

**TÜRK HAVA YOLLARI TEKNİK  
ANONİM ŞİRKETİ**

Convenience Translation to English of  
Financial Statements  
As At and For The Year Ended  
31 December 2016 with  
Independent Auditors' 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.

*Report on the Financial Statements*

We have audited the accompanying financial statements of THY Teknik A.Ş. (the "Company"), which comprise the balance sheet as at 31 December 2016, 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 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 Turkish Standards on Auditing published by Public Oversight, Accounting and Auditing Standards Authority ("POA"). 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 the Company as at 31 December 2016, 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 8 to the financial statements which describes the large-scale operations with related parties of the Company. For the period 1 January – 31 December 2016; 88% of sales are realized with the related companies. Our opinion 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; 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 2016 are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

2) 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.

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

Hatice Nesrin Tuncer  
Partner

10 March 2017  
İstanbul, Turkey

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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 2016**  
(All amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited 31 December 2016	Audited 31 December 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	5	5.756.721	5.883.476
Trade Receivables		932.827.864	590.306.557
- Trade Receivables From Related Parties	8	839.319.793	502.834.122
- Trade Receivables From Non-Related Parties	9	93.508.071	87.472.435
Other Receivables		2.627.763	20.065.397
- Other Receivables From Related Parties	8	1.207.351	19.172.512
- Other Receivables From Non-Related Parties	11	1.420.412	892.885
Inventories	12	1.886.698.985	1.478.367.928
Prepaid Expenses	13	14.821.757	29.839.071
Other Current Assets	19	70.709	54.406
<b>TOTAL CURRENT ASSETS</b>		<b>2.842.803.799</b>	<b>2.124.516.835</b>
<b>Non-Current Assets</b>			
Financial Investments	6	1.485.025	5.025
Equity Accounted Investees	4	161.353.283	88.969.887
Property and Equipment	14	1.393.760.449	1.209.996.235
Intangible Assets		23.375.346	32.312.594
-Other Intangible Assets	15	23.375.346	32.312.594
Prepaid Expenses	13	15.929.419	14.952.575
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1.595.903.522</b>	<b>1.346.236.316</b>
<b>TOTAL ASSETS</b>		<b>4.438.707.321</b>	<b>3.470.753.151</b>

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 2016**  
(All amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

	Notes	Audited 31 December 2016	Audited 31 December 2015
<b>Current Liabilities</b>		<b>1.127.547.754</b>	<b>1.007.726.095</b>
Other Financial Liabilities	7	102.253	11.125.057
Trade Payables		335.235.920	309.725.551
- Trade Payables to Related Parties	8	78.977.536	56.565.614
- Trade Payables to Non-Related Parties	9	256.258.384	253.159.937
Payables Related to Employee Benefits	10	84.127.784	58.346.943
Other Payables		266.642.046	234.973.626
- Other Payables to Related Parties	8	175.514.016	153.116.353
- Other Payables to Non-Related Parties	11	91.128.030	81.857.273
Deferred Income	13	400.230.551	329.871.498
Current Tax Liabilities	28	8.022.432	29.195.620
Short-term Provisions		31.225.734	30.105.835
- Provisions for Employee Benefits	16	18.746.312	13.033.930
- Other Short-term Provisions	16	12.479.422	17.071.905
Other Current Liabilities		1.961.034	4.381.965
<b>Non-Current Liabilities</b>		<b>778.711.179</b>	<b>653.999.740</b>
Other Financial Liabilities		-	172
Other Payables		476.905.783	446.585.028
- Other Payables to Related Parties	8	476.905.783	446.585.028
Deferred Income	13	598.695	3.268.946
Long-term Provisions		98.117.311	80.049.351
- Long-term Provisions for Employee Benefits	18	91.515.272	73.189.555
- Other Short-term Provisions	16	6.602.039	6.859.796
Deferred Tax Liabilities	28	203.089.390	124.096.243
<b>SHAREHOLDER’S EQUITY</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>2.532.448.388</b>	<b>1.809.027.316</b>
Share Capital	20	960.850.000	960.850.000
Adjustments to Share Capital		84.081	84.081
Items That Will Never Be Reclassified to Profit or Loss		5.381.036	( 1.216.164)
- Actuarial Losses from Defined Pension Plans		5.381.036	( 1.216.164)
Items That Are or May Be Reclassified to Profit or Loss		1.148.978.860	716.459.868
- Foreign Currency Translation Differences		1.148.978.860	716.459.868
Restricted Profit Reserves		13.084.833	10.925.693
Retained Earnings/ (Accumulated Losses)		119.764.698	(49.933.881)
<b>Profit</b>		<b>284.304.880</b>	<b>171.857.719</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4.438.707.321</b>	<b>3.470.753.151</b>

