from Non-Related Parties	12	319	843
Derivative Financial Instruments	34	203	197
Inventories	13	193	217
Prepaid Expenses	14	119	98
Current Income Tax Assets	32	32	23
Other Current Assets	24	87	26
TOTAL CURRENT ASSETS		**3,631**	**3,601**
Non-Current Assets			
Financial Investments	6	51	47
Other Receivables			
-Other Receivables from Non-Related Parties	12	619	516
Investments Accounted by Using Equity Method	3	320	247
Investment Property		-	1
Property and Equipment	15	13,002	13,476
Intangible Assets			
- Other Intangible Assets	16	66	73
- Goodwill	17	12	12
Prepaid Expenses	14	496	518
TOTAL NON-CURRENT ASSETS		**14,566**	**14,890**
TOTAL ASSETS		**18,197**	**18,491**

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 2017
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

LIABILITIES	Notes	31 December 2017	31 December 2016
Current Liabilities			
Short Term Borrowings	7	744	1,357
Short-Term Portion of Long-Term Borrowings	7 and 18	983	1,064
Other Financial Liabilities	8	16	4
Trade Payables			
-Trade Payables to Related Parties	9	168	129
-Trade Payables to Non-Related Parties	10	687	487
Payables Related to Employee Benefits	11	200	143
Other Payables			
-Other Payables to Related Parties	9	7	-
-Other Payables to Non-Related Parties	12	65	93
Derivative Financial Instruments	34	128	146
Deferred Income	14	1,016	796
Current Tax Provision	32	12	2
Short-Term Provisions			
-Provisions for Employee Benefits	20	41	44
-Other Provisions	20	22	17
Other Current Liabilities	24	208	215
TOTAL CURRENT LIABILITIES		**4,297**	**4,497**
Non- Current Liabilities			
Long-Term Borrowings	7 and 18	7,339	7,822
Other Payables			
-Other Payables to Non-Related Parties	12	83	11
Deferred Income	14	42	6
Long-Term Provisions			
-Provisions for Employee Benefits	22	128	113
Deferred Tax Liability	32	962	955
TOTAL NON-CURRENT LIABILITIES		**8,554**	**8,907**
Equity			
Share Capital	25	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	25	(15)	(11)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	25	(108)	(106)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	25	61	20
-Gains on Remeasuring Available for Sale Financial Investments	25	1	-
Restricted Profit Reserves	25	36	36
Previous Years Profit	25	3,551	3,628
Net Profit / (Loss) for the Year		223	(77)
TOTAL EQUITY		**5,346**	**5,087**
TOTAL LIABILITIES AND EQUITY		**18,197**	**18,491**

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

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

PROFIT OR LOSS	**Notes**	**31 December 2017**	**31 December 2016**
Revenue	26	10,958	9,792
Cost of Sales (-)	27	(8,762)	(8,656)
GROSS PROFIT		**2,196**	**1,136**
General Administrative Expenses (-)	28	(275)	(315)
Marketing and Sales Expenses (-)	28	(1,127)	(1,171)
Other Operating Income	29	264	145
Other Operating Expenses (-)	29	(36)	(86)
OPERATING PROFIT/(LOSS) BEFORE INVESTMENT ACTIVITIES		**1,022**	**(291)**
Income from Investment Activities	30	178	137
Expenses from Investment Activities	30	(1)	(20)
Share of Investments' Profit Accounted by Using The Equity Method	3	102	44
OPERATING PROFIT / (LOSS)		**1,301**	**(130)**
Financial Income	31	56	300
Financial Expenses (-)	31	(1,078)	(229)
PROFIT / (LOSS) BEFORE TAX		**279**	**(59)**
Tax Expense		**(56)**	**(18)**
Current Tax Expense	32	(49)	(23)
Deferred Tax (Expense) / Income	32	(7)	5
NET PROFIT / (LOSS) FOR THE YEAR		**223**	**(77)**
OTHER COMPREHENSIVE INCOME			
Items That May Be Reclassified Subsequently To Profit or Loss		**40**	**325**
Currency Translation Adjustment		(2)	(22)
Gains on Remeasuring Available for Sale Financial Investments		1	-
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		65	430
Fair Value (Losses) / Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(12)	4
Related Tax of Other Comprehensive Income		(12)	(87)
Items That Will Not Be Reclassified Subsequently To Profit or Loss		**(4)**	**(3)**
Actuarial Losses on Retirement Pay Obligation		(5)	(4)
Related Tax of Other Comprehensive Income		1	1
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**36**	**322**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**259**	**245**
Basic Gain / (Loss) Per Share (Full US Cents)	33	0.16	(0.06)
Diluted Gain / (Loss) Per Share (Full US Cents)	33	0.16	(0.06)

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 2017
(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		
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring Available for Sale Financial Investments	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Year	Total Equity
As of 1 January 2017	**1,597**	**(11)**	**(106)**	**20**	**-**	**36**	**3,628**	**(77)**	**5,087**
Transfers	-	-	-	-	-	-	(77)	77	-
Total comprehensive income	-	(4)	(2)	41	1	-	-	223	259
As of 31 December 2017	**1,597**	**(15)**	**(108)**	**61**	**1**	**36**	**3,551**	**223**	**5,346**

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 2017
(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		
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring Available for Sale Financial Investments	Restricted Profit Reserves	Previous Years Profit	Net (Loss) for The Year	Total Equity
As of 1 January 2016	**1,597**	**(8)**	**(84)**	**(327)**	**-**	**36**	**2,559**	**1,069**	**4,842**
Transfers	-	-	-	-	-	-	1,069	(1,069)	-
Total comprehensive income	-	(3)	(22)	347	-	-	-	(77)	245
As of 31 December 2016	**1,597**	**(11)**	**(106)**	**20**	-	**36**	**3,628**	**(77)**	**5,087**

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 2017
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	31 December 2017	31 December 2016
Profit / (Loss) for the year		223	(77)
Adjustments to Reconcile Profit / (Loss)			
Adjustments for Depreciation and Amortisation Expense	15 and 16	1,066	1,148
Adjustments for Provisions Related with Employee Benefits	20 and 22	21	28
Adjustments for (Reversal of) Provisions for Payables	20	5	6
Adjustments for Free Provisions for Probable Risks	35	(1)	5
Adjustments for Interest Income	30 and 31	(113)	(89)
Adjustments for Interest Expense	22 and 31	221	202
Adjustments For Unrealised Foreign Exchange Losses / (Gains)		656	(385)
Adjustments for Manufacturers' Credits	14	3	3
Adjustments for Fair Value Losses / (Gains) on Derivative Financial Instruments	31	39	(89)
Adjustments for Undistributed Profits of Associates	3	(102)	(44)
Adjustments for Tax Income	32	56	18
Adjustments for (Gains) / Losses Arised From Sale of Tangible Assets	30	(49)	16
Adjustments for Losses Arised from Sale of Other Non-Current Assets	15	31	29
Operating Profit Before Changes in Working Capital		**2,056**	**771**
Increase in Trade Receivables from Non Related Parties	10 and 12	(212)	(22)
(Increase) / Decrease in Other Non-Related Party Receivables Related with Operations	12	(10)	358
Adjustments for Decrease / (Increase) in Inventories	13	24	(1)
Adjustments for Decrease / (Increase) in Prepaid Expenses	14	1	(127)
Increase / (Decrease) in Trade Payables to Related Parties	9	39	(3)
Increase / (Decrease) in Trade Payables to Non-Related Parties	10	200	(52)
Adjustments for Increase in Payables Due to Employee Benefits	11	57	22
Increase in Other Operating Payables to Non-Related Parties	10 and 12	48	5
Increase / (Decrease) in Deferred Income	14	249	(321)
(Decrease) / Increase in Other Assets Related with Operations	24	(61)	10
Cash Flows From Operations		**2,391**	**640**
Payments for Provisions Related with Employee Benefits	22	(14)	(16)
Income taxes paid	32	(9)	(11)
Net Cash From Operating Activities		**2,368**	**613**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		941	122
Cash Payments From Purchasing of Property, Plant and Equipment (*)	15 and 16	(848)	(878)
Proceeds / (Payments) From Sales of Other Long-Term Assets	6	150	(333)
Other Cash Advances and Loans	12	439	731
Cash Outflow Arising From Capital Increse in Investments		-	(6)
Dividends Received		21	23
Interest Received	30 and 31	113	85
Net Cash Flows / (Used In) Investing Activities		**816**	**(256)**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Repayments / Proceeds From Loans	7	(761)	1,229
Payments of Finance Lease Liabilities	7	(1,806)	(890)
Interest Paid		(204)	(119)
Other Inflows of Cash	8	12	(11)
Net Cash (Used in) / Flows Financing Activities		**(2,759)**	**209**
Net Change in Cash and Cash Equivalents		**425**	**566**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,466**	**900**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**1,891**	**1,466**

(*) USD 660 portion of property and equipment and intangible assets purchases in total of USD 1,508 for the year ended 31 December 2017 was financed through finance leases. (31 December 2016: USD 2,482 portion of property and equipment and intangible assets purchases in total of USD 3,360 was financed through finance leases.)

