



**TÜRK HAVA YOLLARI TEKNİK
ANONİM ŞİRKETİ**

**Convenience Translation to English of
Financial Statements For The Year Ended
31 December 2014 with
Independent Auditor's Report
(Originally Issued in Turkish)**



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**CONVENIENCE TRANSLATION TO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
(Originally issued in Turkish)**

To the Board of Directors of THY Teknik A.Ş.

Introduction

We have audited the accompanying financial statements of THY Teknik A.Ş. (the "Company"), which comprise the balance sheet as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Company Management is responsible for the preparation and fair presentation of these financial statements in accordance with Turkish Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of THY Teknik A.Ş. as at 31 December 2014, and its financial performance and its cash flows for the year then ended, in accordance with Turkish Accounting Standards.

Emphasis of Matter

We draw attention to Note 5 to the financial statements which describes the large-scale operations with related parties of the Company. For the period 1 January – 31 December 2014; 87 % of sales are realized with the related companies. Our conclusion is not qualified in respect of this matter.

Reports on Responsibilities of Independent Auditor Specified in Other Regulations

1) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and requested documents in connection with the audit.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities, financial statements for the period 1 January - 31 December 2014 are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

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

Hatice Nesrin Tuncer
Partner
6 March 2015
İstanbul, Türkiye

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Convenience Translation to English of Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ
Balance Sheet as at 31 December 2014
(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

ASSETS	Notes	Audited 31 December 2014	Audited 31 December 2013
Current Assets			
Cash and Cash Equivalents	4	2.246.213	2.046.901
Trade Receivables		377.785.878	161.423.303
- Trade Receivables From Related Parties	7	315.438.870	111.221.498
- Trade Receivables From Non-Related Parties	8	62.347.008	50.201.805
Other Receivables		24.229.230	9.857.621
- Other Receivables From Related Parties	7	16.531.890	4.958.461
- Other Receivables From Non-Related Parties	10	7.697.340	4.899.160
Inventories	11	960.756.559	650.689.705
Prepaid Expenses	12	8.596.247	5.926.652
Current Income Tax Assets	27	-	1.716.795
Other Current Assets	18	58.527	84.265.205
TOTAL CURRENT ASSETS		1.373.672.654	915.926.182
Non-Current Assets			
Financial Investments	5	5.025	5.025
Equity Accounted Investees	3	64.796.684	56.306.699
Property and Equipment	13	851.142.788	701.744.956
Intangible Assets		29.467.074	7.323.887
-Other Intangible Assets	13	29.467.074	7.323.887
Prepaid Expenses	12	40.904.661	49.188.535
TOTAL NON-CURRENT ASSETS		986.316.232	814.569.102
TOTAL ASSETS		2.359.988.886	1.730.495.284

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

Convenience Translation to English of Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ
 Balance Sheet as at 31 December 2014
 (All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 31 December 2014	Audited 31 December 2013
Current Liabilities		674.406.353	359.397.392
Other Financial Liabilities	6	6.925.527	3.992.929
Trade Payables		273.423.640	125.386.041
- Trade Payables to Related Parties	7	91.366.062	27.463.485
- Trade Payables to Non-Related Parties	8	182.057.578	97.922.556
Payables Related to Employee Benefits	9	40.008.736	22.463.709
Other Payables		145.675.471	70.557.339
- Other Payables to Related Parties	7	82.755.440	49.569.338
- Other Payables to Non-Related Parties	10	62.920.031	20.988.001
Deferred Income	12	188.880.704	129.508.367
Current tax liabilities	27	1.860.232	-
Short-term Provisions		15.951.284	6.418.125
- Provisions for Employee Benefits	15	9.167.176	4.106.669
- Other Short-term Provisions	15	6.784.108	2.311.456
Other Current Liabilities		1.680.759	1.070.882
Non-Current Liabilities		543.879.889	314.497.814
Other Payables		432.230.870	228.440.942
- Other Payables to Related Parties	7	432.230.870	228.440.942
Deferred Income	12	-	177.055
Short-term Provisions		59.546.206	42.515.141
- Long-term Provisions for Employee Benefits	17	56.008.879	42.515.141
- Other Short-term Provisions	15	3.537.327	-
Deferred Tax Liabilities	27	52.102.813	43.364.676
SHAREHOLDER'S EQUITY			
Equity Attributable to Equity Holders of the Parent		1.141.702.644	1.056.600.078
Share Capital	19	693.000.000	693.000.000
Items That Will Never Be Reclassified to Profit or Loss		1.994.961	(2.785.745)
- Actuarial Losses from Defined Pension Plans		1.994.961	(2.785.745)
Items That Are or May Be Reclassified to Profit or Loss		353.515.750	263.953.309
- Foreign Currency Translation Differences		353.515.750	263.953.309
Restricted Profit Reserves		9.504.301	9.277.564
Retained Earnings		92.928.213	135.024.343
Net Loss		(9.240.581)	(41.869.393)
TOTAL LIABILITIES AND EQUITY		2.359.988.886	1.730.495.284

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

Convenience Translation to English of Financial Statements Originally Issued in Turkish

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Statement of Profit or Loss and Other Comprehensive Income For The Year Ended 31 December 2014

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 1 January - 31 December 2014	Audited 1 January - 31 December 2013
Revenue	20	1.536.575.097	986.249.916
Cost of Sales (-)	20	(1.322.798.770)	(871.866.035)
GROSS PROFIT		213.776.327	114.383.881
General Administrative Expenses (-)	21	(165,528,167)	(96.509.979)
Marketing and Sales Expenses (-)	21	(10,033,873)	(9.066.201)
Research and Development Expenses (-)	21	(11,821,011)	(9.904.785)
Other Operating Income	22	12,561,824	18.303.658
Other Operating Expenses (-)	22	(35,939,239)	(15.432.692)
OPERATING PROFIT		3,015,861	1.773.882
Loss from Investment Activities	23	(200,507)	(351.512)
Share of Investments' Losses Accounted by Using the Equity Method	3	(901,133)	(17.612.894)
OPERATING PROFIT (LOSS) BEFORE FINANCIAL INCOME		1,914,221	(16.190.524)
Financial Income	25	4,599,208	5.597.118
Financial Expenses (-)	25	(1,180,322)	(1.591.366)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		5,333,107	(12.184.772)
TAX EXPENSE OF CONTINUING OPERATIONS		(14,573,688)	(29.684.621)
- Current Tax Expense	27	(9,686,012)	-
- Deferred Tax Expense	27	(4,887,676)	(29.684.621)
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(9,240,581)	(41,869,393)
OTHER COMPREHENSIVE INCOME			
Not To Be Reclassified To Profit or Loss		4,780,706	(336.016)
Actuarial Losses From Defined Pension Plans		5,975,883	(420.020)
Tax (Expense) Income of Actuarial Losses From Defined Pension Plans		(1,195,177)	84.004
To Be Reclassified To Profit or Loss		89,562,441	177.111.500
Currency Translation Differences		89,562,441	177.111.500
OTHER COMPREHENSIVE INCOME		94,343,147	176.775.484
TOTAL COMPREHENSIVE INCOME		85,102,566	134.906.091

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

Convenience Translation to English of Financial Statements Originally Issued in Turkish

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Statement of Changes in Equity For The Year Ended 31 December 2014

(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Accumulated Other Comprehensive Income or Expenses Not To Be Reclassified To Profit or Loss		Accumulated Other Comprehensive Income or Expenses To Be Reclassified To Profit or Loss		Restricted Profit Reserves		Retained Earnings		Net Loss For The Period	Total Equity
	Paid Share Capital	Actuarial Losses From Defined Pension Plans	Currency Translation Differences	Other Comprehensive Income or Expenses To Be Reclassified To Profit or Loss	Reserves	Profit	Earnings	Earnings		
Balance as at 1 January 2013	693,000,000	(2,449,729)	86,841,809	8,080,406	120,647,508	15,573,993	14,376,835	(15,573,993)	-	921,693,987
Transfers	-	-	-	1,197,158	-	-	-	-	-	-
Total Comprehensive Income	-	(336,016)	177,111,500	-	-	-	-	(41,869,393)	-	134,906,091
Balance as at 31 December 2013	693,000,000	(2,785,745)	263,953,309	9,277,564	135,024,343	(41,869,393)	135,024,343	(41,869,393)	-	1,056,600,078
Balance as at 1 January 2014	693,000,000	(2,785,745)	263,953,309	9,277,564	135,024,343	(41,869,393)	135,024,343	(41,869,393)	-	1,056,600,078
Transfers	-	-	-	226,737	(42,096,130)	41,869,393	-	-	-	-
Total Comprehensive Income	-	4,780,706	89,562,441	-	-	-	-	(9,240,581)	-	85,102,566
Balance as at 31 December 2014	693,000,000	1,994,961	353,515,750	9,504,301	92,928,213	(9,240,581)	92,928,213	(9,240,581)	-	1,141,702,644

The accompanying notes form an integral part of financial statements.