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Statement of Profit or Loss and Other Comprehensive Income For The Year Ended 31 December 2016

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

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
Revenue	21	3.204.366.274	2.529.703.793
Cost of Sales (-)	21	( 2.532.310.015)	( 1.974.310.132)
<b>GROSS PROFIT</b>		<b>672.056.259</b>	<b>555.393.661</b>
General Administrative Expenses (-)	22	( 304.802.474)	(268.764.933)
Marketing and Sales Expenses (-)	22	( 12.374.905)	(11.865.902)
Research and Development Expenses (-)	22	( 10.386.539)	(9.698.102)
Other Operating Income	23	28.408.057	28.140.589
Other Operating Expenses (-)	23	(22.720.453)	(25.201.976)
<b>OPERATING PROFIT</b>		<b>350.179.945</b>	<b>268.003.337</b>
Loss from Investment Activities	24	(2.257.510)	(72.396)
Share of Investments' Profit Accounted by Using the Equity Method	4	51.358.957	10.477.181
<b>OPERATING PROFIT BEFORE FINANCIAL EXPENSE</b>		<b>399.281.392</b>	<b>278.408.122</b>
Financial Income	26	35.955.994	17.263.323
Financial Expenses (-)	26	( 36.622.533)	(33.799.267)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>398.614.853</b>	<b>261.872.178</b>
<b>Tax Expense from Continuing Operations</b>		<b>( 114.309.973)</b>	<b>(90.014.459)</b>
- Current Tax Expense	28	( 65.054.623)	(34.326.909)
- Deferred Tax Expense	28	( 49.255.350)	(55.687.550)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>284.304.880</b>	<b>171.857.719</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Not To Be Reclassified to Profit or Loss</b>		<b>6.597.200</b>	<b>(2.967.432)</b>
Actuarial Gain/(Losses) From Defined Pension Plans	18	8.246.500	(3.709.290)
Tax (Expense)/ Benefit of Actuarial Losses From Defined Pension Plans	28	( 1.649.300)	741.858
<b>To Be Reclassified To Profit or Loss</b>		<b>432.518.992</b>	<b>338.659.263</b>
Currency Translation Differences		381.863.823	312.983.220
Currency Translation Differences of Equity Accounted Investees		50.655.169	25.676.043
<b>OTHER COMPREHENSIVE INCOME</b>		<b>439.116.192</b>	<b>335.691.831</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>723.421.072</b>	<b>507.549.550</b>

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Statement of Changes in Shareholders' Equity For The Year Ended 31 December 2016