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

(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 2017 and 2016, the shareholders and their respective shareholdings in the Company are as follows:

	31 December 2017	**31 December 2016**
Turkey Wealth Fund (*)	% 49.12	-
Republic of Turkey Prime Ministry Privatization Administration (*)	-	% 49.12
Other (publicly held)	% 50.88	% 50.88
Total	% 100.00	% 100.00

(*) 49.12% share of the Company and its subsidiaries (together the "Group") owned by Republic of Turkey Prime Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Prime Ministry Privatisation Administration, is a state owned entity being affiliated to the Republic of Turkey Prime Ministry. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

The number of employees working for the Group as of 31 December 2017 is 31,510 (31 December 2016: 30,541). The average number of employees working for the Group for the year ended 31 December 2017 and 2016 are 30,719 and 29,733 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mahallesi, Havaalanı Caddesi No: 3/1
34149 Yeşilköy İSTANBUL.

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

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 December 2017 and 2016:

		Ownership Rate		Country of
Name of the Company	Principal Activity	31 December 2017	31 December 2016	Registration
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Training & Airport Operations	100%	100%	Turkey
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş. (*)	Airport Investment	100%	-	Turkey

(*) The association was established in November 2017 to operate in the fields of airport investment and management by the Board of Directors.

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

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

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Company as of 31 December 2017 and 2016:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO 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
Vergi İade Aracılık A.Ş.	Turkey	30%	30%	VAT Return and Consultancy

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

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

Board of Directors has approved the consolidated financial statements as of 31 December 2017 on 5 March 2018. 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.

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

2.1 Basis of Presentation (cont'd)

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

Business Combinations

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

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

2.1 Basis of Presentation (cont'd)

Business Combinations (cont'd)

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 and for the year ended 31 December 2017 except for described below are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2016.

Group has decided to change the useful lives of aircraft and engines and cargo aircraft and engines from 20 years to 25 years. This change in estimation in useful lives was effective from 1 January 2017.

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.

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.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

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.

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.

(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)

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:

	Useful Life (Years)	Residual Value
- Buildings	25 and 50	-
- Aircrafts and Engines	25	10%
- Cargo Aircraft and Engines	25	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 and 7	-
- Simulators	25	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	-

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases (cont'd)

Group management has recognized various sale and leaseback transactions for its aircraft and engines in accordance with IAS 17 "Leases". If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. Sales proceeds over the carrying amount excess is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

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 3 and 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.

<u>Goodwill</u>

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.

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

2.3 Summary of Significant Accounting Policies (cont'd)

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.

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.

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)

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.

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.

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)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments with their maturities equal or less than three months from date of acquisition 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.

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.

(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)

Derivative financial instruments and hedge accounting (cont'd)

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 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 portions 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.

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 2017, 2016 and 2015 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2017	3.7719	3.6445
Year ended 31 December 2016	3.5192	3.0181
Year ended 31 December 2015	2.9076	2.7191

(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)

2.3.9 Foreign Currency Transactions (cont'd)

The closing and average US Dollar - Euro exchange rates as at 31 December 2017, 2016 and 2015 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2017	1/ 1.1971	1/ 1.1294
Year ended 31 December 2016	1/ 1.0542	1/ 1.1059
Year ended 31 December 2015	1/ 1.0929	1/ 1.1102

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 the Reporting Date

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

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

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.13 Segmental Information

There are two main 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.

When an investment property is transferred from investment property measured at fair value (whether to own-use properties or to inventories), the transfer is accounted for at fair value. The fair value at the date of transfer is then deemed to be the property's cost for subsequent accounting under IAS 2 or IAS 16. Any difference between the carrying amount of the property before transfer and its fair value on the date of transfer is recognized in profit or loss in the same way as any other change in the fair value of investment property.

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.

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 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.

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, where 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.

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.16 Government Grants (cont'd)

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.

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).

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

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.21 Frequent Flyer Program (cont'd)

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 "Miles and Smiles" program. Revenue is recognized when 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:

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 a FFP program called "Miles and Smiles" for its members. In the calculation of the liability historical statistics are used for miles earned from flights.

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 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, 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:

An incentive standard that reconstitutes government assistance for investments initiated effective from 28 February 2009 with the clause 32/A of the Corporate Tax Law by the 9th article of the 5838 numbered Law in order to support investments through taxes on income.

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 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".

The Group 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 the related authority. For the related aircraft investment, 20% contribution rate and 50% corporate tax discount rate apply. Additionally, for the aircrafts to be joined the fleet from December 2014, the Group obtained another Incentive Certificate dated 18 December 2014 and numbered 117132, of which the 15% contribution rate and 50% corporate tax discount rate apply.

The contribution amount resulting from these investment certificates as of 31 December 2017 is 1,400 USD (31 December 2016: 1,350 USD). Until the contribution amount is fully consumed by reduction from future corporate taxes, the corporate income attributable to related investments will be taxed by 10% rate instead of 20% rate, due to 50% corporate tax discount rate applicable.

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 the use of "contribution amount" depends on future earnings from the related investment 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

Standards issued but not yet effective and not early adopted

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement". It also carries forward the guidance on recognition, classification, measurement and derecogniton of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. 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 amendment on financial position or performance of the Group.

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

IFRS 16 Leases

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

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

IFRIC 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

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

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

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

Annual Improvements to IFRSs 2015-2017 Cycle

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

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

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

Annual Improvements to IFRSs 2015-2017 Cycle (cont'd)

Amendments to IAS 28- Long-term interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

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).

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

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

	31 December 2017	31 December 2016
Sun Express	105	77
Turkish DO&CO	60	57
TEC	56	43
THY Opet	54	30
TGS	36	31
Uçak Koltuk	4	5
TCI	3	3
Goodrich	2	1
Vergi İade Aracılık (*)	-	-
	320	247

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

Financial information for Sun Express as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	1,439	972
Total liabilities	1,228	818
Shareholders'equity	210	154
Group's share in joint venture's shareholders' equity	105	77

	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	1,288	1,085
Profit / (loss) for the year	55	(26)
Group's share in joint venture's profit / (loss) for the year	28	(13)

Financial information for Turkish DO&CO as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	180	175
Total liabilities	60	62
Shareholders'equity	120	113
Group's share in joint venture's shareholders' equity	60	57

	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	279	357
Profit for the year	24	32
Group's share in joint venture's profit for the year	12	16

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

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

Financial information for TEC as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	163	168
Total liabilities	49	79
Shareholders'equity	114	89
Group's share in joint venture's shareholders' equity	56	43
	1 January - 31 December 2017	**1 January - 31 December 2016**
Revenue	526	342
Profit for the year	25	34
Group's share in joint venture's profit for the year	12	17

Financial information for THY Opet as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	616	458
Total liabilities	509	399
Shareholders'equity	107	59
Group's share in joint venture's shareholders' equity	54	30
	1 January - 31 December 2017	**1 January - 31 December 2016**
Revenue	1,619	1,357
Profit for the year	78	39
Group's share in joint venture's profit for the year	39	19

