

**TÜRK HAVA YOLLARI TEKNİK  
ANONİM ŞİRKETİ**

Condensed Interim Financial Statements  
for the Six-Month Period Ended 30 June 2017  
with Independent Auditor's Review Report

**TÜRK HAVA YOLLARI TEKNİK  
ANONİM ŞİRKETİ**

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### *Review Report on Interim Condensed Financial Information*

To the Board of Directors of Türk Hava Yolları Teknik Anonim Şirketi,

#### *Introduction*

We have reviewed the accompanying condensed statement of financial position of Türk Hava Yolları Teknik Anonim Şirketi (the "Company") as at 30 June 2017, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with Turkish Accounting Standards 34 *Interim Financial Reporting* ("TAS 34") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with TAS 34 *Interim Financial Reporting*.

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



Hatice Neşrin Tuncer, SMMM  
Partner  
10 August 2017  
İstanbul, Turkey

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**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**Condensed Balance Sheet as at 30 June 2017**  
(All amounts are expressed in Turkish Lira (TL)).

ASSETS	Notes	Reviewed 30 June 2017	Audited 31 December 2016
<b>Current Assets</b>			
Cash and Cash Equivalents	3	19.944.941	5.756.721
Trade Receivables		713.164.462	932.827.864
- Trade Receivables From Related Parties	18	635.832.194	839.319.793
- Trade Receivables From Non-Related Parties	4	77.332.268	93.508.071
Other Receivables		3.360.651	2.627.763
- Other Receivables From Related Parties	18	1.226.224	1.207.351
- Other Receivables From Non-Related Parties		2.134.427	1.420.412
Inventories	5	1.916.704.300	1.886.698.985
Prepaid Expenses	11	22.446.321	14.821.757
Other Current Assets		156.720	70.709
<b>TOTAL CURRENT ASSETS</b>		<b>2.675.777.395</b>	<b>2.842.803.799</b>
<b>Non-Current Assets</b>			
Financial Investments		1.485.025	1.485.025
Equity Accounted Investees	6	180.051.297	161.353.283
Property and Equipment	7	1.331.084.311	1.393.760.449
Intangible Assets		15.007.848	23.375.346
-Other Intangible Assets	8	15.007.848	23.375.346
Prepaid Expenses	11	13.188.544	15.929.419
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1.540.817.025</b>	<b>1.595.903.522</b>
<b>TOTAL ASSETS</b>		<b>4.216.594.420</b>	<b>4.438.707.321</b>

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**Condensed Balance Sheet as at 30 June 2017 (continued)**  
(All amounts are expressed in Turkish Lira (TL))

	Notes	Reviewed 30 June 2017	Audited 31 December 2016
<b>Current Liabilities</b>		<b>1.044.178.931</b>	<b>1.127.547.754</b>
Other Financial Liabilities		16.002.198	102.253
Trade Payables		302.885.187	335.235.920
- Trade Payables to Related Parties	18	95.114.030	78.977.536
- Trade Payables to Non-Related Parties	4	207.771.157	256.258.384
Payables Related to Employee Benefits		79.567.903	84.127.784
Other Payables		152.662.476	266.642.046
- Other Payables to Related Parties	18	84.023.399	175.514.016
- Other Payables to Non-Related Parties		68.639.077	91.128.030
Deferred Income	11	407.319.857	400.230.551
Current Tax Liability		43.096.673	8.022.432
Short-term Provisions		40.636.700	31.225.734
- Provisions for Employee Benefits	10	22.087.919	18.746.312
- Other Short-term Provisions	10	18.548.781	12.479.422
Other Current Liabilities		2.007.937	1.961.034
<b>Non-Current Liabilities</b>		<b>463.566.160</b>	<b>778.711.179</b>
Other Payables		202.332.689	476.905.783
- Other Payables to Related Parties	18	202.332.689	476.905.783
Deferred Income		--	598.695
Long-term Provisions		102.641.566	98.117.311
- Provisions for Employee Benefits	10	96.104.296	91.515.272
- Other Long-term Provisions		6.537.270	6.602.039
Deferred Tax Liability	16	158.591.905	203.089.390
<b>EQUITY</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>2.708.849.329</b>	<b>2.532.448.388</b>
Share Capital	12	960.850.000	960.850.000
Adjustment to Share Capital		84.081	84.081
Items That Will Never Be Reclassified to Profit or Loss		11.438.207	5.381.036
- Actuarial Losses from Defined Pension Plans		11.438.207	5.381.036
Items That Are or May Be Reclassified to Profit or Loss		1.132.537.638	1.148.978.860
- Foreign Currency Translation Differences		1.132.537.638	1.148.978.860
Restricted Profit Reserves		27.152.358	13.084.833
Retained Earnings		390.002.053	119.764.698
Net Profit for the period		186.784.992	284.304.880
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4.216.594.420</b>	<b>4.438.707.321</b>

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**Condensed Interim Statement of Profit or Loss and Other Comprehensive Income**  
**For the Six-Month Period Ended 30 June 2017**  
(All amounts are expressed in Turkish Lira (TL))

	Notes	Reviewed 1 January - 30 June 2017	Reviewed 1 January - 30 June 2016
Revenue	13	1.768.799.737	1.478.584.996
Cost of Sales (-)	13	(1.386.253.554)	(1.170.914.383)
<b>GROSS PROFIT</b>		<b>382.546.183</b>	<b>307.670.613</b>
General Administrative Expenses (-)	14	( 162.372.613)	( 156.905.875)
Marketing and Sales Expenses (-)		( 7.484.472)	( 5.253.315)
Research and Development Expenses (-)		( 5.809.691)	( 6.509.732)
Other Operating Income	15	36.515.744	20.565.159
Other Operating Expenses (-)	15	( 19.998.586)	( 9.528.370)
<b>OPERATING PROFIT</b>		<b>223.396.565</b>	<b>150.038.480</b>
Loss from Investing Activities		(41.963)	(47.461)
Share of Investments' Profit Accounted by Using the Equity Method	6	23.995.437	15.723.970
<b>OPERATING PROFIT BEFORE FINANCIAL EXPENSE</b>		<b>247.350.039</b>	<b>165.714.989</b>
Financial Income		805.659	6.659.079
Financial Expenses (-)		( 20.875.261)	( 17.819.020)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>227.280.437</b>	<b>154.555.048</b>
<b>Tax Expense of Continuing Operations</b>		<b>( 40.495.445)</b>	<b>( 29.308.355)</b>
- Current Tax Expense	16	( 85.975.612)	( 41.526.174)
- Deferred Tax Benefit	16	45.480.167	12.217.819
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>186.784.992</b>	<b>125.246.693</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Not To Be Reclassified to Profit or Loss</b>		<b>6.057.172</b>	<b>3.860.451</b>
Actuarial Gain/Losses From Defined Pension Plans		7.571.465	4.825.564
Tax Benefit of Actuarial Gain/Losses From Defined Pension Plans		( 1.514.293)	(965.113)
<b>To Be Reclassified to Profit or Loss</b>		<b>( 16.441.223)</b>	<b>( 9.856.339)</b>
Currency Translation Differences		( 27.266.746)	( 8.795.250)
Currency Translation Differences of Equity Accounted Investees		10.825.523	(1.061.089)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>( 10.384.051)</b>	<b>( 5.995.888)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>176.400.941</b>	<b>119.250.805</b>