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

	Paid Share Capital	Adjustment to Share Capital	Actuarial Losses From Defined Pension Plans	Accumulated Other Comprehensive Income or Expenses Not to be Reclassified to Profit or Loss	Currency Translation Differences	Restricted Profit Reserves	Retained Earnings		Effect of Business Combination Under Common Control	Total Equity
							Retained Earnings/ (Accumulated Losses)	Net Profit/ (Loss) for the Period		
Balances as at 1 January 2015	693.000.000	-	2.137.265	365.139.211	9.504.301	92.928.213	(40.455.626)	-	1.122.253.364	
Effect of Business Combination Under Common Control (Note 3)	-	84.081	(385.997)	12.661.394	413.008	(101.398.084)	-	267.850.000	179.224.402	
Restated balances as at 1 January 2015	693.000.000	84.081	1.751.268	377.800.605	9.917.309	(8.469.871)	(40.455.626)	267.850.000	1.301.477.766	
Transfers	-	-	-	-	1.008.384	(41.464.010)	40.455.626	-	-	
Total Comprehensive Income	-	-	(2.967.432)	338.659.263	-	-	171.857.719	-	507.549.550	
Effect of Business Combination Under Common Control (Note 3)	267.850.000	-	-	-	-	-	-	(267.850.000)	-	
Balances as at 31 December 2015	960.850.000	84.081	(1.216.164)	716.459.868	10.925.693	(49.933.881)	171.857.719	-	1.809.027.316	
Balances as at 1 January 2016	960.850.000	84.081	(1.216.164)	716.459.868	10.925.693	(49.933.881)	171.857.719	-	1.809.027.316	
Transfers	-	-	-	-	2.159.140	169.698.579	(171.857.719)	-	-	
Total Comprehensive Income	-	-	6.597.200	432.518.992	-	-	284.304.880	-	723.421.072	
Balances as at 31 December 2016	960.850.000	84.081	5.381.036	1.148.978.860	13.084.833	119.764.698	284.304.880	-	2.532.448.388	

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



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Financial Statements For The Year Ended 31 December 2016

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

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
<b>Profit for the period</b>		284.304.880	171.857.719
<b>Adjustments to reconcile cash flow generated from operating activities:</b>			
Adjustments for depreciation and amortization	12, 14, 15	345.384.261	286.920.612
Adjustments for provisions, net	16	778.868	13.818.098
Adjustments for provisions for employee benefits	18	30.827.478	11.763.960
Adjustments for provisions for doubtful receivables	11, 32	9.370.330	5.218.199
Adjustments for interest income and expenses	26	36.474.745	33.073.339
Adjustments for discount for receivables and payables	23	32.409	(20.319)
Unrealized foreign exchange loss and translation differences		211.816.105	137.378.387
Loss from sale of fixed asset	24	81.227	72.396
Loss from sale of equity accounted investees	24	2.176.283	-
Adjustments for share of investment's profit accounted by using the equity method	4	(51.358.957)	(10.477.181)
Adjustments for deferred tax expense	28	49.255.350	55.687.550
Adjustments for tax expense	28	65.054.623	34.326.909
<b>Operating Profit Before Working Capital Changes</b>		<b>984.197.602</b>	<b>739.619.669</b>
Adjustments for increase in inventories		(607.619.237)	(663.378.431)
Adjustments for increase in trade receivables		(351.924.046)	(189.333.899)
Adjustments for decrease in other receivables		17.437.634	5.145.869
Adjustments for (increase)/ decrease in other current assets		(16.303)	2.428.775
Adjustments for increase in trade payables and due to related parties		25.510.369	58.803.730
Adjustments for increase in other payables		9.270.757	11.232.767
Adjustments for increase in prepaid expenses		14.040.470	19.131.377
Adjustments for increase in deferred income		67.688.802	139.804.861
Adjustments for increase in payables related to employee benefits		25.780.841	11.596.684
Adjustments for (decrease)/ increase in other current liabilities		(2.420.931)	2.701.206
<b>Cash Flows Generated From Operating Activities</b>		<b>181.945.958</b>	<b>137.752.608</b>
Interest received	26	147.788	725.928
Taxes paid		(102.581.922)	(6.761.747)
Employee benefits indemnity paid	18	(4.255.261)	(1.425.466)
<b>Net Cash Generated From Operating Activities</b>		<b>75.256.563</b>	<b>130.291.323</b>
<b>Cash Flows Generated From Investing Activities</b>			
Proceeds from sale of property and equipment		12.628.372	66.245
Purchase of property and equipment	14	(92.889.343)	(142.058.848)
Purchase of intangible assets	15	(3.506.949)	(6.734.252)
Proceeds from sale of investment		4.400.000	-
Cash outflow arising from capital increase in investments		(3.980.000)	(3.450.000)
<b>Cash Flows Used in Investing Activities</b>		<b>(83.347.920)</b>	<b>(152.176.855)</b>
<b>Cash Flows Generated From Financing Activities</b>			
Interest payment		(33.730.840)	(31.440.777)
Change in other payables to related parties		52.718.418	51.641.732
Proceeds from borrowings		-	2.004.405
Repayment of borrowings		(11.022.976)	(240)
<b>Net Cash From Financing Activities</b>		<b>7.964.602</b>	<b>22.205.120</b>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(126.755)</b>	<b>318.588</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	5	<b>5.883.476</b>	<b>5.564.888</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	5	<b>5.756.721</b>	<b>5.883.476</b>