Financial information for TGS as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	127	115
Total liabilities	54	53
Shareholders'equity	72	62
Group's share in joint venture's shareholders' equity	36	31
	1 January - 31 December 2017	**1 January - 31 December 2016**
Revenue	258	261
Profit for the year	23	12
Group's share in joint venture's profit for the year	12	6

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

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

Financial information for Uçak Koltuk as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	16	19
Total liabilities	8	9
Shareholders'equity	8	10
Group's share in joint venture's shareholders' equity	4	5

	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	11	9
Loss for the year	(2)	(2)
Group's share in joint venture's loss for the year	(1)	(1)

Financial information for TCI as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	10	11
Total liabilities	4	4
Shareholders'equity	6	7
Group's share in joint venture's shareholders' equity	3	3

	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	7	7
Profit / (loss) for the year	1	(2)
Group's share in joint venture's profit / (loss) for the year	-	(1)

Financial information for Goodrich as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total assets	7	5
Total liabilities	4	2
Shareholders'equity	4	3
Group's share in joint venture's shareholders' equity	2	1

	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	15	10
Profit for the year	1	1
Group's share in joint venture's profit for the year	-	1

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

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

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

	1 January - 31 December 2017	**1 January - 31 December 2016**
Sun Express	28	(13)
Turkish DO&CO	12	16
TEC	12	17
THY Opet	39	19
TGS	12	6
Uçak Koltuk	(1)	(1)
TCI	-	(1)
Goodrich	-	1
	102	44

4. SEGMENTAL REPORTING

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector. The detailed information about the sales revenue of the Group is given in Note 26.

4.1 Total Assets and Liabilities

Total Assets	**31 December 2017**	**31 December 2016**
Aviation	18,085	18,335
Technical	1,256	1,258
Total	19,341	19,593
Less: Eliminations due to consolidation	(1,144)	(1,102)
Total assets in consolidated financial statements	18,197	18,491

Total Liabilitites	**31 December 2017**	**31 December 2016**
Aviation	12,874	13,389
Technical	363	455
Total	13,237	13,844
Less: Eliminations due to consolidation	(386)	(440)
Total liabilitites in consolidated financial statements	12,851	13,404

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

4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 31 December 2017	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	10,785	173	-	10,958
Inter-Segment Sales	44	936	(980)	-
Revenue	10,829	1,109	(980)	10,958
Cost of Sales (-)	(8,897)	(845)	980	(8,762)
Gross Profit	1,932	264	-	2,196
Administrative Expenses (-)	(193)	(89)	7	(275)
Marketing and Sales Expenses (-)	(1,123)	(5)	1	(1,127)
Other Operating Income	272	35	(43)	264
Other Operating Expenses (-)	(41)	(30)	35	(36)
Operating Profit Before Investment Activities	847	175	-	1,022
Income from Investment Activities	178	-	-	178
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Profit Accounted by Using The Equity Method	90	12	-	102
Operating Profit	1,114	187	-	1,301
Financial Income	58	6	(8)	56
Financial Expense (-)	(1,075)	(11)	8	(1,078)
Profit Before Tax	97	182	-	279

1 January - 31 December 2016	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	9,624	168	-	9,792
Inter-Segment Sales	34	893	(927)	-
Revenue	9,658	1,061	(927)	9,792
Cost of Sales (-)	(8,814)	(774)	932	(8,656)
Gross Profit	844	287	5	1,136
Administrative Expenses (-)	(219)	(101)	5	(315)
Marketing and Sales Expenses (-)	(1,167)	(4)	-	(1,171)
Other Operating Income	153	32	(40)	145
Other Operating Expenses (-)	(88)	(28)	30	(86)
Operating (Loss) / Profit Before Investment Activities	(477)	186	-	(291)
Income from Investment Activities	137	-	-	137
Expenses from Investment Activities	(20)	-	-	(20)
Share of Investments' Profit Accounted by Using The Equity Method	27	17	-	44
Operating (Loss) / Profit	(333)	203	-	(130)
Financial Income	299	13	(12)	300
Financial Expense (-)	(227)	(14)	12	(229)
(Loss) / Profit Before Tax	(261)	202	-	(59)

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

4. SEGMENTAL REPORTING (cont'd)

4.3 Investment Operations

1 January - 31 December 2017	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	1,366	142	-	1,508
Current period depreciation and amortization change	883	183	-	1,066
Investments accounted by using the equity method	261	59	-	320

1 January - 31 December 2016	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	3,215	145	-	3,360
Current period depreciation and amortization change	1,030	118	-	1,148
Investments accounted by using the equity method	202	45	-	247

5. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	2	2
Banks – Time deposits	1,768	1,357
Banks – Demand deposits	116	99
Other liquid assets	5	8
	1,891	1,466

Details of the time deposits as of 31 December 2017 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
153	TL	11.41% - 12.58%	January 2018	41
141	USD	2.87% - 3.53%	March 2018	142
1,322	EUR	1.60% - 2.34%	March 2018	1,585
				1,768

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

Amount	Currency	Effective Interest Rate	Maturity	31 December 2016
1,284	TL	7.43% - 10.12%	January 2017	370
764	USD	1.85% - 3.16%	March 2017	766
209	EUR	1.60% - 1.97%	March 2017	221
				1,357

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

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	31 December 2017	31 December 2016
Time deposits with maturity more than 3 months	195	349

Time deposit with maturity of more than 3 months as of 31 December 2017 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
162	EUR	1.68% - 1.93%	May 2018	195

Time deposit with maturity of more than 3 months as of 31 December 2016 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2016
123	USD	3.03% - 3.12%	May 2017	123
214	EUR	1.64% - 1.90%	June 2017	226
				349

Long-term financial investments are as follows:

	31 December 2017	31 December 2016
Debt to securities		
- Available for sale	50	-
- Held to maturity	-	46
Other	1	1
	51	47

Group Management has changed its intention on debt securities, which were previously reported as held to maturity, and decided to reclass them as available for sale in the current period.

Details of available for sale as of 31 December 2017 is as follows:

	31 December 2017	31 December 2016
Debt to securities / available for sale		
- Government bonds	17	-
- Eurobonds	33	-
	50	-

Period remaining to contractual maturity dates for financial investments available for sale as of 31 December 2017 is as follows:

	31 December 2017	31 December 2016
Over 5 years	50	-

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

6. FINANCIAL INVESTMENTS (cont'd)

Details of held to maturity as of 31 December 2016 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2016
46	USD	4.75% - 8.50%	June 2019 - March 2026	46

7. BORROWINGS

Short term borrowings are as follows:

	31 December 2017	31 December 2016
Short term borrowings	744	1,357

Short term borrowings as of 31 December 2017 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
400	USD	1.64% - 2.30%	October 2018	400
288	EUR	0.40% - 0.75%	December 2018	344
				744

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

Amount	Currency	Effective Interest Rate	Maturity	31 December 2016
250	USD	1.02%	January 2017	250
1,050	EUR	0.50% - 0.75%	October 2017	1,107
				1,357

Short term portions of long term borrowings are as follows:

	31 December 2017	31 December 2016
Finance lease obligations (Note: 18)	954	1,038
Bank borrowings	29	26
	983	1,064

Long term borrowings are as follows:

	31 December 2017	31 December 2016
Finance lease obligations (Note: 18)	7,259	7,726
Bank borrowings	80	96
	7,339	7,822

Details of bank borrowings as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Less than 1 year	29	26
Between 1 – 5 years	80	96
	109	122

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

7. BORROWINGS (cont'd)

Bank borrowings has 5.5 year term such borrowings are denominated in EUR amounting to 115 million is bearing annual effective interest rate of Euribor + 2.45%. The Group assesses currency and interest risk in Note 35.