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



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**Condensed Interim Statement of Changes in Equity**  
**For the Six-Month Period Ended 30 June 2017**  
(All amounts are expressed in Turkish Lira (TL).)

	Paid Share Capital	Adjustment to Share Capital	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	Retained Earnings			Total Equity
					Actuarial (Losses) / Gain From Defined Pension Plans	Currency Translation Differences	Restricted Profit Reserves	
<b>Balances as at 1 January 2016</b>	<b>960.850.000</b>	<b>84.081</b>	<b>(1.216.164)</b>	<b>716.459.868</b>	<b>10.925.693</b>	<b>(49.933.881)</b>	<b>171.857.719</b>	<b>1.809.027.316</b>
Transfers	-	-	-	-	2.159.140	169.698.579	(171.857.719)	-
Total Comprehensive Income	-	-	3.860.451	(9.856.339)	-	-	125.246.693	119.250.805
<b>Balance as at 30 June 2016</b>	<b>960.850.000</b>	<b>84.081</b>	<b>2.644.287</b>	<b>706.603.529</b>	<b>13.084.833</b>	<b>119.764.698</b>	<b>125.246.693</b>	<b>1.928.278.121</b>
<b>Balances as at 1 January 2017</b>	<b>960.850.000</b>	<b>84.081</b>	<b>5.381.036</b>	<b>1.148.978.860</b>	<b>13.084.833</b>	<b>119.764.698</b>	<b>284.304.880</b>	<b>2.532.448.388</b>
Transfers	-	-	-	-	14.067.525	270.237.355	(284.304.880)	-
Total Comprehensive Income	-	-	6.057.171	(16.441.222)	-	-	186.784.992	176.400.941
<b>Balance as at 30 June 2017</b>	<b>960.850.000</b>	<b>84.081</b>	<b>11.438.207</b>	<b>1.132.537.638</b>	<b>27.152.358</b>	<b>390.002.053</b>	<b>186.784.992</b>	<b>2.708.849.329</b>

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**Condensed Interim Statement of Cash Flows**  
**For the Six-Month Period Ended 30 June 2017**  
(All amounts are expressed in Turkish Lira (TL).)

	Notes	Reviewed 1 January - 30 June 2017	Reviewed 1 January - 30 June 2016
<b>Profit for the period</b>		186.784.992	125.246.693
<b>Adjustments to reconcile cash flow generated from operating activities:</b>			
Adjustments for depreciation and amortization	5.7.8	217.412.991	171.466.633
Adjustments for provisions. net	10	7.958.228	557.719
Adjustments for provisions for inventories	5	24.136.694	(7.453.822)
Adjustments for provisions for employee benefits	10	20.984.557	16.592.192
Adjustments for provisions for doubtful receivables	4	(11.855.855)	(4.072.233)
Adjustments for interest income and expenses		20.830.702	17.794.078
Adjustments for discount for receivables and payables. net	15	108.149	1.157
Unrealized foreign exchange and translation differences		(12.974.936)	(5.772.736)
(Gain)/Loss on sale of property. plant and equipment		41.963	47.461
Share of Investment's profit accounted by using the equity method	6	(23.995.437)	(15.723.970)
Adjustments for deferred tax (benefit)/ expense	16	(45.480.167)	(12.217.819)
Adjustments for tax expense	16	85.975.612	41.526.174
<b>Operating Profit Before Working Capital Changes</b>		<b>469.927.492</b>	<b>327.991.527</b>
Adjustments for increase in inventories		(182.479.569)	(251.312.672)
Adjustments for decrease/ (increase) in trade receivables		231.411.108	119.097.546
Adjustments for decrease/ (increase) in other receivables		(732.888)	16.822.399
Adjustments for (increase)/ decrease in other current and non current assets		(86.011)	(92.976)
Adjustments for (decrease)/ increase in trade payables and due to related parties		(32.350.733)	(47.902.452)
Adjustments for decrease in other payables and due to related parties		(22.488.953)	(13.896.074)
Adjustments for increase in prepaid expense		(4.883.689)	(36.912.914)
Adjustments for increase in deferred income		6.490.611	15.590.487
Adjustments in payables related to employee benefits		(4.559.881)	9.500.642
Adjustments for increase/ (decrease) in other current and non current liabilities		46.902	263.613
<b>Cash Flows Generated From Operating Activities</b>		<b>460.294.390</b>	<b>139.149.126</b>
Interest received		44.559	24.942
Taxes paid		(48.221.007)	(57.847.054)
Employee benefit indemnity paid	10	(8.824.068)	(1.662.649)
<b>Net Cash Generated From Operating Activities</b>		<b>403.293.874</b>	<b>79.664.365</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property and equipment	7	(8.791)	9.006.725
Purchase of property and equipment	7	(18.467.657)	(41.716.148)
Purchase of intangible assets	8	(1.328.964)	(1.665.957)
Cash outflow arising from capital increase in investments		-	(2.870.000)
<b>Net cash used in investing activities</b>		<b>(19.805.412)</b>	<b>(37.245.380)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		(19.136.476)	(16.341.594)
Adjustments for (decrease)/ increase in other payables to realated parties		(366.063.711)	(30.640.373)
Increase in financial borrowings		15.899.945	2.343.456
<b>Net Cash (Used In)/ From Financing Activities</b>		<b>(369.300.242)</b>	<b>(44.638.511)</b>
<b>NET CHANGW IN CASH AND CASH EQUIVALENTS</b>		<b>14.188.220</b>	<b>(2.219.526)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	3	<b>5.756.721</b>	<b>5.883.476</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	3	<b>19.944.941</b>	<b>3.663.950</b>

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

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in TL.)