The accompanying notes are 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.

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 31 December 2016 is 6.161 (31 December 2015: 5.317). Total number of employees working for the company as at 31 December 2016 is 6.417 (31 December 2015: 5.646).

	<u>31 December 2016</u>	<u>31 December 2015</u>
Administrative staff	1.763	1.635
Production staff	4.654	4.011
<b>Total</b>	<b>6.417</b>	<b>5.646</b>

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

Sanayi Mh.Havaalanı İçyolu Cd. Sabiha Gökçen Havalimanı E Kapısı No:3 Pendik/İSTANBUL

### Associates

As at 31 December 2016 and 31 December 2015, 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
		31 December 2016	31 December 2015	
Turkbine Teknik Gaz Turbinleri Bakım Onarım Anonim Şirketi ("Turkbine Teknik") (*)	Technical Maintenance	-	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	20%	20%	Turkey

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

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Basis of Preparation

#### 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 ("TFRS"), 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.

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

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

#### **Adjustment of Financial Statements in Hyperinflationary Periods**

As per the resolution dated 17 March 2005, 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.

#### **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**

As at 31December 2016, the company has three associates (31 December 2015: 4 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).

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

### 2.1 Basis of Preparation (continued)

#### Comparative Information

Financial statements of the Company have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current year, the Company has made several reclassifications in the prior year financial statements in order to maintain consistency, with current year financial statements. Reclassifications in the Statement of Profit and Loss and Other Comprehensive Income for the Year Ended 31 December 2015.

- Income from other material sales amounting to TL 14.666.333 has been reclassified from "Other Operating Income" to "Cost of Sales".

### 2.2 Statement of Compliance with TAS

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").

The accompanying financial statements have been prepared in accordance with TAS. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendices 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 2016 are same with those used in the preparation of the Company's financial statements as at and for the year ended 31 December 2015.

### 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 Material)	7
Repairable spare parts (X Material)	3
Repairable spare parts (V Material)	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.

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

### 2.5 Summary of Significant Accounting Policies *(continued)*

#### 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. 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 2016 and 2015, the Company does not have any capitalized borrowing costs.

#### 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.

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

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

### 2.5 Summary of Significant Accounting Policies (continued)

#### 2.5.7 Financial Instruments (continued)

##### *Financial Assets (continued)*

##### *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 period are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2016	3.5192	3.0181
31 December 2015	2,9076	2,7270

#### 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 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.

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

### 2.5 Summary of Significant Accounting Policies *(continued)*

#### 2.5.11 Provisions, Contingent Liabilities and Contingent Assets *(continued)*

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.

##### *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.



## 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 (continued)*

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.

#### 2.5.15 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. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

### 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 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 9, the provision for doubtful trade receivables amounts to TL 112.855.047 as at 31 December 2016 (31 December 2015: TL 89.848.198).