Reconciliation of liabilities arising from financing activities:

	2016	Reimbursement of financial debt	Non-cash Changes	New financial debt	2017
Lease Liabilities	8,764	(1,996)	785	660	8,213
Bank Borrowings	1,479	(2,950)	149	2,175	853
	10,243	(4,946)	934	2,835	9,066

8. OTHER FINANCIAL LIABILITIES

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

	31 December 2017	31 December 2016
Other financial liabilities	16	4

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

9. RELATED PARTY TRANSACTIONS

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

	31 December 2017	31 December 2016
Turkish DO&CO	-	3

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

	31 December 2017	31 December 2016
THY Opet (*)	7	-

(*) The amounts are received on account to dividend accrual of 2017.

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

	31 December 2017	31 December 2016
THY Opet	77	43
TEC	36	19
Turkish DO&CO	28	33
TGS	16	14
Sun Express	8	19
TCI	2	-
Goodrich	1	1
	168	129

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

9. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with related parties for the year ended 31 December 2017 and 2016 are as follows:

a) Sales to related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Sun Express	24	31
TEC	13	15
TGS	6	6
Turkish DO&CO	1	1
Goodrich	-	1
	44	54

b) Purchases from related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
THY Opet	1,388	1,154
TEC	288	298
TGS	241	245
Turkish DO&CO	240	326
Sun Express	158	218
Goodrich	9	6
Uçak Koltuk	2	4
TCI	1	1
	2,327	2,252

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

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 4 (1 January-31 December 2016: USD 4).

10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from non-related parties as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Trade receivables	667	455
Allowance for doubtful receivables	(75)	(76)
	592	379

Provision for doubtful receivables has been determined based on past experience for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 35.

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

10. TRADE RECEIVABLES AND PAYABLES (cont'd)

Trade payables to non-related parties as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Trade payables	686	486
Other trade payables	1	1
	687	487

The Group assesses currency risk in Note 35.

11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Salary accruals	108	103
Bonus accruals	52	-
Social security premiums payable	40	40
	200	143

12. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables from non-related parties as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Predelivery payments made for aircrafts	117	596
Receivables from technical purchases	71	130
Bank deposits with transfer limitations (*)	55	62
Value added tax receivables	54	39
Receivables from pilots for flight training	16	10
Receivables from employees	1	1
Other receivables	5	5
	319	843

(*) As of 31 December 2017, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Gabon and Benin. (As of 31 December 2016, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Egypt, Argentina, Algeria, Greece, Nigeria, Ukraine, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique and Benin.)

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

12. OTHER RECEIVABLES AND PAYABLES (cont'd)

Other long-term receivables from non-related parties as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Receivables related to investment certificates	256	211
Predelivery payments made for aircrafts	247	207
Receivables from pilots for flight training	101	67
Deposits and guarentees given	9	15
Bank deposits with transfer limitations (*)	6	5
Interest and commodity swap agreement deposits	-	11
	619	516

(*) As of 31 December 2017, the balance of this account includes bank deposits in Syria.

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

	31 December 2017	31 December 2016
Taxes and funds payable	43	79
Deposits and guarantees received	10	12
Payables to lessors	10	-
Other liabilities	2	2
	65	93

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

	31 December 2017	31 December 2016
Interest and commodity swap agreement deposits	38	-
Payables to lessors	30	-
Deposits and guarantees received	15	11
	83	11

13. INVENTORIES

	31 December 2017	31 December 2016
Spare parts	145	176
Other inventories	73	60
	218	236
Provision for impairment (-)	(25)	(19)
	193	217

The change in the value of provision for impairment for the years ended 31 December 2017 and 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Provision at the beginning of the year	19	17
Charges during the year	6	2
Provision at the end of the year	25	19

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

14. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses are as follows:

	31 December 2017	31 December 2016
Advances given for purchases	25	27
Prepaid operating lease expenses	20	16
Prepaid sales commissions	13	12
Prepaid advertising expenses	13	12
Prepaid borrowings interest expenses	6	5
Prepaid insurance expenses	7	5
Other prepaid expenses	35	21
	119	98

Long-term prepaid expenses are as follows:

	31 December 2017	31 December 2016
Prepaid engine maintenance expenses	435	440
Prepaid aircraft financing expenses	47	59
Advances given for fixed asset purchases	8	11
Other prepaid expenses	6	8
	496	518

Deferred income is as follows:

	31 December 2017	31 December 2016
Passenger flight liabilites	1,000	785
Other short-term deferred income	16	11
	1,016	796

Passenger flight liability is as follows:

	31 December 2017	31 December 2016
Flight liability generating from ticket sales	763	578
Flight liability generating from frequent flyer program	237	207
	1,000	785

Other short-term deferred income is as follows:

	31 December 2017	31 December 2016
Advances received	10	5
Deferred finance income	5	-
Unearned bank protocol revenue accruals	1	6
	16	11

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

14. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

Long-term deferred income is as follows:

	31 December 2017	31 December 2016
Deferred finance income	40	-
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(29)	(26)
Unearned bank protocol revenue accruals	-	1
	42	6

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

15. PROPERTY AND EQUIPMENT

	Land, Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
Cost									
Opening balance at 1 January 2017	218	367	176	16,279	608	539	500	235	18,922
Additions	-	15	11	1,138	92	94	20	131	1,501
Transfer (*)	4	1	3	23	-	-	-	(32)	(1)
Disposals	-	(7)	(3)	(1,042)	(52)	(82)	-	-	(1,186)
Closing balance at 31 December 2017	222	376	187	16,398	648	551	520	334	19,236
Accumulated Depreciation									
Opening balance at 1 January 2017	66	177	112	4,549	204	203	135	-	5,446
Depreciation charge	12	30	23	772	44	133	37	-	1,051
Disposals	-	(3)	(3)	(183)	(23)	(51)	-	-	(263)
Closing balance at 31 December 2017	78	204	132	5,138	225	285	172	-	6,234
Net book value at 31 December 2017	144	172	55	11,260	423	266	348	334	13,002

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

As of 31 December 2017, carrying value of the aircrafts and spare engines acquired through finance leases is USD 10,826 (31 December 2016: USD 11,439)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 1,009 (31 December 2016: USD 1,081), general administrative expenses is amounting to USD 51 (31 December 2016: USD 61) and marketing and sales expenses is amounting to USD 6 (31 December 2016: USD 6).

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

15. 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
Cost									
Opening balance at 1 January 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	2	30	24	2,899	65	118	27	191	3,356
Transfer	-	20	1	52	32	-	2	(108)	(1)
Transfers between the accounts	-	4	(4)	-	-	-	-	-	-
Disposals	-	(5)	(14)	(598)	(35)	(67)	(1)	-	(720)
Closing balance at 31 December 2016	218	367	176	16,279	608	539	500	235	18,922
Accumulated Depreciation									
Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	10	30	24	915	42	69	37	-	1,127
Transfers between the accounts	-	2	(2)	-	-	-	-	-	-
Disposals	-	(1)	(14)	(466)	(33)	(38)	(1)	-	(553)
Closing balance at 31 December 2016	66	177	112	4,549	204	203	135	-	5,446
Net book value at 31 December 2016	152	190	64	11,730	404	336	365	235	13,476

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

16. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2017	44	140	5	189
Additions	-	7	-	7
Transfers	-	1	-	1
Closing balance at 31 December 2017	44	148	5	197
Accumulated Amortization				
Opening balance at 1 January 2017	-	115	1	116
Amortization charge	-	15	-	15
Closing balance at 31 December 2017	-	130	1	131
Net book value at 31 December 2017	44	18	4	66

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2016	44	137	5	186
Additions	-	4	-	4
Disposals	-	(2)	-	(2)
Transfers	-	1	-	1
Closing balance at 31 December 2016	44	140	5	189
Accumulated Amortization				
Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	21	-	21
Disposals	-	(2)	-	(2)
Closing balance at 31 December 2016	-	115	1	116
Net book value at 31 December 2016	44	25	4	73

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

17. GOODWILL

The goodwill amounting to 12 USD is recognized from the acquisition of MNG Teknik has been recognized in the consolidated financial statements. In 2015, an impairment test has been implemented by the Company and no impairment has been noted on the net book value of goodwill.