### 1. ORGANIZATION AND OPERATIONS OF THE COMPANY

Türk Hava Yolları Teknik Anonim Şirketi (“THY Teknik” or 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.

According to resolution of Extraordinary General Assembly Meeting dated 22 May 2015, it was decided to merge with Türk Hava Yolları Havacılık Ağır Bakım Onarım Merkezi Anonim Şirketi (“THY Habom”) via transfer of all assets, liabilities, rights and obligations according to Turkish Commercial Code (“TCC”). This merger was carried out under legal structure of THY Teknik and was registered in Trade Registry Gazette on 4 June 2015.

Total number of average employees working for the company as at 30 June 2017 is 6.570 (31 December 2016: 6.161). Total number of employees working for the company as at 30 June 2017 is 6.618 (31 December 2016: 6.417).

	<u>30 June 2017</u>	<u>31 December 2016</u>
Administrative staff	1.796	1.763
Production staff	4.822	4.654
<b>Total</b>	<b>6.618</b>	<b>6.417</b>

The company is registered in Turkey and its head office address is as follows:

Sanayi Mahallesi Havaalanı İçyolu Caddesi

Sabiha Gökçen Havaalanı Sitesi Giriş.Kapısı No:3 Pendik/İSTANBUL

#### Associates

As at 30 June 2017 and 31 December 2016, associates accounted by using equity method and participation rate of the Company in these associates are as below:

Name of the Company	Principal Activity	Participation Rate		Country of Registration
		30 June 2017	31 December 2016	
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	20%	20%	Turkey

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in TL.)

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Basis of Presentation

#### Preparation of Financial Statements

Accompanying financial statements are prepared in accordance with Turkish Accounting Standards (“TAS”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) together with the provisions of accordance with to CMB’s “Principles of Financial Reporting in Capital Market” dated 13 June 2013 and published in the Official Gazette numbered 28676 Series II. No.14.1. TAS consist of Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and related addendums and interpretations to these standards.

For the six months period ended 30 June 2017, the Company prepared its condensed interim financial statements in accordance with the Turkish Accounting Standard No.34 “Interim Financial Reporting”.

Condensed interim financial statements of the Company do not include all the information and disclosures required in the annual financial statements, therefore should be read in conjunction with the Company’s annual financial statements as of 31 December 2016.

The Company’s condensed interim financial statement as at 30 June 2017 and condensed interim statement of profit or loss and other comprehensive income for the six months period ended was authorized for issue by the Board of Directors of the Company on 10 August 2017.

#### 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.

#### 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”.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in TL.)

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

### 2.1 Basis of Presentation *(continued)*

#### **Functional and Reporting Currency *(continued)***

##### *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;
- (c) All differences are recognized as a separate equity item under exchange differences.

### 2.2 New and Revised Standards and Interpretations

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

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

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

As issued in September 2016 by POA, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS. The Company is assessing the potential impact on its financial statements resulting from the application of TFRS 15.

#### **TFRS 9 Financial Instruments (2017 version)**

TFRS 9 *Financial Instruments*, has been published by POA in January 2017, replaces the existing guidance in TAS 39 *Financial Instruments: Recognition and Measurement*. This version includes referrals in earlier versions of TFRS 9 and revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of TFRS 9.

## TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in TL.)

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

#### 2.2 New and Revised Standards and Interpretations *(continued)*

*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 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.

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

The Company does not expect that application of these amendments to IFRS 2 will have significant impact on its financial statements.

#### **Improvements to IFRSs**

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments for IFRS 12 are effective as of 1 January 2017, and other amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that application of these improvements to IFRSs will have significant impact on its financial statements.

#### ***Annual Improvements to IFRSs 2014-2016 Cycle***

##### *IFRS 1 “First Time Adoption of International Financial Reporting Standards”*

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

##### *IFRS 12 “Disclosure of Interests in Other Entities”*

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

##### *IAS 28 “Investments in Associates and Joint Ventures”*

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

## TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

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(All amounts are expressed in TL.)

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

#### 2.2 New and Revised Standards and Interpretations *(continued)*

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

##### **IAS 40 – Transfers of Investment Property**

The Company does not expect that application of IAS 40 will have significant impact on its financial statements.

##### **IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

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

##### **IFRS 16 Leases**

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

##### **IFRIC 23 –Uncertainty Over Income Tax Treatments**

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

##### **IFRS 17 –Insurance Contracts**

The Company does not expect that application of IFRS 17 will have significant impact on its financial statements.

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## Notes to the Condensed Interim Financial Statements

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## 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

### 2.3 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. CASH AND CASH EQUIVALENTS

As at 30 June 2017 and 31 December 2016, cash and cash equivalents comprised the following:

	<u>30 June 2017</u>	<u>31 December 2016</u>
Cash	60.908	-
Banks- demand deposits	6.408.750	2.932.723
Banks- time deposits	13.475.283	2.823.998
	<u>19.944.941</u>	<u>5.756.721</u>

As at 30 June 2017 and 31 December 2016, the details of time deposits comprised the following:

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>30 June 2017</u>
1.085.000	TL	30 June 2017	12,46%	3 July 2017	1.085.000
2.312.000	Euro	30 June 2017	0,25%	3 July 2017	9.254.936
894.000	USD	30 June 2017	0,50%	3 July 2017	3.135.347
					<u>13.475.283</u>
<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>31 December 2016</u>
350.000	TL	30 December 2016	8,74%	2 January 2017	350.000
703.000	USD	30 December 2016	0,50%	2 January 2017	2.473.998
					<u>2.823.998</u>

## 4. TRADE RECEIVABLES AND PAYABLES

As at 30 June 2017 and 31 December 2016, trade receivables from non-related comprised the following:

	<u>30 June 2017</u>	<u>31 December 2016</u>
Trade receivables	169.150.335	185.231.934
Notes receivables	9.660.589	21.176.012
Discount on receivables (-)	(154.639)	(44.828)
Provision for doubtful receivables	(101.324.017)	(112.855.047)
	<u>77.332.268</u>	<u>93.508.071</u>



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

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(All amounts are expressed in TL.)