#### 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

#### *New standards and interpretations not yet adopted as of 31 December 2016*

A number of new standards, amendments to standards and interpretations explained below are not yet effective as at 31 December 2016, and have not been applied in preparing these financial statements of the Company:

#### **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 2018. 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 liabilities and requires that the change in fair value of a fair value option 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.

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

As issued in September 2016, 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 in the process of assessing the impact of the amendment on 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*

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 consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

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

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

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

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

#### **IFRS 16 Leases**

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

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

The amendments clarifies 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. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

#### **Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative**

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

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

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

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

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

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

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory.

## 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)***

#### **IAS 40 – Transfers of Investment Property *(continued)***

Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

#### **Improvements to IFRSs**

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

#### **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 related to disclosures for financial instruments, employee benefits and consolidated financial statements.

##### *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.

### **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. BUSINESS COMBINATION UNDER COMMON CONTROL

According to resolution of Extraordinary General Assembly Meeting dated 22 May 2015, it was decided to merge with 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.

A "business combination involving entities or business under common control" is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

The merger is a business combination under common control, since the Company and THY Habom are controlled by ultimate parent, named THY A.O, both before and after the combination.

The Company has consolidated the financial statements of THY Habom beginning from 1 January 2014 according to "Accounting Principles of Merger of Entities Under Common Control" stated in third resolution of application of Turkish Accounting Standards ("TAS") by Public Oversight Authority ("POA").

### 4. SHARES IN OTHER SUBSIDIARIES

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
TEC	153.198.850	77.475.957
Goodrich	4.171.649	2.098.846
TCI	3.982.784	2.652.413
Turbine Teknik (*)	-	6.742.671
	<u><b>161.353.283</b></u>	<u><b>88.969.887</b></u>

(\*) All of the 50% shares in Turbine Teknik was sold on 7 December 2016 amounting to TL 4,400,000.

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current assets	468.735.298	333.650.217
Non-current assets	121.630.474	105.645.573
Current liabilities	205.567.582	227.363.339
Non-current liabilities	72.147.475	53.818.254
Equity	312.650.715	158.114.197
<b>Company's share in equity (% 49)</b>	<b>153.198.850</b>	<b>77.475.957</b>
	<u>1 January -</u>	<u>1 January -</u>
	<u>31 December 2016</u>	<u>31 December 2015</u>
Revenue	1.032.065.269	655.502.093
Profit for the period	103.504.841	28.018.291
<b>Company's share in profit for the period (% 49)</b>	<b>50.717.372</b>	<b>13.728.960</b>

4. SHARES IN OTHER SUBSIDIARIES (continued)

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current assets	-	10.232.740
Non-current assets	-	3.585.221
Current liabilities	-	188.751
Non-current liabilities	-	143.867
Equity	-	13.485.343
<b>Company's share in equity</b>	-	<b>6.742.671</b>
	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Revenue	-	2.359.271
Profit for the period	-	649.121
<b>Company's share in profit for the period</b>	-	<b>324.560</b>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current assets	16.484.162	11.055.512
Non-current assets	2.372.799	1.843.355
Current liabilities	8.427.840	6.487.618
Non-current liabilities	-	1.164.135
Equity	10.429.122	5.247.115
<b>Company's share in equity (% 40)</b>	<b>4.171.649</b>	<b>2.098.846</b>
	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Revenue	30.730.738	27.314.261
Profit for the period	3.497.573	1.844.729
<b>Company's share in profit for the period (% 40)</b>	<b>1.399.029</b>	<b>737.892</b>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current assets	33.773.844	29.893.377
Non-current assets	1.440.205	2.218.931
Current liabilities	15.300.128	11.581.244
Non-current liabilities	-	7.269.000
Equity	19.913.922	13.262.064
<b>Company's share in equity (% 20)</b>	<b>3.982.784</b>	<b>2.652.413</b>