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

18. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	31 December 2017	31 December 2016
Less than 1 year	1,105	1,189
Between 1 – 5 years	3,718	3,491
Over 5 years	4,189	4,969
	9,012	9,649
Less: Future interest expenses	(799)	(885)
Principal value of future rentals stated in financial statements	8,213	8,764

	31 December 2017	31 December 2016
Interest Range:		
Floating rate obligations	4,979	4,942
Fixed rate obligations	3,234	3,822
	8,213	8,764

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

As of 31 December 2017, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.77% (31 December 2016: 2.81%) for the fixed rate obligations and 1.48% (31 December 2016: 1.15%) for the floating rate obligations.

19. GOVERNMENT GRANTS AND INCENTIVES

Incentive certificates No: 28.12.2010 / 99256 and No: 18.12.2014 / 117132 were obtained from the related authority for investment of aircrafts. Due to these certificates, the Group will have advantages of 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 corporate tax effect of the investment certificates.

20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 December 2017 and 2016 are as follows:

Short-term provision for employee benefits is as follows:

	31 December 2017	31 December 2016
Provisions for unused vacation	41	44

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

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

Changes in the provisions for the years ended 31 December 2017 and 2016 are set out below:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Provisions at the beginning of the year	44	52
(Released) / Provisions for the current year	(1)	3
Foreign currency translation differences	(2)	(11)
Provisions at the end of the year	41	44

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

Other short-term provision is as follows:

	31 December 2017	**31 December 2016**
Provisions for legal claims	22	17

Changes in the provisions for legal claims for the years ended 31 December 2017 and 2016 are set out below:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Provisions at the beginning of the year	17	15
Provisions for the current year	7	9
Provisions released	(2)	(3)
Foreign currency translation differences	-	(4)
Provisions at the end of the year	22	17

The Group recognizes provisions for lawsuits against itself due to its operations. The lawsuits against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. It is expected that provision amount will be paid within one year.

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

21. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letters of guarantees given as of 31 December 2017 is USD 859 (31 December 2016: USD 1,040).

	31 December 2017		**31 December 2016**	
	Original currency amount	**USD equivalent**	**Original currency amount**	**USD equivalent**
A. Total amounts of GPM given on the behalf of its own legal entity	-	859	-	1,040
-Collaterals				
TL	34	9	27	8
EUR	326	391	930	980
USD	451	451	48	48
Other	-	8	-	4
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		859		1,040

The ratio of other GPM ("D") given by the group to its equity is 0% as of 31 December 2017 (31 December 2016: 0%)

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

	31 December 2017	**31 December 2016**
Less than 1 year	359	327
Between 1 – 5 years	950	773
More than 5 years	757	178
	2,066	1,278

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

21. COMMITMENTS (cont'd)

c) Other operational lease debts :

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

	31 December 2017	31 December 2016
Less than 1 year	4	4
Between 1 – 5 years	20	20
More than 5 years	23	29
	47	53

d) Aircraft purchase commitments:

To be delivered between the years 2013-2023, the Group signed a contract for 259 aircrafts with a list price value of 34.7 billion US Dollars (full). 2 of these aircrafts were delivered in 2013, 10 were delivered in 2014, 33 were delivered in 2015, 43 were delivered in 2016 and 4 were delivered in 2017. The Group has made an advance payment of 380 million US Dollars (full) relevant to these purchases as of 31 December 2017.

22. EMPLOYEE BENEFITS

Provisions for long-term retirement pay liability as of 31 December 2017 and 2016 is comprised of the following:

	31 December 2017	31 December 2016
Provisions for retirement pay liability	128	113

Provisions for retirement pay liability are recorded as follows:

Under Labor Law effective in Turkey, it is an obligation to make legal retirement pay to employees whose employment is terminated in certain ways. Also, according to Article 60 of Social Security Law numbered 506 which was revised by the laws 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is an obligation to make legal retirement pay to those who entitled to receive retirement pay when leaving their work. Some transfer provisions related to employment conditions prior to retirement are removed from the Law by the revise made on 23 May 2002. Retirement pay liability assumptions and calculations are changed in line with the revise made on 8 May 2008, which altered age of retirement.

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,326 (full) as of 31 December 2017. (31 December 2016: US Dollar 1,258 (full)).

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

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

22. EMPLOYEE BENEFITS (cont'd)

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2017 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.00% annual inflation rate (31 December 2016: 7.00%) and 12.00% interest rate (31 December 2016: 11.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.64% (31 December 2016: 2.45%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,326 (full) which is in effect since 1 January 2018 is used in the calculation of Group's provision for retirement pay liability.

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

	1 January - 31 December 2017	1 January - 31 December 2016
Provisions at the beginning of the year	113	119
Service charge for the year	22	25
Interest charges	12	4
Actuarial loss	5	4
Payments	(14)	(16)
Foreign currency translation difference	(10)	(23)
Provisions at the end of the year	128	113

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

23. EXPENSES BY NATURE

Expenses by nature for the year ended 31 December 2017 and 2016 are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Fuel expenses	2,866	2,673
Personnel expenses	1,761	1,865
Depreciation and amortisation expenses	1,066	1,148
Ground services expenses	656	645
Aircraft maintenance expenses	645	590
Passenger services and catering expenses	510	582
Air traffic control expenses	509	504
Airport expenses	469	448
Operating lease expenses	324	244
Commissions and incentives	318	321
Reservation systems expenses	232	219
Wet lease expenses	203	252
Advertisement and promotion expenses	165	214
Service expenses	71	75
Rents	68	67
Insurance expenses	51	50
IT & communication expenses	47	47
Taxes and duties	39	35
Transportation expenses	30	27
Consultancy expenses	14	13
Systems use and associateship expenses	9	8
Utility expenses	8	9
Membership fees	7	6
Other expenses	96	100
	10,164	10,142

24. OTHER ASSETS AND LIABILITIES

Other current assets as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Deffered VAT	83	23
Personnel and business advances	4	3
	87	26

Other short-term liabilities as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Accruals for maintenance expenses of aircraft under operating lease	196	209
Accruals for other expenses	9	5
Other liabilities	3	1
	208	215

25. SHAREHOLDERS' EQUITY

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

	Class	%	31 December 2017	%	31 December 2016
Turkey Wealth Fund (*)	A	49.12	678	-	-
Republic of Turkey Prime Ministry Privatization Administration (*)	C	-	-	49.12	678
Other (publicly held)	A	50.88	702	50.88	702
Paid-in capital (Turkish Lira)			1,380		1,380
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124
Historic capital (Turkish Lira) (***)			2,504		2,504
Historic capital (USD Equivalent) (***)			1,597		1,597

(*) 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.

49.12% share of the Group owned by Republic of Turkey Prime Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Prime Ministry Privatisation Administration, is a state owned entity being affiliated to the Republic of Turkey Prime Ministry. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

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

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

As of 31 December 2017, the Group's issued and paid-in share capital consists of 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are registered. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

a) Decisions that will negatively affect the Company's mission Defined in Article 3.1. of the Articles of Association,

b) Suggesting change in the Articles of Association at General Assembly,

25. SHAREHOLDERS' EQUITY (cont'd)

Articles of Association 14: The following decisions of the Board are subject to the positive vote of the class C Shareholder (cont'd):

c) Increasing share capital,

d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

e) Every decision or action which directly or indirectly put the Company under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Company's shares held by Turkish State decrease under 20%.)

f) Decisions relating to merges and liquidation,

g) Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

Restricted Profit Reserves

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

Foreign Currency Translation Differences

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

Distribution of Dividends

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

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

Actuarial Differences on Defined Benefit Plans

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

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

25. 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.