**4. TRADE RECEIVABLES AND PAYABLES (continued)**

For the periods ended 30 June 2017 and 2016, the movements of provision for doubtful receivables comprised the following:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Provision at the beginning of the period	112.855.047	89.848.198
Foreign currency translation	324.825	(5.127.760)
Current period charge	2.768.025	1.334.573
Collections during period	(14.623.880)	(5.406.806)
<b>Provision at the end of the period</b>	<b>101.324.017</b>	<b>80.648.205</b>

As at 30 June 2017 ve 31 December 2016, trade payables to non-related parties comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Trade payables	189.300.829	221.481.850
Expense accruals	18.590.738	34.893.668
Discount on payables	(120.41)	(117.134)
	<b>207.771.157</b>	<b>256.258.384</b>

**5. INVENTORIES**

As at 30 June 2017 ve 31 December 2016, inventories comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Components and repairable spare parts	1.973.652.737	1.878.131.034
Technical equipment inventories	621.922.713	659.645.399
Technical equipment inventories in transit	130.605.167	63.353.219
Scrap equipment inventories	91.924.065	67.790.879
Provision for impairment of inventories (-)	(91.924.065 )	(67.790.879)
Accumulated depreciation of components and repairable spare parts (-)	(809.476.317)	(714.430.667)
	<b>1.916.704.300</b>	<b>1.886.698.985</b>

For the periods ended 30 June 2017 and 2016, the movements of provision for impairment of inventories are as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Provision at the beginning of the period	67.790.879	47.542.042
Foreign currency translation	(3.508)	(238.367)
Current period charge	24.136.694	-
Reversal of inventory provision	-	(7.453.822)
<b>Provision at the end of the period</b>	<b>91.924.065</b>	<b>39.849.853</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in TL.)

**5. INVENTORIES (continued)**

For the period ended 30 June 2017, the movement of components and repairable spare parts comprised the following:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance 1 January 2017	1.878.131.034
Foreign currency translation	36.027.490
Additions	138.401.825
Disposals	(78.907.612)
<b>Closing balance 30 June 2017</b>	<b>1.973.652.737</b>
<u>Accumulated depreciation</u>	
Opening balance 1 January 2017	714.430.667
Foreign currency translation	(6.028.548)
Current charge for the period	128.337.560
Disposals	(27.263.362)
<b>Closing balance 30 June 2017</b>	<b>809.476.317</b>
<b>Net book value 30 June 2017</b>	<b>1.164.176.420</b>

For the period ended 30 June 2016, the movement of components and repairable spare parts comprised the following:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance 1 January 2016	1.429.381.546
Foreign currency translation	(6.882.426)
Additions	192.358.196
Disposals	(91.253.922)
<b>Closing balance 30 June 2016</b>	<b>1.523.603.394</b>
<u>Accumulated depreciation</u>	
Opening balance 1 January 2016	493.468.201
Foreign currency translation	(2.814.481)
Current charge for the period	101.665.046
Disposals	(49.505.837)
<b>Closing balance 30 June 2016</b>	<b>542.812.929</b>
<b>Net book value 30 June 2016</b>	<b>980.790.465</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in TL.)

**6. SHARES IN OTHER ENTITIES**

As at 30 June 2017 and 31 December 2016, shares in other entities comprised the following:

	<b>30 June 2016</b>	<b>31 December 2016</b>
TEC	171.619.239	153.198.850
Goodrich	5.159.295	4.171.649
TCI	3.272.763	3.982.784
	<b>180.051.297</b>	<b>161.353.283</b>

For the periods ended 30 June 2017 and 2016, the shares of investment profit/(losses) accounted for using the equity method comprised the following:

	<b>1 January – 30 June 2017</b>	<b>1 January – 30 June 2016</b>
TEC	23.686.352	15.826.897
TCI	(710.022)	(558.158)
Goodrich	1.019.107	998.875
Turkbine Teknik Gaz Turbinleri Bakım Onarım A.Ş.("Turkbine Teknik")(*)	--	(543.644)
	<b>23.995.437</b>	<b>15.723.970</b>

(\*) All 50% of the shares in Turkbine Teknik were sold on 7 December 2016.

## TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

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(All amounts are expressed in Turkish Lira (TL).)

### 7 PROPERTY AND EQUIPMENT

For the period ended 30 June 2017, the movement of property and equipment comprised the following:

<u>Cost</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Other Tangible Assets</u>	<u>Construction in Progress</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Opening balance 1 January 2017	464.924.415	26.500.898	99.815.353	10.380.743	8.141.031	1.452.128.089	2.061.890.529
Foreign currency translation	(1.598.541)	(91.117)	(343.194)	(35.693)	(27.991)	(4.992.825)	(7.089.361)
Additions	10.075.886	-	3.749.061	755.579	1.651.988	2.235.143	18.467.657
Disposals	(11.732)	(209.027)	(16.695)	-	-	-	(237.454)
Transfers (*)	1.109.809	279.769	5.556	(187.003)	(1.225.815)	-	(17.684)
<b>Closing balance 30 June 2017</b>	<b>474.499.837</b>	<b>26.480.523</b>	<b>103.210.081</b>	<b>10.913.626</b>	<b>8.539.213</b>	<b>1.449.370.407</b>	<b>2.073.013.687</b>
<u>Accumulated depreciation</u>							
Opening balance 1 January 2017	262.245.979	18.746.923	61.839.274	5.101.138	-	320.196.763	668.130.077
Foreign currency translation	(1.700.458)	(119.777)	(424.587)	(43.854)	-	(2.796.451)	(5.085.127)
Current charge for the period	22.613.935	1.737.505	6.012.693	749.420	-	47.975.155	79.088.708
Disposals	(12.162)	(177.054)	(15.066)	-	-	-	(204.282)
Transfers	-	4.834	-	(4.834)	-	-	-
<b>Closing balance 30 June 2017</b>	<b>283.147.294</b>	<b>20.192.431</b>	<b>67.412.314</b>	<b>5.801.870</b>	<b>-</b>	<b>365.375.467</b>	<b>741.929.376</b>
<b>Net book value 1 January 2017</b>	<b>202.678.436</b>	<b>7.753.975</b>	<b>37.976.079</b>	<b>5.279.605</b>	<b>8.141.031</b>	<b>1.131.931.326</b>	<b>1.393.760.452</b>
<b>Net book value 30 June 2017</b>	<b>191.352.543</b>	<b>6.288.092</b>	<b>35.797.767</b>	<b>5.111.756</b>	<b>8.539.213</b>	<b>1.083.994.940</b>	<b>1.331.084.311</b>

(\*) As at 30 June 2017, construction in progress amounting to TL 17.684 is transferred to intangible assets.