Convenience Translation to English of Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ
Statement of Cash Flows For The Year Ended 31 December 2014
(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 1 January - 1 December 2014	Audited 1 January - 31 December 2013
Loss Before Tax		(9.240.581)	(41.869.393)
Adjustments to reconcile cash flow generated from operating activities:			
Adjustments for depreciation and amortisation	11,13,14	150.884.690	76.809.128
Adjustments for provisions, net	15	12.951.504	(2.338.142)
Adjustments for provisions for employee benefits	17	25.828.317	6.153.470
Adjustments for provisions for doubtful receivables	8, 10	8.836.574	6.478.570
Adjustments for interest income and expenses		21.859.799	2.399.582
Adjustments for discount for receivables	22	61.951	417.589
Adjustments for discount for payables	22	(64.128)	(89.845)
Unrealized foreign exchange loss and translation differences		35.008.355	(40.182.655)
Loss from sale of fixed asset	23	200.507	351.512
Share of Investment's loss accounted by using the equity method	3	901.133	17.612.894
Adjustments for deferred tax expense	27	4.887.676	29.684.621
Adjustments for tax expense	21	9.686.012	-
Operating Profit Before Working Capital Changes		261.801.809	55.427.331
			(113.277.474)
Adjustments for increase in inventories		(400.337.796)	
Adjustments for increase in trade receivables		(225.260.073)	(30.866.033)
Adjustments for increase in other receivables		(14.372.636)	(9.276.518)
Adjustments for (increase)/ decrease in other current and non current assets		80.717.355	(46.190.134)
Adjustments for increase in trade payables and due to related parties		148.101.727	17.573.263
Adjustments for increase in other payables and due to related parties		256.872.977	261.821.038
Adjustments for (increase)/ decrease in prepaid expenses		5.614.279	(41.617.389)
Adjustments for increase in deferred income		59.195.282	43.846.833
Adjustments for increase in employee benefits		17.545.027	6.903.602
Adjustments for increase in other current and non current liabilities		609.877	45.757.876
Cash Flows Generated From Operating Activities		190.487.828	190.102.395
Interest received		175.284	238.890
Taxes paid	27	(8.669.800)	(1.716.795)
Employee benefits indemnity paid	17	(6.358.696)	(3.426.780)
Net Cash Generated From Operating Activities		175.634.616	185.197.710
Net cash from investing activities			
Proceeds from sale of property and equipment and intangible assets	13	81.038	166.339
Purchase of property and equipment	13	(161.476.307)	(197.761.259)
Purchase of intangible assets	14	(13.186.257)	(1.229.578)
Cash inflow arising from capital decrease in investments		165.000	-
Cash outflow arising from capital increase in investments		(4.350.000)	(1.539.395)
Net cash used in investing activities		(178.766.526)	(200.363.893)
Net Cash Used in Financing Activities			
Increase in financial borrowings		6.925.527	-
Repayments of principal in financial borrowings		(3.992.929)	(645.328)
Net Cash Used In (From) Financing Activities		2.932.598	(645.328)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(199.312)	15.811.511
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		2.046.901	17.858.412
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	2.246.213	2.046.901

The accompanying notes form an integral part of these financial statements.

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

Türk Hava Yolları Teknik Anonim Şirketi ("the Company") was incorporated on 23 May 2006 with the purpose to bring the Company to an important technical maintenance base in the area in air transport sector and to provide maintenance and repair services to civil aviation sector and every kind of technical and infrastructural assistance related with the airlines sector.

The average number of employees working for the company as at 31 December 2014 is 2.764 (31 December 2013: 2.012). Total number of employees working for the company as at 31 December 2014 is 4.395 (31 December 2013: 1.981). In 2014, 1.717 personnel has transferred to the Company from Türk Hava Yolları Habom A.Ş. ("THY Habom").

	<u>31 December 2014</u>	<u>31 December 2013</u>
Administrative Staff	900	619
Production Staff	3.495	1.362
Total	4.395	1.981

The company is registered in Turkey and its head office address is as follows:
 İstanbul Pendik Sabiha Gökçen Havalimanı E Kapısı THY Habom Kargo Yolu.

Associates

As at 31 December, associates accounted by using equity method and participation rate of the Company in these associates are as below:

<u>Name of the Company</u>	<u>Principal activity</u>	<u>Participation Rate</u>		<u>Country of Registration</u>
		<u>2014</u>	<u>2013</u>	
Turkbine Teknik Gaz Turbinleri Bakım Onarım Anonim Şirketi ("Turkbine Teknik")	Technical Maintenance	50%	50%	Turkey
P&W T.T. Uçak Bakım Merkezi Limited Şirketi ("TEC")	Technical Maintenance	49%	49%	Turkey
Goodrich THY Teknik Servis Merkezi Limited Şirketi ("Goodrich")	Technical Maintenance	40%	40%	Turkey
TCI Kabin içi Sistemleri Sanayi ve Ticaret Anonim Şirketi ("TCI")	Cabin Interior Maintenance	20%	21%	Turkey

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Preparation of the Financial Statements

The accompanying financial statements have been prepared in accordance with Turkish Accounting Standards ("TAS") which is issued by Public Oversight, Accounting and Auditing Standards Authority ("POA"). TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendices and interpretations.

The financial statements together with explanatory notes are presented in accordance with the reporting templates defined in the "Illustrative Financial Statements and Application Guidance" promulgated by POA on 20 May 2013.

Adjustment of Financial Statements in Hyperinflationary Periods

As per the 17 March 2005 dated, 11/367 numbered decree of CMB, companies engaged in Turkey and those of which prepare their financial statements in accordance with the CMB Accounting Standards (including IAS/IFRS exercisers), use of inflationary accounting standards have been discontinued effective from 1 January 2005. Accordingly, "Financial Reporting Standards in Hyperinflationary Economies", ("IAS 29") was no longer applied henceforward.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.1 Basis of Presentation *(continued)*

Basis of Measurements

All financial statements have been prepared on cost basis principal. Methods used for fair value measurement are given in Note: 2.5.7.

Functional and Reporting Currency

Functional Currency

Although the currency of the country in which the Company is domiciled is Turkish Lira (TL), for the purpose of this report 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 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 TAS 21 (the Effects of Changes in Foreign Exchange Rates).

Translation to the presentation currency

The Company's presentation currency is TL. The US Dollar financial statements of the Company are translated into TL as the following methods under TAS 21 ("The Effects of Foreign Exchange Rates"):

- a) Assets and liabilities in the balance sheet are translated into TL at the prevailing US Dollar buying exchange rates of the Central Bank of Turkish Republic;
- b) The statement of profit or loss and other comprehensive income is translated into TL by using the monthly average US Dollar exchange rates; and;
- c) All differences are recognized as a separate equity item under exchange differences.

Basis of the Consolidation

The company has four associates (Note: 1). Company's associates are economic activities dependent on joint control that require declarations of strategical, financial and management policy by unanimous vote of the company and other partners. The businesses that are controlled by the company collectively, are recognized with sharing the owners' equity method.

According to the equity method, associates are stated as the cost value adjusted as deducting the impairment in associates from the change occurred in the associates's assets after the acquisition date that is calculated by the Company's share in the balance sheet. Associates's losses that exceed the Company's share are not considered (actually, that contains a long term investment which composes the net investment in the associates).

Additional paragraph for convenience translation to English

Turkish Accounting Standards promulgated by Public Oversight Accounting and Auditing Standards Authority described in Note 2 to the financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, presentation of the basic financial statements and also for certain disclosure requirements. Accordingly, the accompanying financial statements are not intended to present the financial position, financial performance and cash flows of the Company in accordance with IFRS.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.2 Statement of Compliance with TAS

The Company registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation.