26. REVENUE

Breakdown of gross profit is as follows:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Passenger revenue		
Scheduled	9,330	8,541
Unscheduled	73	49
Total passenger revenue	9,403	8,590
Cargo revenue		
Carried by passenger aircraft	722	600
Carried by cargo aircraft	595	396
Total cargo revenue	1,317	996
Total passenger and cargo revenue	10,720	9,586
Technical revenue	173	168
Other revenue	65	38
Net sales	10,958	9,792
Cost of sales (-)	(8,762)	(8,656)
Gross profit	2,196	1,136

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

	1 January - 31 December 2017	**1 January - 31 December 2016**
- Europe	3,113	2,791
- Far East	2,581	2,148
- Middle East	1,270	1,154
- America	1,429	1,297
- Africa	997	914
Total international flights	9,390	8,304
Domestic flights	1,330	1,282
Total passenger and cargo revenue	10,720	9,586

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

27. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Fuel expenses	2,866	2,673
Personnel expenses	1,369	1,442
Depreciation and amortisation expenses	1,009	1,081
Ground services expenses	656	645
Aircraft maintenance expenses	645	590
Passenger services and catering expenses	510	582
Air traffic control expenses	509	504
Airport expenses	469	448
Operating lease expenses	324	244
Wet lease expenses	203	252
Insurance expenses	49	48
Rents	34	35
Transportation expenses	30	27
Service expenses	29	33
Taxes and duties	14	13
IT & communication expenses	6	2
Utility expenses	4	4
Other expenses	36	33
	8,762	8,656

28. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	112	142
Depreciation and amortisation expenses	51	61
IT & communication expenses	34	36
Service expenses	31	30
Rents	13	12
Systems use and associateship expenses	9	8
Consultancy expenses	6	4
Utility expenses	4	5
Taxes and duties	2	2
Insurance expenses	2	2
Other general administrative expenses	11	13
	275	315

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

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

Breakdown of marketing and sales expenses is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Commissions and incentives	318	321
Personnel expenses	280	281
Reservation systems expenses	232	219
Advertisement and promotion expenses	165	214
Taxes and duties	23	20
Rents	21	20
Service expenses	11	12
Consultancy expenses	8	9
Membership fees	7	6
IT & communication expenses	7	9
Depreciation and amortisation expenses	6	6
Other marketing and sales expenses	49	54
	1,127	1,171

29. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains from operational activities, net	119	-
Insurance, indemnities, penalties income	46	29
Manufacturers' credits	46	76
Provisions released	17	12
Turnover premium from suppliers	11	6
Rent income	8	3
Non- interest income from banks	8	8
Delay interest income	2	-
Rediscount interest income	1	1
Other operating income	6	10
	264	145

Breakdown of other operating expenses is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Provisions	21	23
Indemnity and penalty expenses	2	5
Foreign exchange losses from operational activities, net	-	42
Other operating expenses	13	16
	36	86

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

30. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Interest income from financial investment	65	53
Income from investment incentives	62	80
Gain on sale of fixed assets	50	4
Gain on sale of financial investments	1	-
	178	137

Breakdown of expense from investment activities is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Loss on sale of fixed assets	1	20

31. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Interest income	48	32
Fair value gains on derivative financial instruments, net	-	89
Foreign exchange gains from financial activities, net	-	175
Rediscount interest income from repayments of aircrafts	-	4
Other financial incomes	8	-
	56	300

Breakdown of financial expenses is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange losses on financial activities, net	780	-
Finance lease interest expenses	209	198
Fair value losses on derivative financial instruments, net	39	-
Aircraft financing expenses	29	21
Interest expenses on employee benefits	12	4
Other financial expenses	9	6
	1,078	229

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

32. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	31 December 2017	31 December 2016
Prepaid taxes	32	23

Tax liability is as follows:

	31 December 2017	31 December 2016
Provisions for corporate tax	49	23
Prepaid taxes and funds	(37)	(21)
Corporate tax liability	12	2

Tax expense is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Current year tax expense	49	23
Deferred tax expense / (income)	7	(5)
Tax expense	56	18

Tax effect related to other comprehensive income is as follows:

	1 January - 31 December 2017			1 January - 31 December 2016		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	(2)	-	(2)	(22)	-	(22)
Change in cash flow hedge reserve	53	(12)	41	434	(87)	347
Gains on Remeasuring Available for Sale Financial Investments	1	-	1	-	-	-
Change in actuarial losses from retirement pay obligation	(5)	1	(4)	(4)	1	(3)
Other comprehensive income	47	(11)	36	408	(86)	322

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

32. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax

The effective tax rate is 20%. In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017,"Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of immoveable properties and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity until the end of the fifth year following the sale. The remaining 25% of such capital gains are subject to corporate tax. However, according to the amendments by Law numbered 7061, this rate is reduced from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

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

Income Withholding Tax

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

Deferred Tax

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

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

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

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

32. TAX ASSETS AND LIABILITIES (cont'd)

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

	31 December 2017	**31 December 2016**
Fixed assets	(1,539)	(1,423)
Adjustments for passenger flight liabilities	(126)	(88)
Change in fair value of derivative instruments	(17)	(10)
Tax loss carried forward	537	409
Income and expense for future years	74	48
Accruals for expenses	48	42
Miles accruals	35	36
Provisions for employee benefits	24	20
Provisions for unused vacation	1	1
Other	1	10
Deferred tax liabilities	(962)	(955)

The changes of deferred tax liability for the year ended 1 January – 31 December 2017 and 2016 are as follows:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Opening balance at 1 January	955	887
Deferred tax expense / (income)	7	(5)
Tax (income) / expense from hedging reserves	12	87
Tax (income) / expense of actuarial losses on retirement pay obligation	(1)	(1)
Foreign currency translation difference	(11)	(13)
Deferred tax liability at the end of the year	962	955

The redemption schedule of carry forward tax losses, which are considered in deferred tax calculation, is as follows:

	31 December 2017	**31 December 2016**
Expired as of 2018	81	87
Expired as of 2019	-	-
Expired as of 2020	105	112
Expired as of 2021	1,709	1,845
Expired as of 2022	789	-
	2,684	2,044

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

32. TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation with current tax charge for year ended 1 January – 31 December 2017 and 2016 are as follows:

Reconciliation of effective tax charge		**1 January - 31 December 2017**		**1 January - 31 December 2016**
Profit / (Loss) from operations before tax		279		(59)
Domestic income / (expense) tax rate of 20%	(20)%	(56)	(20)%	12
Taxation effects on:				
-expense from investment certificates	4%	12	(27)%	16
- non-deductible expenses	-	-	2%	(1)
- foreign currency translation difference	(12)%	(33)	93%	(55)
- investments accounted by using the equity method	7%	20	(15)%	9
- adjustment for prior year loss	(1)%	(2)	(2)%	1
-effect of the change in the deferred tax rate	1%	3	-	-
Tax charge in statement of loss		(56)		(18)

33. EARNINGS PER SHARE

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

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

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

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

33. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 1 January – 31 December 2017 and 2016:

	1 January - 31 December 2017	1 January - 31 December 2016
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
New bonus shares issued (in full)	-	-
Number of shares outstanding at 31 December (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net profit / (loss) for the year	223	(77)
Basic gain / (loss) per share (Full US Cents) (*)	0.16	(0.06)
Diluted gain / (loss) per share (Full US Cents) (*)	0.16	(0.06)

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

34. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2017 and 2016 are as follows:

Derivative financial assets	31 December 2017	31 December 2016
Derivative instruments for fuel prices cash flow hedge	184	154
Cross currency rate swap agreements	15	38
Derivative instruments for interest rate cash flow hedge	4	5
	203	197

Derivative financial liabilities	31 December 2017	31 December 2016
Cross currency rate swap agreements	78	49
Derivative instruments for interest rate cash flow hedge	46	73
Derivative instruments for fuel prices cash flow hedge	4	24
	128	146

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

35. 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 has not changed compared to 2016.

	31 December 2017	**31 December 2016**
Total debts	9,082	10,247
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(2,086)	(1,815)
Net debt (A)	6,996	8,432
Total shareholders' equity (B)	5,346	5,087
Total capital stock (A+B)	12,342	13,519
Net debt/total capital stock ratio	0.57	0.62

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

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

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

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management

	Receivables					
	Trade receivables		Other receivables			
31 December 2017	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks (***)**	**Derivative Instruments**
Maximum credit risk as of balance sheet date (*)	-	592	-	938	2,079	203
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	94	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	436	-	938	2,079	203
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	-	156	-	-	-	-
-The part under guarantee with collateral etc.	-	29	-	-	-	-
D. Net book value of impaired assets						
-Past due (gross carrying amount)	-	75	-	-	-	-
-Impairment(-)	-	(75)	-	-	-	-
-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 guarantees that increase credit reliability are not included in the balance.