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in Turkish Lira (TL).)

**7. PROPERTY AND EQUIPMENT (continued)**

For the period ended at 30 June 2016, the movement of property and equipment comprised the following :

<b>Cost</b>	<b>Machinery and Equipment</b>	<b>Vehicles</b>	<b>Furniture and Fixtures</b>	<b>Other Tangible Assets</b>	<b>Construction in Progress</b>	<b>Leasehold Improvements</b>	<b>Total</b>
Opening balance 1 January 2016	337.828.824	19.533.374	81.990.947	6.076.390	3.774.002	1.190.959.785	1.640.163.322
Foreign currency translation	(1.626.637)	(94.052)	(394.784)	(29.258)	(18.173)	(5.734.433)	(7.897.337)
Additions	14.307.246	1.398.277	3.900.878	580.778	4.260.184	17.268.785	41.716.148
Disposals	(159.046)	(13.982)	(28.271)	(71.090)	(8.992.940)	(4.314)	(9.269.643)
Transfers (*)	576.153	-	3.440.613	98.279	7.619.580	(13.683.214)	(1.948.589)
<b>Closing balance 30 June 2016</b>	<b>350.926.540</b>	<b>20.823.617</b>	<b>88.909.383</b>	<b>6.655.099</b>	<b>6.642.653</b>	<b>1.188.806.609</b>	<b>1.662.763.901</b>
<b>Accumulated depreciation</b>							
Opening balance 1 January 2016	177.562.371	13.283.124	47.023.642	3.457.927	-	188.840.024	430.167.088
Foreign currency translation	(994.636)	(73.578)	(266.810)	(19.549)	-	(1.225.706)	(2.580.279)
Current charge for the year	16.757.286	1.149.808	4.826.987	388.482	-	37.649.859	60.772.422
Disposals	(140.593)	(5.405)	(21.573)	(43.680)	-	(4.206)	(215.457)
Transfers	-	-	(71)	71	-	-	-
<b>Closing balance 30 June 2016</b>	<b>193.184.428</b>	<b>14.353.949</b>	<b>51.562.175</b>	<b>3.783.251</b>	<b>-</b>	<b>225.259.971</b>	<b>488.143.774</b>
<b>Net book value 1 January 2016</b>	<b>160.266.453</b>	<b>6.250.250</b>	<b>34.967.305</b>	<b>2.618.463</b>	<b>3.774.002</b>	<b>1.002.119.761</b>	<b>1.209.996.234</b>
<b>Net book value 30 June 2016</b>	<b>157.742.112</b>	<b>6.469.668</b>	<b>37.347.208</b>	<b>2.871.848</b>	<b>6.642.653</b>	<b>963.546.638</b>	<b>1.174.620.127</b>

(\*) As at 30 June 2016, construction in progress amounting to TL 1.948.589 is transferred to intangible assets.

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

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(All amounts are expressed in Turkish Lira (TL).)

**8. INTANGIBLE ASSETS**

For the period ended 30 June 2017, the movement of intangible assets comprised the following:

	<b>Rights</b>
<b><u>Cost</u></b>	
Opening balance 1 January 2017	80.662.749
Foreign currency translation	(277.340)
Additions	1.328.964
Transfer	17.684
Disposals	-
<b>Closing balance 30 June 2017</b>	<b>81.732.057</b>
<b><u>Accumulated amortization</u></b>	
Opening balance 1 January 2017	57.287.403
Foreign currency translation	(549.917)
Current charge for the period	9.986.723
Disposals	-
<b>Closing balance 30 June 2017</b>	<b>66.724.209</b>
<b>Net book value 1 January 2017</b>	<b>23.375.346</b>
<b>Net book value 30 June 2017</b>	<b>15.007.848</b>

For the period ended 30 June 2016, the movement of intangible assets comprised the following:

	<b>Rights</b>
<b><u>Cost</u></b>	
Opening balance 1 January 2016	61.788.914
Foreign currency translation	(297.510)
Additions	1.665.957
Transfer	1.948.589
<b>Closing balance 30 June 2016</b>	<b>65.105.950</b>
<b><u>Accumulated amortization</u></b>	
Opening balance 1 January 2016	29.476.324
Foreign currency translation	(217.829)
Current charge for the period	9.029.165
<b>Closing balance 30 June 2016</b>	<b>38.287.660</b>
<b>Net book value 1 January 2016</b>	<b>32.312.590</b>
<b>Net book value 30 June 2016</b>	<b>26.818.290</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017***(All amounts are expressed in Turkish Lira (TL).)***9. COMMITMENTS AND CONTINGENCIES***Leasing Agreements :*

Leasing agreements' periods are 15 and 23 years and related with the aircraft hangar land.

For the period ended 30 June 2017 leasing payment amounting to TL 7.207.622 (30 June 2016: TL 6.345.714) is accounted as rent expense in income statement.

*Commitments related to operating leasing that can not be cancelled*

	<b>30 June 2017</b>	<b>31 December 2016</b>
Within one year	15.836.190	15.528.138
One- five years	72.639.655	69.323.380
After five years	86.970.595	102.309.766
	<b>175.446.440</b>	<b>187.161.284</b>

**10. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES**

As at 30 June 2017 and 31 December 2016 short-term provisions are as follows:

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

	<b>30 June 2017</b>	<b>31 December 2016</b>
Provisions for unused vacation	22.087.919	18.746.312
	<b>22.087.919</b>	<b>18.746.312</b>

For the periods ended 30 June 2017 and 2016 the movements of provision for unused vacation are as follows:

	<b>1 January – 30 June 2017</b>	<b>1 January – 30 June 2016</b>
Provision at the beginning of the period	18.746.312	13.033.930
Foreign currency translation	1.365.445	694.073
Current period provision	3.428.346	6.211.360
Reversal of provision for the unused vacation	(1.452.184)	(748.910)
Provision at the end of the period	<b>22.087.919</b>	<b>19.190.453</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017**

(All amounts are expressed in Turkish Lira (TL).)