The financial statements have been prepared in accordance with Turkish Accounting Standards (TAS) announced by Public Oversight Accounting and Auditing Standards Authority ("POA") with regard to the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") on 13 June 2013 which is published on Official Gazette numbered 28676. TAS, are comprised of Turkish Accounting Standards, Turkish Financial Reporting Standards (TFRS), appendixes and interpretations.

2.3 Changes in Accounting Policies

The significant changes in accounting policies are applied retrospectively and prior period financial statements are restated accordingly.

2.4 Changes and Errors in Accounting Estimates

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively.

Changes in accounting policies or accounting errors applied retroactively and the financial statements of the previous periods were adjusted.

The significant estimates and assumptions used in preparation of these financial statements as at 31 December 2014 are same with those used in the preparation of the Company's financial statements as at and for the year ended 31 December 2013.

2.5 Summary of Significant Accounting Policies

The summary of significant accounting policies which were applied during the preparation of financial statement are as follows:

2.5.1 Revenue

Revenue is recognized on accrual basis at the fair value of the amount received or to be received based on the assumptions that revenue is measured reliably and it is probable that economic benefits associated with the sale will flow to the Company. Net sales are calculated after the sales returns and sales discounts.

Revenue from sale of goods and services rendered is recognized when all the following conditions are satisfied:

- The company has transferred to the buyer all the significant risks and rewards of ownership,
- The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

2.5.1 Revenue (continued)

The Company provides maintenance and repair services to civil aviation sector, and technical and infrastructural, assistance related with the airlines sector. Income is recorded based on accrual basis.

When there is significant amount of cost of financing included in the sales, the fair value is determined by discounting all probable future cash flows with the yield rate, which is embedded in the cost of financing. The difference is recorded according to the accrual basis.

Interest income accrued on a time 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.

2.5.2 Inventories

Inventories are stated at the lower of cost or 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 estimated selling price at regular business operation less all estimated costs of completion and estimated costs which is necessary to make sales.

Components and repairable spare parts depreciated over their useful lives are as follows:

	<u>Useful Life (Years)</u>
- Components	7
- Repairable spare parts (R Malzeme)	7
- Repairable spare parts (X Malzeme)	3
- Repairable spare parts (V Malzeme)	7

2.5.3 Tangible Assets

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

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. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

The gain or loss arising on the disposal or retirement of an item of property, plant 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

2.5.3 Tangible Assets (continued)

The useful lives of tangible assets are as follows:

	<u>Useful Life (Years)</u>
- Plant, property and equipment	3-15
- Furniture and fixtures	3-15
- Vehicles	4-7
- Other tangible assets	4-15
- Leasehold improvements	4-16

2.5.4 Intangible Assets

Intangible assets include information systems and other intangible assets. These intangible assets are recorded in the purchase cost. Other intangible assets are depreciated over their useful life, on a straight-line basis.

2.5.5 Impairment on Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2.5.6 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All of the other borrowing costs are recognized in the statement of income in the period in which they occur. As of 31 December 2014 and 2013, the Company does not have any capitalized borrowing costs.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

2.5.7 Financial Instruments

Financial assets

Financial investments are initially measured at fair value, net off transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value. Investments are recognized and derecognized on 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.

Other financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss", "held-to-maturity investments", "available-for-sale" financial assets and "loans and receivables". Classification is made according to the financial asset's purpose of obtaining and features at the first recording.

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 appropriate a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

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 Company 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 Company 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.

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

2.5.8 Foreign Currency Transaction

Transactions in foreign currencies are translated into US Dollar at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in profit or loss

The closing and average USD-TL exchange rates for the periods are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2014	2,3189	2,1879
31 December 2013	2,1343	1,9033
31 December 2012	1,7826	1,7922

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

2.5.9 Earnings per share

"Earnings per share" is calculated by dividing net profit/ (loss) 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.

2.5.10 Events Subsequent to the Balance Sheet Date

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Company (should any evidence come about events that were prior to the balance sheet date or should new events come about) they will be explained in the relevant footnote.

If such an event were to arise, the Company restates its financial statements accordingly.

2.5.11 Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company 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 the related cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

2.5.12 Related Parties

Related parties in the financial statements refer to partners, top level management, members of the Board of Directors, and close family members in charge of the Company, as well as the companies, affiliates and partnerships controlled by these individuals or associated with them. Transactions with related parties are performed based on prices at arm's length.

2.5.13 Taxation and Deferred Tax

Income tax expense represents the sum of the tax currently payable and deferred tax expense (or benefit).

Current tax

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement 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. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.13 Taxation and Deferred Tax *(continued)*

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Company 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 Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over cost. Taxes on financial statements contain changes in current period taxes and deferred tax. The Company calculates current period tax and deferred tax based on period results.

2.5.14 Employee Benefit/ Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. 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 have been measured as the net current value of the liabilities that are expected to emerge from the retirements of all employees and disclosed as such on the financial statements. Any actuarial gains and losses calculated are carried on the income statement.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 Summary of Significant Accounting Policies *(continued)*

2.5.15 Statement of Cash Flow

Cash flows from operating activities reflect cash flows generated from sales of the Company.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Company.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Company.

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

2.5.16 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.

2.6 Critical Accounting Estimates and Assumptions

2.6.1 Useful Lives of Inventories

Components and repairable spare parts are subject to depreciation and their useful lives are explained in Note 2.5.2.

2.6.2 Provision for Doubtful Trade Receivables

The Company makes a provision for trade receivables which are overdue and whose ability to be collected is assessed to be lower based on the past collectability experience, by taking letters of guarantees received into consideration. As explained in Note 8, the provision for doubtful trade receivables amounts to TL 64.471.772 as at 31 December 2014 (31 December 2013: TL 51.009.539).

2.6.3 Deferred Tax

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TFRS purposes and its statutory tax financial statements. The partial or complete recoverable amount of deferred tax assets are estimated under current circumstances. Future profit projections, losses in current period, the final dates for utilizing unused losses and other tax assets and tax planning strategies are taken into consideration for such evaluation. Based on the information obtained, a provision is set aside for a portion of or for the total of deferred tax asset if future taxable profit is not sufficient against deferred tax assets.

2.7 New and Revised Standards and Interpretation

In accounting policies considered in preparation of financial statements as at and for the year ended 31 December 2013, the Company applied all Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations that are effective as of 1 January 2013.

New standards and interpretations not yet adopted as of 31 December 2014

A number of new standards, amendments to standards and interpretations explained below are not yet effective as at 31 December 2014, and have not been applied in preparing these financial statements of the Company:

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.7 New and Revised Standards and Interpretation *(continued)*

New standards and interpretations not yet adopted as of 31 December 2014 (continued)

- **TFRS 9 Financial Instruments – Classification and measurement**

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

- **TAS 16 and TAS 38 – Clarification of acceptable methods of depreciation and amortization**

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

- **TFRS 11 – Accounting for acquisition of interests in joint operations**

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

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

- **IFRS 14 Regulatory Deferral Accounts**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.7 New and Revised Standards and Interpretation *(continued)*

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA *(continued)*

- **IFRS 15 Revenue from Contracts with customers**

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

- **Sale or contribution of assets between an investor and its associate or joint venture (Amendments to TFRS 10 and TAS 28)**

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

2.8 Determination of Fair Values

Various accounting policies and explanations of the Company 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: Specific (uncorrected) prices in active markets for identical assets and obligations;
- Level 2: Directly (via prices) or indirectly (via producing from prices) variables which are observable for assets and liabilities and apart from specific prices mentioned in Level 1.
- Level 3: Variables which are not related to observable market variable for assets and liabilities (unobservable variables).