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

(***)Deposits in Banks consist of financial investments with maturity more than 3 months.

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

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

(b) Financial Risk Factors (cont'd)

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

	Receivables					
	Trade receivables		Other receivables			
31 December 2016	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks (***)**	**Derivative Instruments**
Maximum credit risk as of balance sheet date (*)	-	379	3	1,359	1,805	197
-The part of maximum credit risk under guarantee with collateral etc. (**)	-	18	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	227	3	1,359	1,805	197
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	-	152	-	-	-	-
-The part under guarantee with collateral etc.	-	6	-	-	-	-
D. Net book value of impaired assets						
-Past due (gross carrying amount)	-	76	-	-	-	-
-Impairment(-)	-	(76)	-	-	-	-
-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 guarantees that increase credit reliability are not included in the balance.

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

(***)Deposits in Banks consist of financial investments with maturity more than 3 months.

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

35. 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 the result of the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on previous experience and current economy conditions. Since the customers are diversified, the Group's credit risk is dispersed and there is no material credit risk concentration.

The aging of past due receivables as of 31 December 2017 are as follows:

	Receivables					
31 December 2017	**Trade Receivables**	**Other Receivables**	**Deposits in Banks**	**Derivative Instruments**	**Other**	**Total**
Past due 1-30 days	46	-	-	-	-	46
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	109	-	-	-	-	109
Past due 1-5 years	41	-	-	-	-	41
Total past due receivables	231	-	-	-	-	231
The part under guarantee with collateral etc.	29	-	-	-	-	29

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

35. 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 2016 are as follows:

	Receivables					
31 December 2016	**Trade Receivables**	**Other Receivables**	**Deposits in Banks**	**Derivative Instruments**	**Other**	**Total**
Past due 1-30 days	53	-	-	-	-	53
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	121	-	-	-	-	121
Past due 1-5 years	19	-	-	-	-	19
Total past due receivables	228	-	-	-	-	228
The part under guarantee with collateral etc.	6	-	-	-	-	6

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

35. 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 received by Group for past due and not impaired receivable is 29 USD (31 December 2016: 6 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 2017 and 2016 are as follows:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Opening Balance	76	72
Charge for the year	14	14
Collections during the year	(15)	(9)
Currency translation adjustment	-	(1)
Closing Balance	75	76

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 are 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.

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

35. 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 2017

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	744	744	236	508	-	-
Finance lease obligations	8,213	9,012	276	829	3,718	4,189
Trade payables	855	855	855	-	-	-
Other financial liabilities	16	16	16	-	-	-
Total	9,828	10,627	1,383	1,337	3,718	4,189

31 December 2016

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	1,357	1,357	531	826	-	-
Finance lease obligations	8,764	9,649	264	925	3,491	4,969
Trade payables	616	616	616	-	-	-
Other financial liabilities	4	4	4	-	-	-
Total	10,741	11,626	1,415	1,751	3,491	4,969

31 December 2017

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	75	77	22	74	12	(31)

35. 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 2016

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows,net	51	52	(1)	51	2	-

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 in the Group's exposure to market risks or the manner in which it manages and measures the risk.

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

35. 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

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

	31 December 2017					
	USD EQUIVALENT	**TL**	**EUR**	**JPY**	**CHF**	**OTHER**
1.Trade Receivables	567	125	114	3	7	318
2a.Monetary Financial Assets	1,945	57	1,838	4	2	44
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	369	142	102	7	5	113
4.Current Assets (1+2+3)	**2,881**	**324**	**2,054**	**14**	**14**	**475**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	107	4	94	-	-	9
8.Non Current Assets (5+6+7)	**107**	**4**	**94**	**-**	**-**	**9**
9.Total Assets (4+8)	**2,988**	**328**	**2,148**	**14**	**14**	**484**
10.Trade Payables	538	363	138	-	2	35
11.Financial Liabilities	721	16	478	207	20	-
12a.Other Liabilities, Monetary	958	793	145	19	1	-
12b.Other Liabilities, Non Monetary	63	63	-	-	-	-
13.Current Liabilities (10+11+12)	**2,280**	**1,235**	**761**	**226**	**23**	**35**
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	5,818	-	3,543	2,096	179	-
16a.Other Liabilities, Monetary	14	9	5	-	-	-
16b.Other Liabilities, Non Monetary	128	128	-	-	-	-
17.Non Current Liabilities (14+15+16)	**5,960**	**137**	**3,548**	**2,096**	**179**	**-**
18.Total Liabilities (13+17)	**8,240**	**1,372**	**4,309**	**2,322**	**202**	**35**
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)	**(5,252)**	**(1,044)**	**(2,161)**	**(2,308)**	**(188)**	**449**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a -14-15-16a)	**(5,537)**	**(999)**	**(2,357)**	**(2,315)**	**(193)**	**327**
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

35. 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 2016					
	USD EQUIVALENT	**TL**	**EUR**	**JPY**	**CHF**	**OTHER**
1.Trade Receivables	355	95	79	1	6	174
2a.Monetary Financial Assets	946	389	501	5	3	48
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	259	97	63	5	5	89
4.Current Assets (1+2+3)	**1,560**	**581**	**643**	**11**	**14**	**311**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	62	5	48	-	-	9
8.Non Current Assets (5+6+7)	**62**	**5**	**48**	**-**	**-**	**9**
9.Total Assets (4+8)	**1,622**	**586**	**691**	**11**	**14**	**320**
10.Trade Payables	394	254	105	1	2	32
11.Financial Liabilities	655	4	436	196	19	-
12a.Other Liabilities, Monetary	768	592	143	33	-	-
12b.Other Liabilities, Non Monetary	61	61	-	-	-	-
13.Current Liabilities (10+11+12)	**1,878**	**911**	**684**	**230**	**21**	**32**
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,272	-	3,866	2,215	191	-
16a.Other Liabilities, Monetary	9	1	4	-	2	2
16b.Other Liabilities, Non Monetary	113	113	-	-	-	-
17.Non Current Liabilities (14+15+16)	**6,394**	**114**	**3,870**	**2,215**	**193**	**2**
18.Total Liabilities (13+17)	**8,272**	**1,025**	**4,554**	**2,445**	**214**	**34**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	**(6,650)**	**(439)**	**(3,863)**	**(2,434)**	**(200)**	**286**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(6,797)**	**(367)**	**(3,974)**	**(2,439)**	**(205)**	**188**
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

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

35. 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

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

	31 December 2017	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(104)	104
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(104)	104
4- Euro net asset / liability	(216)	216
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(216)	216
7- JPY net asset / liability	(231)	231
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	(231)	231
10- CHF net asset / liability	(19)	19
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	(19)	19
13- Other foreign currency net asset / liability	45	(45)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	45	(45)
TOTAL (3 + 6 + 9 + 12 + 15)	(525)	525

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

35. 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 2016	
	Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(44)	44
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(44)	44
4- Euro net asset / liability	(386)	386
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(386)	386
7- JPY net asset / liability	(243)	243
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	(243)	243
10- CHF net asset / liability	(20)	20
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	(20)	20
13- Other foreign currency net asset / liability	29	(29)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	29	(29)
TOTAL (3 + 6 + 9 + 12 + 15)	(664)	664

b.4.2) Interest rate risk management

The Group has been borrowing at both fixed and variable interest rates. Considering the interest conditions of the current borrowings, the majority of the borrowings are at variable interest rates. In addition to this; under the condition that the cost of financing of aircraft purchases are reasonable, the Group has been trying to increase the amount of the fixed interest rate borrowings in order to create a partial balance between the fixed and variable interest rate borrowings. 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.