**10. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES (continued)****(b) Other short-term provisions**

	<b>30 June 2017</b>	<b>31 December 2016</b>
Provisions for legal claims	18.548.781	12.479.422
	<b>18.548.781</b>	<b>12.479.422</b>

For the periods ended 30 June 2017 and 2016 the movements of provision for legal claims are as follows:

	<b>1 January – 30 June 2017</b>	<b>1 January – 30 June 2016</b>
Provision at the beginning of the period	12.479.422	17.071.905
Foreign currency translation	87.293	(9.572)
Charge for the period	9.551.008	2.398.812
Reversal of provision for the legal claims	(3.568.942)	(6.897.830)
Provision at the end of the period (*)	<b>18.548.781</b>	<b>12.563.315</b>

(\*) As at 30 June 2017, provision for legal claims amounting to TL 10.649.310 is related with reinstatement cases (30 June 2016: TL 6.741.196).

**(c) Other long-term provisions for employee benefits**

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

	<b>30 June 2017</b>	<b>31 December 2016</b>
Provision for employee benefits	96.104.296	91.515.272
	<b>96.104.296</b>	<b>91.515.272</b>

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 4.732 as at 1 July 2017 (1 July 2016: TL 4.297).

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 at 30 June 2017 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 7,00% annual inflation rate (30 June 2016: 7,00%) and 11,00% interest rate (30 June 2016: 11,00%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 3,74% (30 June 2016: 3,74%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 4.732 which is in effect since 1 July 2017 is used in the calculation of Company's provision for retirement pay liability.



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017***(All amounts are expressed in Turkish Lira (TL).)***10. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES (continued)**

The movements of provision for employee benefits are as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Provisions at the beginning of the period	91.515.272	73.189.555
Service charge for the period	19.297.230	15.227.911
Interest charges	1.687.327	1.364.281
Payments	(8.824.068)	(1.662.649)
Actuarial loss (gain)/ loss	(7.571.465)	(4.825.564)
Provisions at the end of the period	<b>96.104.296</b>	<b>83.293.534</b>

**11. PREPAID EXPENSES AND DEFERRED INCOME**

As at 30 June 2017 and 31 December 2016, short term prepaid expenses comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Advances given for orders (*)	18.070.853	8.269.258
Short-term prepaid expenses (**)	4.375.468	6.552.499
	<b>22.446.321</b>	<b>14.821.757</b>

As at 30 June 2017 and 31 December 2016, long term prepaid expenses comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Advances given for fixed asset purchases	-	1.516.736
Long-term prepaid expenses (**)	13.188.544	14.412.683
	<b>13.188.544</b>	<b>15.929.419</b>

(\*) Advances given for orders comprise advances given for purchasing of trading goods, components and consumables.

(\*\*) As at 30 June 2017, TL 14.968.883 of prepaid expenses comprise costs related with Kıyı Emniyeti Genel Müdürlüğü ("KEGM") in order to hire the land of Devlet Hava Meydanları İşletmesi Genel Müdürlüğü ("DHMI") (31 December 2016: TL 16.120.371).

As at 30 June 2017 and 31 December 2016, short term deferred income comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Advances received	367.464.864	360.296.572
Deferred income	39.854.993	39.933.979
	<b>407.319.857</b>	<b>400.230.551</b>

## TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

### Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in Turkish Lira (TL).)

#### 12. SHAREHOLDERS' EQUITY

As at 30 June 2017 and 31 December 2016, the ownership structure of the Company's share capital is as follows:

	<u>%</u>	<u>30 June 2017</u>	<u>%</u>	<u>31 December 2016</u>
THY A.O.	100	960.850.000	100	960.850.000
		<u>960.850.000</u>		<u>960.850.000</u>

As at 30 June 2017, the Company's share capital is comprised of 960.850.000 shares issued with par value of TL 1 each (31 December 2016: 960.850.000 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 CMB.

#### *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.

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017***(All amounts are expressed in Turkish Lira (TL).)***13. REVENUE AND COST OF SALES**

For the periods ended 30 June 2017 and 2016 revenue is as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Aircraft maintenance income	656.345.136	482.223.412
Pool income	338.841.470	305.122.522
Line maintenance income	302.292.399	329.191.422
Component maintenance income	300.445.500	206.812.981
Equipment sales income	74.975.893	61.005.253
Engine maintenance income	58.351.637	56.432.962
Others	37.547.702	37.796.444
<b>Revenue</b>	<b>1.768.799.737</b>	<b>1.478.584.996</b>
Cost of sales (-)	(1.386.253.554)	(1.170.914.383)
<b>Gross profit</b>	<b>382.546.183</b>	<b>307.670.613</b>

For the periods ended 30 June 2017 and 2016 cost of sales is as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Equipment expenses	437.690.338	296.322.167
Personnel expenses	423.374.256	384.190.203
Depreciation and amortisation expenses	169.932.865	126.391.445
Maintenance expenses	167.211.095	148.590.299
Service expenses	128.297.642	147.858.987
Transportation expenses	38.952.449	35.185.306
Rent expenses	8.171.997	7.180.859
Lighting, heating and water expenses	3.717.247	3.613.454
Others	8.905.665	21.581.663
	<b>1.386.253.554</b>	<b>1.170.914.383</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017***(All amounts are expressed in Turkish Lira (TL).)***14. GENERAL ADMINISTRATIVE EXPENSES**

For the periods ended 30 June 2017 and 2016 general administrative expenses is as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Personnel expenses	58.083.558	61.781.710
Depreciation and amortisation expenses	47.283.691	45.046.980
Service expenses	18.667.664	17.231.782
Equipment expenses	6.443.508	6.535.204
Rent expenses	5.217.555	4.313.518
Lighting, heating and water expenses	4.455.286	4.090.947
Others	22.221.351	17.905.734
	<b>162.372.613</b>	<b>156.905.875</b>

**15. OTHER OPERATING INCOME AND EXPENSES**

For the periods ended 30 June 2017 and 2016 other operating income is as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Provisions no longer required for doubtful trade and other receivables	14.623.880	5.406.806
Late payment interest income of trade receivables	10.383.388	435.702
Provisions no longer required	3.568.942	6.897.830
Plant maintenance income	1.646.819	1.615.911
Foreign exchange gain from trade operations	1.643.563	1.369.703
Insurance, indemnities and penalties income	1.259.345	1.461.043
Others	3.389.807	3.378.164
	<b>36.515.744</b>	<b>20.565.159</b>

For the periods ended 30 June 2017 ve 2016 other operating expense is as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
Provision for the legal claims	9.551.008	2.398.812
Provision for doubtful receivables	2.768.025	1.334.573
Expense of job security provisions	320.254	2.050.546
Others	7.359.299	3.468.332
	<b>19.998.586</b>	<b>9.528.370</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in Turkish Lira (TL).)