3. SHARES IN OTHER SUBSIDIARIES

As at 31 December the shares in other subsidiaries are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
TEC	51.646.819	46.355.553
Turbine Teknik	8.283.911	8.632.686
Goodrich	3.897.723	758.407
TCI	968.231	560.053
	<u>64.796.684</u>	<u>56.306.699</u>

As at 31 December financial informations for TEC are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current assets	206.368.965	216.278.145
Non-current assets	93.046.126	93.660.172
Current liabilities	159.070.766	188.258.946
Non-current liabilities	34.942.654	30.021.169
Equity	105.401.671	94.603.169
Company's share in equity	51.646.819	46.355.553

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2014</u>
Revenue	426.704.079	246.765.163
Profit /(Loss) for the period	2.468.289	(32.421.795)
Company's share in profit / (loss) for the period	1.209.462	(15.886.680)

As at 31 December financial informations for Turbine Teknik are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current assets	8.860.387	10.062.695
Non-current assets	4.296.684	5.045.416
Current liabilities	(3.410.750)	(2.157.261)
Equity	16.567.821	17.265.372
Company's share in equity	8.283.911	8.632.686

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Revenue	1.732.012	1.705.776
Loss for the period	(2.067.103)	(349.776)
Company's share in loss for the period	(1.033.551)	(174.888)

3. SHARES IN OTHER SUBSIDIARIES (continued)

As at 31 December financial informations for Goodrich are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current assets	5.430.148	7.012.590
Non-current assets	1.116.637	2.051.429
Current liabilities	4.570.803	7.168.001
Equity	2.420.578	1.896.018
Acturial loss	(444.596)	-
Company's share in equity	968.231	758.407
	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2014</u>
Revenue	17.833.369	14.404.840
Profit / (Loss) for the period	340.200	(1.311.524)
Company's share in profit / (loss) for the period	136.080	(524.609)

As at 31 December financial informations for TCI are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current assets	27.783.147	9.295.441
Non-current assets	2.001.776	1.290.107
Current liabilities	10.296.307	8.187.013
Equity	19.488.616	2.666.920
Company's share in equity	3.897.723	560.053
	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2014</u>
Revenue	7.190.017	2.155.586
Loss for the period	(6.065.618)	(4.889.128)
Company's share in loss for the period	(1.213.124)	(1.026.717)

Shares of investment's losses accounted by using equity method are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2014</u>
TEC	1.209.462	(15.886.680)
TCI	(1.213.124)	(1.026.717)
Goodrich	136.080	(524.609)
Turbine Teknik	(1.033.551)	(353.882)
	<u>(901.133)</u>	<u>(17.612.894)</u>

4. CASH AND CASH EQUIVALENTS

As at 31 December details of cash and cash equivalents are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Banks (demand deposits)	538.208	796.901
Banks (time deposits)	1.708.005	1.250.000
	<u>2.246.213</u>	<u>2.046.901</u>

As at 31 December 2014, details of the time deposits are as follows:

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>31 December 2014</u>
250.000	USD	31 December 2014	% 0,8	2 January 2015	579.725
400.000	Euro	31 December 2014	% 1,9	2 January 2015	1.128.280
					<u>1.708.005</u>

As at 31 December 2013, details of the time deposits are as follows:

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>31 December 2013</u>
1.250.000	TL	31 December 2013	% 9,00	2 January 2014	1.250.000
					<u>1.250.000</u>

5. FINANCIAL INVESTMENTS

As at 31 December details of financial investments are as follows:

	<u>2014</u>	<u>Share %</u>	<u>2013</u>	<u>Share %</u>
Uçak Koltuk Üretimi Sanayi ve Ticaret Anonim Şirketi ("Uçak Koltuk")	5.005	10	5.005	10
Türk Hava Yolları Opet Havacılık Yakıtları Anonim Şirketi ("THY Opet")	20	<1	20	<1
	<u>5.025</u>		<u>5.025</u>	

6. OTHER FINANCIAL LIABILITIES

As at 31 December details of other financial liabilities are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Payables to banks	6.925.527	3.992.929
	<u>6.925.527</u>	<u>3.992.929</u>

6. OTHER FINANCIAL LIABILITIES (continued)

As at 31 December details of other financial liabilities are as follows:

2014				
<u>Name of Bank</u>	<u>Maturity</u>	<u>Original amount</u>	<u>Currency</u>	<u>Amount</u>
Finansbank	1 January 2015	6.925.527	TL	6.925.527
				6.925.527

2013				
<u>Name of Bank</u>	<u>Maturity</u>	<u>Original amount</u>	<u>Currency</u>	<u>Amount</u>
Finansbank	1 January 2014	3.992.929	TL	3.992.929
				3.992.929

Short term financial borrowings consist of overnight interest-free borrowings obtained for settlement of monthly social security premium payments.

7. RELATED PARTY TRANSACTIONS

As at 31 December short term trade receivables from related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Türk Hava Yolları Anonim Şirketi ("THY A.O.")	300.843.209	87.053.022
Güneş Express Havacılık Anonim Şirketi ("Sun Ekspress")	9.856.034	10.244.685
TEC	3.434.541	6.924.681
THY Habom	612.989	6.428.887
TCI	102.490	321.177
TGS Yer Hizmetleri Anonim Şirketi ("TGS")	232.649	140.511
Goodrich	292.712	108.535
Turkbine Teknik	64.246	-
	315.438.870	111.221.498

As at 31 December short term other receivables from related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
THY A.O.	16.526.153	3.269.930
TCI	5.166	1.687.847
Turkbine Teknik	476	569
Uçak Koltuk	95	115
	16.531.890	4.958.461

7. RELATED PARTY TRANSACTIONS

As at 31 December short term trade payables to related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
THY Habom	45.148.750	9.880.096
THY A.O.	42.828.124	13.835.192
TGS	2.268.653	196.399
Goodrich	665.802	2.216.403
THY Opet	223.588	253.073
TEC	113.997	193.647
Sun Express	77.357	-
TCI	38.175	888.675
THY Aydın Çıldır Havalimanı	1.616	-
	<u>91.366.062</u>	<u>27.463.485</u>

As at 31 December short term other payables to related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
THY A.O.	82.755.440	49.552.430
THY Habom	-	16.908
	<u>82.755.440</u>	<u>49.569.338</u>

As at 31 December long term other payables to related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
THY A.O.	432.230.870	228.440.942
	<u>432.230.870</u>	<u>228.440.942</u>

For the years ended 31 December, transactions with related parties are as follows:

Sales	<u>31 December 2014</u>	<u>31 December 2013</u>
THY A.O.	1.186.177.473	709.274.662
Sun Express	91.512.871	63.207.815
THY Habom	33.009.481	9.071.428
TEC	21.262.025	7.524.787
Goodrich	2.195.742	123.925
TCI	1.528.009	156.768
Turbine Teknik	777.146	51.652
TGS	234.823	959.027
Uçak Koltuk	276	690
THY Opet	-	22.547
	<u>1.336.697.845</u>	<u>790.393.301</u>

7. RELATED PARTY TRANSACTIONS (continued)

	<u>31 December 2014</u>	<u>31 December 2013</u>
Purchases		
THY A.O.	94.714.451	41.415.553
THY Habom	61.920.444	38.225.663
TGS	7.079.930	1.435.372
THY Opet	1.459.320	1.052.511
TEC	162.681	96.564
TCI	69.204	64.900
Sun Express	26.937	-
THY Do&Co	23.046	-
	<u>165.456.013</u>	<u>82.290.563</u>

For the years ended 31 December, total amount of salaries and other benefits provided to key management personnel is TL 2.573.132 (31 December 2013: TL 2.082.233).

8. TRADE RECEIVABLES AND PAYABLES

As at 31 December trade receivables from non-related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Trade receivables	122.732.266	99.326.325
Notes receivables	4.090.988	1.890.990
Discount on receivables	(4.474)	(5.971)
Provision for doubtful receivables	(64.471.772)	(51.009.539)
	<u>62.347.008</u>	<u>50.201.805</u>

Provision for doubtful receivables has been determined based on last experiences for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 31.

As at 31 December trade payables to non-related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Trade payables	155.351.256	84.659.926
Accrued expenses	26.772.160	13.318.566
Discount on payables	(65.838)	(55.936)
	<u>182.057.578</u>	<u>97.922.556</u>

9. PAYABLES RELATED TO EMPLOYEE BENEFITS

As at 31 December payables related to employee benefits are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Salary accruals (*)	31.511.231	18.316.055
Social security premiums payable	8.458.985	4.142.635
Personnel credit card payables	24.491	4.124
Payables to personnel	14.029	895
	<u>40.008.736</u>	<u>22.463.709</u>

(*) Salary accruals are comprised of salary expenses of December.