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

35. 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

	31 December 2017	31 December 2016
Instruments with fixed interest rate		
Financial Liabilities	3,234	3,822
Financial Instruments with Variable Interest Rate		
Financial Liabilities	4,979	4,942
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(8)	(17)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(34)	(50)

As indicated in Note 36, the Group fixed the interest rate for 3,137 USD of floating–interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2017.

Interest rate sensitivity

The following sensitivity analysis are done considering the interest rate exposure in the reporting date and possible changes on this rate and are fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the basis for variable interest rates, fluctuate 0.5% and reports the effects to the top management.

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

Current profit before tax of the Group for the year will decrease by USD 29 (For the year ended 31 December 2016 loss before tax will increase by 32 USD). In contrast, if Libor and Euribor interest rate decrease by 0.5%, profit before tax 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 36 USD, excluding the deferred tax effect. (For the year ended 31 December 2016 the shareholders' equity of the Group will increase by 49 USD, 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 amounts, excluding the deferred tax effect.

b.4.3) Fuel prices sensitivity

As explained in Note 36, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases. 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 116 USD, excluding the deferred tax effect. (For the year ended 31 December 2016, the shareholders' equity of the Group will increase by 263 USD excluding deferred tax effect.)

35. 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.4.3) Fuel prices sensitivity (cont'd)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by 115 USD, excluding the deferred tax effect. (For the year ended 31 December 2016, the shareholders' equity of the Group will decrease by 1 USD, excluding deferred tax effect.)

36. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

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

- Under standard maturities and conditions, fair values of financial assets and liabilities 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.

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2017 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1,891	-	-	-	-	1,891	5
Financial investments and derivative financial instruments	195	188	15	1	-	399	6 and 34
Trade receivables	592	-	-	-	-	592	10
Other receivables	938	-	-	-	-	938	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	853	853	7
Finance lease obligations	-	-	-	-	8,213	8,213	7
Other financial liabilities and derivative financial instruments	-	80	48	-	16	144	8 and 34
Trade payables	-	-	-	-	855	855	9 and 10

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

31 December 2016 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1,466	-	-	-	-	1,466	5
Financial investments and derivative financial instruments	349	160	37	1	-	547	6 and 34
Trade receivables	379	-	-	-	-	379	10
Other receivables	1,362	-	-	-	-	1,362	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	1,479	1,479	7
Finance lease obligations	-	-	-	-	8,764	8,764	7
Other financial liabilities and derivative financial instruments	-	99	47	-	4	150	8 and 34
Trade payables	-	-	-	-	616	616	9 and 10

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair values of financial assets and liabilities are determined 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).

Financial assets and liabilities, measured at their fair values are classified as below:

		Fair value level as of the reporting date		
Financial assets	31 December 2017	Level 1 USD	Level 2 USD	Level 3 USD
Derivative instruments at fair value through profit or loss	15	-	15	-
Derivative instruments accounted for hedge accounting	188	-	188	-
Total	203	-	203	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	48	-	48	-
Derivative instruments accounted for hedge accounting	80	-	80	-
Total	128	-	128	-

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

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

		Fair value level as of the reporting date		
Financial assets	31 December 2016	Level 1 USD	Level 2 USD	Level 3 USD
Derivative instruments at fair value through profit or loss	37	-	37	-
Derivative instruments accounted for hedge accounting	160	-	160	-
Total	197	-	197	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	47	-	47	-
Derivative instruments accounted for hedge accounting	99	-	99	-
Total	146	-	146	-

Derivative Instruments and Hedging Transactions

In order to increase predictability of cash flow in the future, the Group uses derivative financial instruments such as currency forward contracts, foreign currency options, cross currency swap contracts, interest rate swap contracts, brent options and swap contracts to hedge its risks associated with foreign currency, interest rate and jet fuel price fluctuation.

The floating-rate financial liabilities of the Group are explained in Note 35 b.4.2. In order to keep interest costs at an affordable level, the Group has hedged approximately 63% of floating rate USD, JPY and Euro denominated liabilities arising from financial leasing activities. Effective part of the change in the fair values of those derivative instruments 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, in accordance with hedge accounting.

In order to control risk arising from fluctuations in fuel price, the Group has begun to hedging activities, in 2009. The fuel hedge strategy, which launched in June 2009, has been updated over the years regarding market experience and requirements. In accordance with the Group's BOD resolution issued on 14 July 2017, hedging trades are decided to be done for up-to 60% of budgeted fuel consumption of maximum next 24 months, regarding market conditions,. Also in the context of related change in strategy, premium paid options have also been added to the instrument alternatives, in addition to formerly used swap and zero-cost option structures. As a result of these changes, hedging strategy has become more flexible and accommodative to fuel market conditions with the optionality in tenor, hedge ratio and instrument. The effective portion of fair value of fuel hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

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

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

The currency mismatch between Group's income and expense causes the exchange rate risk. For this reason, FX risk hedging methodology was established for the first time in June, 2013 with the decision of the BOD and lastly updated in February 2015. Thus, it has been decided to hedge the Group's USD and TRY short positions with its EUR long position. According to the methodology, 30% of the forecasted monthly short position in TRY for the following 24 months is hedged by using forwards. Also, based on the market conditions, between 25% and 35% of the forecasted monthly short position in USD is hedged by using forwards or zero-cost collars in 24 month-period, similar to TRY. In this way, risk arising due to the exchange rate volatility is diminished and taken under control by either fixing the exchange rate at a predetermined level or controlling them in a range. The effective portion of fair value of currency hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2017 and 2016 are as follows:

Derivative Instruments Stated in Assets and Liabilities

31 December 2017	**Positive fair value**	**Negative fair value**	**Total**
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	1	(35)	(34)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	22	-	22
Collar contracts for hedging against cash flow risk of fuel prices	162	(4)	158
Forward currency contracts for hedging purposes	3	(41)	(38)
Fair values of derivative instruments for hedging purposes	188	(80)	108
Cross-currency swap contracts not subject to hedge accounting	6	-	6
Interest rate swap contracts not subject to hedge accounting	4	(12)	(8)
Forward currency contracts not for hedging purposes	5	(36)	(31)
Fair values of derivative instruments not for hedging purposes	15	(48)	(33)
Total	203	(128)	75

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

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2017 and 2016 are as follows (cont'd):

Derivative Instruments Stated in Assets and Liabilities

31 December 2016	**Positive fair value**	**Negative fair value**	**Total**
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(50)	(50)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	59	(10)	49
Collar contracts for hedging against cash flow risk of fuel prices	94	(14)	80
Forward currency contracts for hedging purposes	7	(25)	(18)
Fair values of derivative instruments for hedging purposes	160	(99)	61
Cross-currency swap contracts not subject to hedge accounting	16	-	16
Interest rate swap contracts not subject to hedge accounting	6	(23)	(17)
Forward currency contracts not for hedging purposes	15	(24)	(9)
Fair values of derivative instruments not for hedging purposes	37	(47)	(10)
Total	197	(146)	51

Derivative Instruments Stated in the Equity

31 December 2017	**Hedging against fuel risk**	**Hedging against interest risk**	**Hedging against currency risk**	**Total**
Fair values of derivative instruments for hedging purposes	181	(34)	(45)	102
The amount of financial expenses inside hedge funds	-	1	-	1
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(24)	-	-	(24)
Ineffecient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	-	-
Total	157	(33)	(45)	79
Deferred tax	(35)	7	10	(18)
Hedge reserve as of 31 December 2017	122	(26)	(35)	61

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

36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2017 and 2016 are as follows (cont'd):

Derivative Instruments Stated in the Equity

31 December 2016	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Fair values of derivative instruments for hedging purposes	129	(50)	(14)	65
The amount of financial expenses inside hedge funds	-	1	-	1
Ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(44)	-	-	(44)
Foreign currency translation differences	-	-	3	3
Total	85	(49)	(11)	25
Deferred tax	(17)	10	2	(5)
Hedge reserve as of 31 December 2016	68	(39)	(9)	20

37. EVENTS AFTER THE BALANCE SHEET DATE

None.

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

None.