### 16. TAX ASSET AND LIABILITIES

The Company's current tax expense comprises current tax expense and deferred tax expense.

	<b>1 January – 30 June 2017</b>	<b>1 January – 30 June 2016</b>
Curent period tax expense	(85.975.612)	(41.526.174)
Deferred tax benefit	45.480.167	12.217.819
	<b>(40.495.445)</b>	<b>(29.308.355)</b>

#### Corporate Taxes

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 2017 is 20% (2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20%. Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

#### Income Withholding Tax

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

#### Deferred Tax

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

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017***(All amounts are expressed in Turkish Lira (TL).)***16. TAX ASSET AND LIABILITIES** *(continued)*

As at 30 June 2017 and 31 December 2016, the deferred tax assets and liabilities comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Provisions for retirement pay liability	19.220.859	18.303.054
Provision for impairment of inventories	18.384.813	13.558.176
Provision for doubtful receivables	6.946.194	9.206.449
Provisions for vacation pay liability	4.417.584	3.749.262
Provision for legal claims	3.709.756	2.152.177
Fixed assets	(113.944.882)	(123.865.962)
Inventories	(101.031.620)	(135.930.942)
Others	3.705.391	9.738.396
	<b>(158.591.905)</b>	<b>(203.089.390)</b>

For the periods ended 30 June 2017 and 2016, the movements of deferred tax liability comprised the following:

	<b>1 January – 30 June 2017</b>	<b>1 January – 30 June 2016</b>
Deferred tax liability at the beginning of the period	203.089.390	124.096.243
Foreign currency translation	(531.611)	(916.571)
Deferred tax expense/ (benefit)	(45.480.167)	(12.217.819)
Actuarial loss	1.514.293	965.113
Deferred tax liability at the end of the period	<b>158.591.905</b>	<b>111.926.966</b>

**17. 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

	<b>1 January– 30 June 2017</b>	<b>1 January– 30 June 2016</b>
Number of total outstanding shares as at 1 January (in full)	960.850.000	960.850.000
Number of outstanding shares as at 30 June (in full)	960.850.000	960.850.000
Weighted Average number of shares outstanding during the period (in full)	960.850.000	960.850.000
Net profit for the period	186.784.992	125.246.693
Earnings per share (Kr)	<b>19,44</b>	<b>13,03</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2017

(All amounts are expressed in Turkish Lira (TL).)

**18. RELATED PARTY TRANSACTIONS**

As at 30 June 2017 and 31 December 2016 trade receivables from related parties are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
THY A.O	614.349.924	816.921.097
Güneş Express Havacılık A.Ş. (“Sun Ekspres”)	13.186.895	8.846.879
TEC	7.972.127	11.849.688
TGS Yer Hizmetleri A.Ş. (“TGS”)	230.204	890.948
Goodrich	86.136	137.924
TCI	3.356	428.656
Others	3.552	244.601
	<b>635.832.194</b>	<b>839.319.793</b>

As at 30 June 2017 and 31 December 2016 other receivables from related parties are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
THY A.O.	1.226.224	1.207.351
	<b>1.226.224</b>	<b>1.207.351</b>

As at 30 June 2017 and 31 December 2016 trade payables to related parties are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
THY A.O	84.763.698	75.020.632
Goodrich	4.941.719	1.955.901
TSI Uçak Koltuk Üretimi Sanayi ve Ticaret A.Ş. (“TSI”)	2.704.883	710.185
TCI	1.496.027	-
TGS	1.201.765	1.166.848
THY Opet Havacılık Yakıtları A.Ş. (“THY Opet”)	-	101.820
Others	5.938	22.150
	<b>95.114.030</b>	<b>78.977.536</b>

As at 30 June 2017 and 31 December 2016 short term other payables to related parties are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
THY A.O.	84.023.399	175.514.016
	<b>84.023.399</b>	<b>175.514.016</b>

As at 30 June 2017 and 31 December 2016 long-term other payables to related parties are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
THY A.O.	202.332.689	476.905.783
	<b>202.332.689</b>	<b>476.905.783</b>

As at 30 June 2017 and 31 December 2016 advances to the related parties are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
THY A.O.	359.092.705	359.952.538
	<b>359.092.705</b>	<b>359.952.538</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ****Notes to the Condensed Interim Financial Statements****For the Six-Month Period Ended 30 June 2017***(All amounts are expressed in Turkish Lira (TL).)***18. RELATED PARTY TRANSACTIONS (continued)**

For the periods ended 30 June 2017 and 2016, transactions with related parties are as follows:

	<b>1 January- 30 June 2017</b>	<b>1 January- 30 June 2016</b>
<b>Sales</b>		
THY A.O.	1.495.016.119	1.253.730.670
Sun Express	53.614.716	42.126.880
TEC	12.928.769	17.936.078
Goodrich	615.274	815.007
Uçak Koltuk	579.671	333.755
TGS	437.267	14.423
TCI	274.373	37.243
Others	47.087	-
	<b>1.563.513.276</b>	<b>1.314.994.056</b>
	<b>1 January- 30 June 2017</b>	<b>1 January- 30 June 2016</b>
<b>Purchases</b>		
THY A.O.	75.433.360	64.979.907
Goodrich	20.931.034	11.001.343
Uçak Koltuk	19.339.901	5.251.509
TGS	9.667.927	6.003.776
TCI	2.942.985	4.589.446
THY Opet	502.877	370.009
Others	573.981	851.819
	<b>129.392.065</b>	<b>93.047.809</b>

For the 30 June 2017 and 2016, the transactions with the related parties in the interim periods ended are as follows:

	<b>1 January - 30 June 2017</b>	<b>1 January - 30 June 2016</b>
<b>Interest Expense</b>		
THY A.O.	19.136.476	16.341.594
	<b>1 Ocak - 30 Haziran 2017</b>	<b>1 Ocak - 30 Haziran 2016</b>
<b>Other income</b>		
THY A.O.	10.383.388	-

For the period ended 30 June 2017, total amount of salaries and other benefits provided to key management personnel is TL 1.781.456 (30 June 2016: TL 2.425.309).