10. OTHER RECEIVABLES AND PAYABLES

As at 31 December other receivables from non-related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Receivables from foreign technical suppliers	7.561.051	4.594.612
Deposits and guarantees given	35.291	23.618
Receivables from personnel	18.153	14.159
Doubtful receivables	1.041	2.539
Provision for doubtful receivables (-)	(1.041)	(2.539)
Other receivables	82.845	266.771
	<u>7.697.340</u>	<u>4.899.160</u>

For the years ended 31 December the movements of provision for doubtful receivables are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Provision at the beginning of the year	2.539	6.310
Current year charge	1.027	-
Collections during year	(2.138)	(4.473)
Foreign currency translation	(387)	702
Provision at the end of the year	<u>1.041</u>	<u>2.539</u>

As at 31 December other payables to non-related parties are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Taxes and funds payable	46.736.569	9.093.050
Deposits and guaranteed received	14.490.290	8.834.803
Other payables	1.693.172	3.060.148
	<u>62.920.031</u>	<u>20.988.001</u>

11. INVENTORIES

As at 31 December inventories are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Components and repairable spare parts	800.829.359	560.821.195
Technical equipment inventories	361.264.704	293.511.456
Scrap equipment inventories	95.517.638	18.831.939
Technical equipment inventories in transit	38.126.405	12.211.174
Accumulated depreciation of components and repairable spare parts (-)	(307.874.719)	(220.355.668)
Provision for impairment of inventories (-)	(27.106.828)	(14.330.391)
	<u>960.756.559</u>	<u>650.689.705</u>

11. INVENTORIES (continued)

For the years ended 31 December, the movements of provision for impairment of inventories are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Provision at the beginning of the year	14.330.391	17.701.999
Foreign currency translation	1.938.810	2.749.614
Current year provision	10.837.627	-
Reversal of provision for impairment	-	(6.121.222)
Provision at the end of the year	<u>27.106.828</u>	<u>14.330.391</u>

For the year 31 December 2014, the movement of components and repairable spare parts are as follows:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance 1 January 2014	560.821.195
Foreign currency translation	48.506.577
Additions	230.601.666
Disposals	(39.100.079)
Closing balance 31 December 2014	<u>800.829.359</u>
<u>Accumulated depreciation</u>	
Opening balance 1 January 2014	220.355.668
Foreign currency translation	22.926.480
Current charge for the year	90.270.942
Disposals	(25.678.371)
Closing balance 31 December 2014	<u>307.874.719</u>
Net book value 31 December 2014	<u>492.954.640</u>

For the year 31 December 2013, the movement of components and repairable spare parts are as follows:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance 1 January 2013	373.795.361
Foreign currency translation	73.748.360
Additions	152.508.047
Disposals	(39.230.573)
Closing balance 31 December 2013	<u>560.821.195</u>
<u>Accumulated depreciation</u>	
Opening balance 1 January 2013	145.803.609
Foreign currency translation	33.721.954
Current charge for the year	57.206.510
Disposals	(16.376.405)
Closing balance 31 December 2013	<u>220.355.668</u>
Net book value 31 December 2013	<u>340.465.527</u>

12. PRE-PAID EXPENSES AND DEFERRED INCOME

As at 31 December short-term pre-paid expenses are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Advances given for orders	6.645.880	4.089.174
Short-term prepaid expenses	1.950.367	1.837.478
	<u>8.596.247</u>	<u>5.926.652</u>

As at 31 December long-term pre-paid expenses are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Advances given for fixed asset purchases	40.702.281	48.887.877
Long-term prepaid expenses	202.380	300.658
	<u>40.904.661</u>	<u>49.188.535</u>

As at 31 December short-term deferred income are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Advances received	188.606.455	128.653.668
Short-term deferred income	274.249	854.699
	<u>188.880.704</u>	<u>129.508.367</u>

13. PROPERTY AND EQUIPMENT

For the year 31 December 2014, the movement of property and equipment are as follows:

Cost	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
Opening balance 1 January 2014	148.208.520	10.533.582	14.321.627	2.806.321	634.481.270	31.551.137	841.902.457
Foreign currency translation	12.818.860	911.071	1.238.707	242.725	54.877.591	2.728.924	72.817.878
Additions	40.212.038	2.144.294	5.145.361	867.869	11.521.907	101.584.838	161.476.307
Disposals	(1.078.915)	(367.247)	(12.042)	(364)	-	(61.497)	(1.520.065)
Transfers (*)	272.837	-	4.770.536	355.742	(697.965.785)	679.732.057	(12.834.613)
Closing balance 31 January 2014	200.433.340	13.221.700	25.464.189	4.272.293	2.914.983	815.535.459	1.061.841.964
Accumulated depreciation							
Opening balance 1 January 2014	92.992.136	7.092.426	10.404.907	1.622.649	-	28.045.383	140.157.501
Foreign currency translation	8.986.203	676.060	1.021.893	165.354	-	4.573.236	15.422.746
Current charge for the year	16.591.865	1.375.021	2.047.476	418.014	-	35.925.073	56.357.449
Disposals	(840.296)	(329.152)	(10.705)	(344)	-	(58.023)	(1.238.520)
Closing balance 31 December 2014	117.729.908	8.814.355	13.463.571	2.205.673	-	68.485.669	210.699.176
Net book value 31 December 2014	55.216.384	3.441.156	3.916.720	1.183.672	634.481.270	3.505.754	701.744.956
Net book value 31 December 2013	82.703.432	4.407.345	12.000.618	2.066.620	2.914.983	747.049.790	851.142.788

(*) The plants of Habom are capitalized.

13. PROPERTY AND EQUIPMENT (continued)

For the year 31 December 2013, the movement of property and equipment are as follows:

Cost	Machinery and Equipment	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
Opening balance 1 January 2013	106.750.096	9.129.541	10.747.618	1.924.393	390.270.847	25.161.531	543.984.026	
Foreign currency translation	21.061.376	1.801.223	2.120.463	379.676	76.998.910	4.964.271	107.325.919	
Additions	22.342.211	783.647	1.476.176	502.252	171.231.638	1.425.335	197.761.259	
Disposals	(1.945.163)	(1.180.829)	(22.630)	-	-	-	(3.148.622)	
Transfers	-	-	-	-	(4.020.125)	-	(4.020.125)	
Closing balance 31 January 2013	148.208.520	10.533.582	14.321.627	2.806.321	634.481.270	31.551.137	841.902.457	
Accumulated depreciation								
Opening balance 1 January 2013	69.754.869	6.024.281	7.143.928	1.126.974	-	18.769.787	102.819.839	
Foreign currency translation	14.787.852	1.175.533	1.609.862	251.931	-	4.306.316	22.131.494	
Current charge for the year	10.043.697	912.105	1.668.113	243.744	-	4.969.280	17.836.939	
Disposals	(1.594.282)	(1.019.493)	(16.996)	-	-	-	(2.630.771)	
Closing balance 31 December 2013	92.992.136	7.092.426	10.404.907	1.622.649	-	28.045.383	140.157.501	
Net book value 31 December 2013	55.216.384	3.441.156	3.916.720	1.183.672	634.481.270	3.505.754	701.744.956	
Net book value 31 December 2012	36.995.227	3.105.260	3.603.690	797.419	390.270.847	6.391.744	441.164.187	

14. OTHER INTANGIBLE ASSETS

For the year 31 December 2014, the movement of other intangible assets is as follows:

	<u>Rights</u>
<u>Cost</u>	
Opening balance 1 January 2014	11.539.013
Foreign currency translation	998.035
Additions	13.186.257
Transfers	12.834.613
Closing balance 31 December 2014	38.557.918
<u>Accumulated depreciation</u>	
Opening balance 1 January 2014	4.215.126
Foreign currency translation	619.419
Current charge for the year	4.256.299
Closing balance 31 December 2014	9.090.844
Net book value 31 December 2014	29.467.074

For the year 31 December 2013, the movement of other intangible assets is as follows:

	<u>Rights</u>
<u>Cost</u>	
Opening balance 1 January 2013	5.252.928
Foreign currency translation	1.036.382
Additions	1.229.578
Transfers	4.020.125
Closing balance 31 December 2013	11.539.013
<u>Accumulated depreciation</u>	
Opening balance 1 January 2013	1.866.831
Foreign currency translation	582.616
Current charge for the year	1.765.679
Closing balance 31 December 2013	4.215.126
Net book value 31 December 2013	7.323.887

15. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES

As at 31 December short-term provisions are as follows:

(a) Short-term provisions for employee benefits

	<u>31 December 2014</u>	<u>31 December 2013</u>
Provisions for unused vacation	9.167.176	4.106.669
	9.167.176	4.106.669

15. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES (continued)

(a) Short-term provisions for employee benefits (continued)

For the years ended 31 December the movements of provision for unused vacation are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Provision at the beginning of the year	4.106.669	1.503.632
Current year provision	5.139.306	2.056.752
Foreign currency translation	(78.799)	546.285
Provision at the end of the year	<u>9.167.176</u>	<u>4.106.669</u>

(b) Other short-term provisions

	<u>31 December 2014</u>	<u>31 December 2013</u>
Provisions for legal claims (*)	6.784.108	2.311.456
	<u>6.784.108</u>	<u>2.311.456</u>

For the years ended 31 December the movements of provision for legal claims are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Provision at the beginning of the year	2.311.456	6.746.697
Current year provision	4.278.151	1.075.604
Provisions no longer required	(3.279)	(5.470.498)
Foreign currency translation	197.780	(40.347)
Provision at the end of the year	<u>6.784.108</u>	<u>2.311.456</u>

(*) As at 31 December 2014, provision for legal claims amounting to TL 2.667.187 is related with reinstatement cases (31 December 2013: TL 233.758).

(c) Other long-term provisions

	<u>31 December 2014</u>	<u>31 December 2013</u>
Provisions for other long term provision (*)	3.537.327	-
	<u>3.537.327</u>	<u>-</u>

For the years ended 31 December the movements of provision for other long term provision are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Provision at the beginning of the year	-	-
Current year provision	3.537.327	-
Provision at the end of the year	<u>3.537.327</u>	<u>-</u>

(*) Provisions for the personnel, except for retirement pay liability, who have transferred from THY Habom to the Company, considering the working years who have entitled to leave their work by receiving retirement pay.

16. COMMITMENTS AND CONTINGENTIES

Company as lessee

Leasing Agreements:

Leasing period is 20 years and is related to the construction in progress of aircraft hangar land. The Company does not have the right to buy the asset at the end of the leasing period.

As at 31 December 2014 leasing payment amounting to TL 3.367.315 (31 December 2013: TL 2.369.600) is accounted as rent expense in income statement.

Commitments related to operating leasing that can not be cancelled

	<u>31 December 2014</u>	<u>31 December 2013</u>
Within one year	4.155.469	3.278.285
One- five years	18.996.429	16.937.805
After five years	57.024.195	56.855.733
	<u>80.176.093</u>	<u>77.071.823</u>

17. EMPLOYEE BENEFITS

As at 31 December provisions for retirement pay liability are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Provision for employee benefits	56.008.879	42.515.141
	<u>56.008.879</u>	<u>42.515.141</u>

Provision for employment termination benefits is made within the frame of following explanations:

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

Retirement pay liability is subject to an upper limit of monthly TL 3.541 as of 1 January 2015 (1 January 2014: TL 3.438).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 ("Employee Benefits") stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying financial statements as of 31 December 2014 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 5.50% annual inflation rate (31 December 2013: 6.00%) and 9% discount rate. (31 December 2013: 10.20%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 3.32% (31 December 2013: 3.96%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 3.451 which is in effect since 1 January 2015 is used in the calculation of Company's provision for retirement pay liability.

Convenience Translation to English of Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ
Notes to the Financial Statements For The Year Ended 31 December 2014
(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

17. EMPLOYEE BENEFITS *(continued)*

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Provisions at the beginning of the year	42.515.141	39.368.431
Service charge for the year	24.687.862	4.593.589
Interest charges	1.140.455	1.559.881
Payments	(6.358.696)	(3.426.780)
Actuarial loss	(5.975.883)	420.020
Provisions at the end of the year	<u>56.008.879</u>	<u>42.515.141</u>

18. OTHER ASSETS AND LIABILITIES

As at 31 December other assets and liabilities are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Personnel advances	36.304	35.339
Job advances	22.223	3.386
Deferred VAT	-	84.226.480
	<u>58.527</u>	<u>84.265.205</u>

19. SHAREHOLDERS' EQUITY

As at 31 December the ownership structure of the Company's share capital is as follows:

	<u>%</u>	<u>31 December 2014</u>	<u>%</u>	<u>31 December 2013</u>
THY A.O.	100	693.000.000	100	693.000.000
		<u>693.000.000</u>		<u>693.000.000</u>

As at 31 December 2014, the Company's share capital is comprised of 693,000,000 shares issued with par value of TL 1 each (2013: 693,000,000 shares with par value of TL 1 each). These shares are written to the name. The Company is not included in the registered capital system.

Restricted Profit Reserves

Restricted reserves assorted from profit consist of legal reserves.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. Publicly traded companies make the dividend payment accordance with procedure laid by CBM.

Foreign Currency Translation Differences

Method for consolidation purpose is, according to TAS 21, monetary items in statutory financial statements is translated to USD using year-end exchange rates, non-monetary items in balance sheet, income/expenses and cash flow are translated to USD by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under equity. Translation profit/loss from foreign currency transactions is presented under foreign currency exchange losses item under financial expenses in profit or loss and translation profit/loss from trading operations is presented under foreign exchange losses item in operating expenses.

19. SHAREHOLDERS' EQUITY (continued)

Foreign Currency Translation Differences (continued)

The items of shareholders' equity of the Company as of 31 December 2014 are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Share Capital	693.000.000	693.000.000
Items That Will Never Be Reclassified to Profit or Loss	1.994.961	(2.785.745)
Restricted Profit Reserves	9.504.301	9.277.564
Foreign Currency Translation Differences	353.515.750	263.953.309
Retained Earnings	92.928.213	135.024.343
Net Loss	(9.240.581)	(41.869.393)
	<u>1.141.702.644</u>	<u>1.056.600.078</u>

20. REVENUE AND COST OF SALES

For the years ended 31 December revenue is as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Aircraft maintenance income	513.832.735	360.100.901
Pool income	323.174.790	220.285.473
Line maintenance income	297.557.992	9.706.633
Component maintenance income	281.577.408	248.167.242
Equipment sales income	71.706.924	122.906.866
Others	48.725.248	25.082.801
Revenue	<u>1.536.575.097</u>	<u>986.249.916</u>
Cost of sales (-)	(1.322.798.770)	(871.866.035)
Gross profit	<u>213.776.327</u>	<u>114.383.881</u>

For the years ended 31 December cost of sales are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Maintenance expenses	432.819.698	138.036.679
Equipment expenses	353.599.365	308.939.684
Personnel expenses	333.255.762	215.357.159
Depreciation and amortisation expenses	108.055.819	71.281.281
Transportation expenses	32.897.481	24.907.643
Provision for employee termination benefit	11.728.156	3.823.778
Others	50.442.489	109.519.811
	<u>1.322.798.770</u>	<u>871.866.035</u>

21. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

For the years ended 31 December general administrative expenses are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Personnel expenses	53.399.231	46.820.834
Depreciation and amortisation expenses	42.794.518	5.460.038
Service expenses	23.393.499	25.404.038
Provision for employee termination benefit	12.813.896	723.591
Rent expenses	5.785.926	5.273.356
Equipment expenses	5.653.158	3.179.663
Lighting, heating and water expenses	3.480.380	1.782.216
Other expenses	18.207.559	7.866.243
	<u>165.528.167</u>	<u>96.509.979</u>

For the years ended 31 December marketing, selling and distribution expenses are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Personnel expenses	4.755.123	4.790.583
Provision for employee termination benefit	124.534	44.667
Depreciation and amortisation expenses	19.122	34.452
Other expenses	5.135.094	4.196.499
	<u>10.033.873</u>	<u>9.066.201</u>

For the years ended 31 December research and development expenses are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Personnel expenses	9.704.732	8.572.102
Service expenses	1.050.677	1.089.734
Provision for employee termination benefit	21.276	1.553
Depreciation and amortisation expenses	15.231	33.357
Other expenses	1.029.095	208.039
	<u>11.821.011</u>	<u>9.904.785</u>

22. OTHER OPERATING INCOME AND EXPENSES

For the years ended 31 December other operating income is as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Income from other material sales	5.582.168	2.462.152
Plant maintenance income	1.740.363	2.416.280
Insurance, indemnities and penalties income	1.387.404	3.957.166
Foreign exchange gain from trade operations, net	1.188.099	-
Income from research and developmet fund	819.228	-
Late payment interest income of trade receivables	426.778	2.399.582
Income from discount of payables	64.128	89.845
Provisions no longer required (Note 15)	3.279	5.470.498
Reversal of provision for doubtful receivables	2.138	1.201.759
Others	1.348.239	306.376
	<u>12.561.824</u>	<u>18.303.658</u>

For the years ended 31 December other operating expenses are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Interest expense from trade operations	22.035.083	1.909.995
Provision for doubtful receivables	8.836.574	6.478.570
Provision for the legal claims	4.278.151	1.075.604
Expense of discount of receivables	61.951	417.589
Other equipment sales expenses	-	4.517.925
Foreign exchange losses on trade operations, net	-	249.115
Others	727.480	783.894
	<u>35.939.239</u>	<u>15.432.692</u>

23. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

For the years ended 31 December income and expenses from investing activities are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Loss on sale of fixed assets	200.507	351.512
	<u>200.507</u>	<u>351.512</u>

24. EXPENSES RECLASSIFIED ON THE BASIS OF LINE

Expenses for the years ended 31 December are presented in Note 20 and Note 21 according to their functions.