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**Notes to the Condensed Interim Financial Statements**  
**For the Six-Month Period Ended 30 June 2016**  
(All amounts are expressed in Turkish Lira (TL).)

**19. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS**

Foreign Currency Risk Management

As at 30 June 2017 and 31 December 2016, the Company's foreign currency position table comprised the following:

	30 June 2017					31 December 2016				
	TL Equivalent	TL	EUR	GBP	Other	TL Equivalent	TL	EUR	GBP	Other
1. Trade Receivables	24.589.808	11.892.019	12.645.675	52.114	-	16.443.179	6.124.683	9.966.324	242.409	109.763
2. Monetary Financial Assets	12.885.195	1.241.298	11.628.692	15.205	-	3.237.529	708.426	2.522.833	6.27	-
2b Non-monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	13.575.157	6.792.115	5.072.726	810.316	-	4.151.830	516.938	3.295.594	339.298	-
<b>4. Total Current Assets (1+2+3)</b>	<b>51.050.160</b>	<b>19.925.432</b>	<b>30.247.093</b>	<b>877.635</b>	<b>-</b>	<b>23.832.538</b>	<b>7.350.047</b>	<b>15.784.751</b>	<b>587.977</b>	<b>109.763</b>
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-	-	-
<b>6. Total Non-Current Assets (5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>7. Total Assets (4+6)</b>	<b>51.050.160</b>	<b>19.925.432</b>	<b>30.247.093</b>	<b>877.635</b>	<b>-</b>	<b>23.832.538</b>	<b>7.350.047</b>	<b>15.784.751</b>	<b>587.977</b>	<b>109.763</b>
8. Trade Payables	60.277.555	34.712.496	21.095.459	3.770.605	698.995	66.635.844	40.156.047	23.458.566	1.836.008	1.185.223
9. Financial Borrowings	16.002.198	16.002.198	-	-	-	102.253	102.253	-	-	-
10. Other Monetary Liabilities	-	-	-	-	-	2.515.359	2.515.359	-	-	-
11. Other Non-Monetary Liabilities	211.020.046	208.007.557	2.774.448	-	238.241	221.986.498	218.752.830	2.933.202	95.429	205.037
<b>12. Total Current Liabilities (8+9+10+11)</b>	<b>287.299.779</b>	<b>258.722.051</b>	<b>23.869.907</b>	<b>3.770.605</b>	<b>937.236</b>	<b>291.239.954</b>	<b>261.526.489</b>	<b>26.391.768</b>	<b>1.931.437</b>	<b>1.390.260</b>
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	102.641.566	102.641.566	-	-	-	98.117.311	98.117.311	-	-	-
<b>17. Non-Current Liabilities (14+15+16)</b>	<b>102.641.566</b>	<b>102.641.566</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98.117.311</b>	<b>98.117.311</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>13. Total Liabilities (12)</b>	<b>389.941.365</b>	<b>361.363.617</b>	<b>23.869.907</b>	<b>3.770.605</b>	<b>937.236</b>	<b>389.357.265</b>	<b>359.643.800</b>	<b>26.391.768</b>	<b>1.931.437</b>	<b>1.390.260</b>
<b>14. Net Foreign Currency Asset/ (Liability) Position (7-13)</b>	<b>(338.891.205)</b>	<b>(341.438.186)</b>	<b>6.377.186</b>	<b>(2.892.970)</b>	<b>(937.236)</b>	<b>(365.524.727)</b>	<b>(352.293.753)</b>	<b>(10.607.017)</b>	<b>(1.343.460)</b>	<b>(1.280.497)</b>
<b>15. Net Foreign Currency Asset/ (Liability) Position of Monetary Items (1+2-8-9-10)</b>	<b>(38.804.750)</b>	<b>(37.581.377)</b>	<b>3.178.908</b>	<b>(3.703.286)</b>	<b>(698.995)</b>	<b>(49.572.748)</b>	<b>(35.940.550)</b>	<b>(10.969.409)</b>	<b>(1.587.329)</b>	<b>(1.075.460)</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

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(All amounts are expressed in Turkish Lira (TL).)

**19. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS***(continued)**Foreign Currency Risk Management (continued)**Foreign currency sensitivity*

The Company is exposed to foreign currency risk due to TL, EUR and GBP (2016: TL, EUR and GBP) exchange rate fluctuations. The following table details the Company's sensitivity to a 10% increase and decrease in TL, EUR 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.

	<b>30 June 2017</b>	
	<b>Profit/ (Loss) Before Tax</b>	
	<u>If foreign currency appreciated 10 %</u>	<u>If foreign currency depreciated 10 %</u>
1-TL net asset / liability	(3.758.138)	3.758.138
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(3.758.138)</u>	<u>3.758.138</u>
4-EUR net asset / liability	317.891	(317.891)
5-Part of hedged from EUR risk (-)	-	-
6- EUR net effect (4+5)	<u>317.891</u>	<u>(317.891)</u>
7-GBP net asset / liability	(370.329)	370.329
8-Part of hedged from GBPrisk (-)	-	-
9-GBP net effect (7+8)	<u>(370.329)</u>	<u>370.329</u>
10-Other net asset / liability	(69.899)	69.899
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(69.899)</u>	<u>69.899</u>
TOTAL (3+6+9+12)	<u><u>(3.880.475)</u></u>	<u><u>3.880.475</u></u>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

(All amounts are expressed in Turkish Lira (TL).)

**19. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS***(continued)*Foreign Currency Risk Management (continued)Foreign currency sensitivity (continued)

	<b>31 December 2016</b>	
	<b>Profit/ (Loss) Before Tax</b>	
	<b>If foreign currency appreciated 10 %</b>	<b>If foreign currency depreciated 10 %</b>
1-TL net asset / liability	(3.594.055)	3.594.055
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(3.594.055)</u>	<u>3.594.055</u>
4-EUR net asset / liability	(1.096.941)	1.096.941
5-Part of hedged from EUR risk (-)	-	-
6- EUR net effect (4+5)	<u>(1.096.941)</u>	<u>1.096.941</u>
7-GBP net asset / liability	(158.733)	158.733
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	<u>(158.733)</u>	<u>158.733</u>
10-Other net asset / liability	(107.546)	107.546
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(107.546)</u>	<u>107.546</u>
TOTAL (3+6+9+12)	<u><b>(4.957.275)</b></u>	<u><b>4.957.275</b></u>

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

None.