25. FINANCIAL INCOME AND EXPENSES

For the years ended 31 December financial income are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Foreign exchange gains,net	4.423.924	5.358.228
Interest income	175.284	238.890
	<u>4.599.208</u>	<u>5.597.118</u>

For the years ended 31 December financial expenses are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Cost of employee termination benefits interest	1.140.455	1.559.881
Bank expenses	39.867	31.485
	<u>1.180.322</u>	<u>1.591.366</u>

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME COMPONENTS

For the year ended 31 December 2014, the Company's other comprehensive income which is not to be reclassified to profit or loss is TL 4.780.706 as income (31 December 2013: TL 336.016 as expense), other comprehensive income to be reclassified to profit or loss is TL 80.562.441 as income (31 December 2013: TL 177.111.500 as expense).

27. TAX ASSET AND LIABILITIES

As at 31 December assets related to current tax are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current corporate tax provision	10.530.032	1.716.795
Prepaid taxes and funds	(8.669.800)	(1.716.795)
	<u>1.860.232</u>	<u>-</u>

For the years ended 31 December, tax expenses are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Curent period tax expense	(9.686.012)	-
Deferred tax expense	(4.887.676)	(29.684.621)
Tax expense	<u>(14.573.688)</u>	<u>(29.684.621)</u>

Corporate Tax

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized

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

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

27. TAX ASSET AND LIABILITIES (continued)

Corporate Tax (continued)

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

Income Withholding Tax

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

Deferred Tax

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

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

At 31 December, the deferred tax assets and liabilities are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Inventories	(55.045.900)	(49.207.611)
Provision for inventories	5.421.366	2.866.078
Fixed assets	(35.855.674)	(22.861.836)
Advances taken for orders	10.369.834	9.544.325
Provisions for employment termination indemnity	11.909.242	9.324.362
Provision for doubtful receivables	6.104.776	4.338.963
Provision for legal claims	1.356.822	462.292
Provision for vacation pay	1.833.435	821.334
Others	1.803.286	1.347.417
	<u>(52.102.813)</u>	<u>(43.364.676)</u>

For the years ended 31 December, the movements of deferred tax liability are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Deferred tax liability at the beginning of the year	43.364.676	9.515.877
Deferred tax expense	4.887.676	29.684.621
Tax income of actuarial losses from defined pension plans	1.195.177	(84.004)
Foreign currency translation	2.655.284	4.248.182
Deferred tax liability at the end of the year	<u>52.102.813</u>	<u>43.364.676</u>

27. TAX ASSET AND LIABILITIES (continued)

Deferred Tax (continued)

For the years ended 31 December, the movements of deferred tax expense are as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Profit (loss) from operations before tax	5.333.107	(12.184.772)
%20 tax rate	(1.066.621)	2.436.954
Taxation effects on:		
- foreign exchange rate translation loss	(8.936.350)	(29.826.365)
- non-deductible expenses	(6.172.965)	(222.702)
- deductions	1.782.476	1.450.071
- equity method	(180.228)	(3.522.579)
Tax charge in profit of loss	<u>(14.573.688)</u>	<u>(29.684.621)</u>

28. EARNINGS PER SHARE

There is not any equity (dilutive equity instruments) that have reducing effects on the earnings per share.

The calculation of weighted average of total shares and earnings per share is as follows:

	<u>1 January - 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Number of total outstanding shares as of 1 January (in full)	693.000.000	693.000.000
Number of outstanding shares as of 31 December (in full)	693.000.000	693.000.000
Weighted Average number of shares outstanding during the period (in full)	693.000.000	693.000.000
Net loss for the year	(9.240.581)	(41.869.393)
Earnings per share (Kr)	<u>(1,33)</u>	<u>(6,04)</u>

29. EFFECTS OF EXCHANGE RATE CHANGES

Analysis of effects of exchange rate changes as at 31 December 2014 and 2013 is presented in Note 31.

30. REPORTING IN HYPERINFLATIONARY ECONOMIES

The Company has terminated the application of being inflation accounting effective from 1 January 2005 based on the decision of CMB on 17 March 2005.

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing its profit and market value through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt which includes the borrowings including financial loans and in order of cash and cash equivalents, equity comprising issued capital, reserves and retained earnings.

(b) Financial risk factors

The Company is exposed to the market risk (foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Risk management program of the Company generally focuses on the minimization of potential negative effects of uncertainty on the Company's performance.

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Credit Risk Management

	Receivables					
	Trade receivables			Other receivables		
	Related party	Third party	Related party	Third party	Third party	Deposits in banks
31 December 2014						
Maximum Credit Risk as of balance sheet date (*)	315,438.870	62,347.008	16,531.890	7,697.340		2,246.213
- The part of maximum risk under guarantee with collateral etc.	-	3,322.753	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	315,438.870	41,254.207	16,531.890	7,697.340		2,246.213
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	-	21,092.801	-	-	-	-
- the part under guarantee with collateral etc	-	3,322.753	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	64,471.772	-	1,041	-	-
- Impairment (-)	-	(64,471.772)	-	(1,041)	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Credit Risk Management (continued)

	Receivables						Deposits in banks
	Trade receivables			Other receivables			
	Related party	Third party	Third party	Related party	Third party	Third party	
31 December 2013							
Maximum Credit Risk as of balance sheet date (*)	111.221.498	50.201.805	4.958.461	4.899.160	2.046.901		
- The part of maximum risk under guarantee with collateral etc.	-	3.897.210	-	-	-		
A. Net book value of financial assets that are neither past due nor impaired	111.221.498	29.177.711	4.958.461	4.899.160	2.046.901		
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	-	21.024.094	-	-	-		
- the part under guarantee with collateral etc	-	3.897.210	-	-	-		
D. Net book value of impaired assets	-	51.009.539	-	2.539	-		
- Past due (gross carrying amount)	-	(51.009.539)	-	(2.539)	-		
- Impairment (-)	-	-	-	-	-		
- The part of net value under guarantee with collateral etc.	-	-	-	-	-		
- Not past due (gross carrying amount)	-	-	-	-	-		
- Impairment (-)	-	-	-	-	-		
- The part of net value under guarantee with collateral etc.	-	-	-	-	-		
E. Off balance sheet items with credit risk	-	-	-	-	-		

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

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Credit Risk Management (continued)

The risk of financial loss of the Company due to one of the financial instrument parties not meeting the requirements of the agreement is defined as credit risk.

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

The company's aging of past due receivables as of 31 December are as follows:

31 December 2014	Trade Receivables	Other Receivables	Deposits in Banks	Others	Total
Past due 1-30 days	2.224	-	-	-	2.224
Past due 1-3 months	498.097	-	-	-	498.097
Past due 3-12 months	5.018.055	-	-	-	5.018.055
Past due 1-5 years	15.574.425	-	-	-	15.574.425
Total past due receivables	21.092.801	-	-	-	21.092.801
The part under guarantee with collateral etc.	3.322.753	-	-	-	3.322.753

31 December 2013	Trade Receivables	Other Receivables	Deposits in Banks	Others	Total
Past due 1-30 days	3.625.754	-	-	-	3.625.754
Past due 1-3 months	662.920	-	-	-	662.920
Past due 3-12 months	2.918.713	-	-	-	2.918.713
Past due 1-5 years	13.816.707	-	-	-	13.816.707
Total past due receivables	21.024.094	-	-	-	21.024.094
The part under guarantee with collateral etc.	3.897.210	-	-	-	3.897.210

As of balance sheet date, total amount of cash collateral and letter of guarantees which are received by the Company for past due but not impaired receivables amounts to TL 3.322.753 (31 December 2013: TL 3.897.210).

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

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Impairment

Provisions for doubtful trade receivables consist of provisions for receivables in legal dispute and provisions calculated based on experiences on uncollectible receivables. Changes in provisions for doubtful receivables for the years ended 31 December 2014 and 2013 is as follows:

	1 January - 31 December 2014	1 January- 31 December 2013
Provision at the beginning of the year	51.009.539	38.007.632
Charge for the year	8.835.547	6.478.570
Collections during year	-	(1.197.286)
Foreign currency translation	4.626.686	7.720.623
	<u>64.471.772</u>	<u>51.009.539</u>

Liquidity Risk Management

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management for short, medium and long term funding and liquidity necessities of the Company management. The Company 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 Company can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities

The company 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.

31 December 2014

Due date on contract	Book value	Total cash outflow according to the contract	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative financial liabilities						
Financial borrowings	6.925.527	6.925.527	6.925.527	-	-	-
Trade payables	273.423.640	273.423.640	273.423.640	-	-	-
Other payables	145.675.471	145.675.471	145.675.471	-	-	-
Total	426.024.638	426.024.638	426.024.638	-	-	-

31 December 2013

Due date on contract	Book value	Total cash outflow according to the contract	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative financial liabilities						
Financial borrowings	3.992.929	3.992.929	3.992.929	-	-	-
Trade payables	125.386.041	125.386.041	125.386.041	-	-	-
Other payables	70.557.339	70.557.339	70.557.339	-	-	-
Total	199.936.309	199.936.309	199.936.309	-	-	-

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk factors *(continued)*

Market Risk Management

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

Foreign Currency Risk Management

Transactions in foreign currencies expose the Company to foreign currency risk. The Company's foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

Convenience Translation to English of Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ
 Notes to the Financial Statements For The Year Ended 31 December 2014
 (All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Market Risk Management (continued)

Foreign Currency Risk Management (continued)

	Foreign Currency Position Table									
	31 December 2014			31 December 2013						
	TL Equivalent	TL	Euro	GBP	Others	TL Equivalent	TL	Euro	GBP	Others
1. Trade Receivables	12.811.691	2.353.388	10.208.515	207.162	42.626	17.710.922	8.808.845	8.825.934	76.144	-
2. Monetary Financial Assets	1.278.817	103.036	1.163.195	12.586	-	3.530.556	1.419.798	101.187	9.571	-
3. Other	13.814.283	10.545.767	3.251.449	17.068	-	10.409.021	8.890.817	1.270.341	71.315	176.548
4. Total current Assets (1+2+3)	27.904.791	13.002.191	14.623.159	236.816	42.626	29.650.499	19.119.459	10.197.461	157.030	176.548
5. Other	37.786.527	-	37.786.527	-	-	48.502.221	526.136	47.200.849	451.847	323.389
6. Total Non Current Assets (5)	37.786.527	-	37.786.527	-	-	48.502.221	526.136	47.200.849	451.847	323.389
7. Total Assets (4+6)	65.691.318	13.002.191	52.409.686	236.816	42.626	78.152.720	19.645.596	57.398.310	608.877	499.937
8. Trade Payables	64.810.712	34.130.093	29.797.523	1.611.848	271.248	68.219.594	53.397.437	13.857.573	835.872	128.712
9. Financial Borrowings	6.925.527	6.925.527	-	-	-	3.992.929	3.992.929	-	-	-
10. Other Monetary Liabilities	248.243	27.141	221.102	-	-	8.077.450	8.304.674	(227.224)	-	-
11. Other Non Monetary Liabilities	78.307.344	73.622.195	4.436.552	18.935	129.662	7.527.621	6.252.282	1.275.340	-	-
12. Total Short-term Liabilities (8+9+10+11)	151.191.826	114.704.956	34.455.177	1.630.783	400.910	87.817.595	71.947.323	14.905.688	835.872	128.712
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	695.787	618.467	77.319	-	-
16b. Other Non Monetary Liabilities	59.546.207	59.546.207	-	-	-	-	-	-	-	-
17. Total Long-term Liabilities (14+15+16)	-	-	-	-	-	695.787	618.467	77.319	-	-
13. Total Liabilities (12)	210.738.033	223.271.377	34,455,177	1,630,783	400,910	87,817,595	71,947,323	14,905,688	835,872	128,712
14. Net Foreign Currency Asset/(Liability) Position (7-13)	(85,500,508)	(101,702,765)	17,954,509	(1,393,967)	(358,284)	(9,664,875)	(52,301,727)	42,492,622	(226,995)	371,225
15. Net Foreign Currency Asset/(Liability) Position of Monetary Items (1+2-8-9-10)	(58,893,974)	(38,626,338)	(18,646,915)	(1,392,100)	(228,622)	(61,048,495)	(55,466,397)	(4,703,228)	(750,157)	(128,712)

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Market risk management (continued)

Foreign currency risk management (continued)

Foreign currency sensitivity

The Company is exposed to foreign currency risk due to TL, Euro and GBP (2013: TL, Euro and GBP) exchange rate fluctuations. The following table details the Company's sensitivity to a 10% increase and decrease in TL, Euro and GBP exchange rates. 10% is used in the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange currency fluctuations. Sensitivity analysis can only be made on the year-end outstanding foreign currency denominated monetary items and it shows the year end effects of the 10% of exchange currency fluctuation on the related items. The analysis includes foreign loans as well as loans that are denominated other than the creditors' functional currency and used for the Company's foreign operations. Positive value represents an increase in profit/loss and other equity items.

	31 December 2014	
	Profit (Loss) Before Tax	Profit (Loss) Before Tax
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset / liability	(3.862.634)	3.862.634
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(3.862.634)</u>	<u>3.862.634</u>
4-Euro net asset / liability	(1.864.691)	1.864.691
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(1.864.691)</u>	<u>1.864.691</u>
7-GBP net asset / liability	(139.210)	139.210
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	<u>(139.210)</u>	<u>139.210</u>
10-Other net asset / liability	(22.862)	22.862
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(22.862)</u>	<u>22.862</u>
TOTAL (3+6+9+12)	<u><u>(5.889.397)</u></u>	<u><u>5.889.397</u></u>

31. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (continued)

(b) Financial risk factors (continued)

Market risk management (continued)

Foreign currency risk management (continued)

Foreign currency sensitivity (continued)

	31 December 2013	
	Profit (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset / liability	(5.546.640)	5.546.640
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(5.546.640)</u>	<u>5.546.640</u>
4-Euro net asset / liability	(470.323)	470.323
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(470.323)</u>	<u>470.323</u>
7-GBP net asset / liability	(75.016)	75.016
8-Part of hedged from GBPrisk (-)	-	-
9-GBP net effect (7+8)	<u>(75.016)</u>	<u>75.016</u>
10-Other net asset / liability	(12.871)	12.871
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(12.871)</u>	<u>12.871</u>
TOTAL (3+6+9+12)	<u>(6.104.850)</u>	<u>6.104.850</u>

Interest rate risk management

The Company is not exposed to interest rate risk since there are no financial instruments with floating interest rate.

32. FINANCIAL INSTRUMENTS

Fair values of financial instruments

31 December 2014	<u>Loans and receivables</u>	<u>Financial liabilities at amortized costs</u>	<u>Book value</u>	<u>Note</u>
<u>Financial assets</u>				
Cash and cash equivalents	2.246.213	-	2.246.213	4
Trade receivables	377.785.878	-	377.785.878	7,8
Other receivables	24.229.230	-	24.229.230	7,10
<u>Financial liabilities</u>				
Financial borrowings	-	6.925.527	6.925.527	6
Trade payables	-	273.423.640	273.423.640	7,8
Other payables	-	82.755.440	82.755.440	7,10
31 December 2013				
<u>Financial assets</u>				
Cash and cash equivalents	2.046.901	-	2.046.901	4
Trade receivables	161.423.303	-	161.423.303	7,8
Other receivables	9.857.621	-	9.857.621	7,10
<u>Financial liabilities</u>				
Financial borrowings	-	3.992.929	3.992.929	6
Trade payables	-	125.386.041	125.386.041	7,8
Other payables	-	49.569.338	49.569.338	7,10

33. EVENTS AFTER THE BALANCE SHEET DATE

None.