**4. SHARES IN OTHER SUBSIDIARIES (continued)**

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Revenue	20.198.191	24.101.526
Loss for the period	(3.787.218)	(21.571.155)
<b>Company's share in loss for the period (% 20)</b>	<b>(757.444)</b>	<b>(4.314.231)</b>

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
TEC	50.717.372	13.728.960
TCI	(757.444)	(4.314.231)
Goodrich	1.399.029	737.892
Turbine	-	324.560
	<u><b>51.358.957</b></u>	<u><b>10.477.181</b></u>

**5. CASH AND CASH EQUIVALENTS**

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Banks (demand deposits)	2.932.723	5.771.676
Banks (time deposits)	2.823.998	111.800
	<u><b>5.756.721</b></u>	<u><b>5.883.476</b></u>

As at 31 December 2016, 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 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><b>2.823.998</b></u>

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>31 December 2015</u>
111.800	TL	31 December 2015	%10,97	4 January 2016	111.800
					<u><b>111.800</b></u>



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Financial Statements For The Year Ended 31 December 2016

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

**6. FINANCIAL INVESTMENTS**

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

	<u>31 December</u> <u>2016</u>	<u>Share</u> <u>%</u>	<u>31 December</u> <u>2015</u>	<u>Share</u> <u>%</u>
Uçak Koltuk Üretimi Sanayi Ticaret Anonim Şirketi ("Uçak Koltuk") (*)	1.485.005	10	5.005	10
Türk Hava Yolları Opet Havacılık Yakıtları Anonim Şirketi ("THY Opet")	20	<1	20	<1
	<u>1.485.025</u>		<u>5.025</u>	

(\*) According to the General Assembly dated 8 June 2016, the share capital of Uçak Koltuk increased amounting to TL 1.480.000.

**7. OTHER FINANCIAL LIABILITIES**

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Payables to banks	102.253	11.125.057
	<u>102.253</u>	<u>11.125.057</u>

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

**31 December 2016**

<u>Name of Bank</u>	<u>Maturity</u>	<u>Original amount</u>	<u>Currency</u>	<u>Amount</u>
Finansbank	3 January 2017	75.384	TL	75.384
Finansbank	2 January 2017	26.869	TL	26.869
				<u>102.253</u>

**31 December 2015**

<u>Name of Bank</u>	<u>Maturity</u>	<u>Original amount</u>	<u>Currency</u>	<u>Amount</u>
Ziraat Bankası	4 January 2016	11.086.290	TL	11.086.290
Finansbank	4 January 2016	38.471	TL	38.471
Bank Asya	4 July 2016	296	TL	296
				<u>11.125.057</u>

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

## 8. RELATED PARTY TRANSACTIONS

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Türk Hava Yolları Anonim Ortaklığı ("THY A.O.")	816.921.097	474.990.736
TEC	11.849.688	8.960.020
Güneş Express Havacılık A.Ş. ("Sun Ekspres")	8.846.879	15.784.227
TGS Yer Hizmetleri A.Ş. ("TGS")	890.948	598.160
TCI	428.656	1.202.352
Goodrich	137.924	1.249.661
Others	244.601	48.966
	<u>839.319.793</u>	<u>502.834.122</u>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
THY A.O.	1.207.351	19.172.512
	<u>1.207.351</u>	<u>19.172.512</u>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
THY A.O.	75.020.632	51.387.303
Goodrich	1.955.901	3.497.925
TGS	1.166.848	1.572.906
Uçak Koltuk	710.185	-
THY Opet	101.820	89.215
Others	22.150	18.265
	<u>78.977.536</u>	<u>56.565.614</u>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
THY A.O.	175.514.016	153.116.353
	<u>175.514.016</u>	<u>153.116.353</u>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
THY A.O.	476.905.783	446.585.028
	<u>476.905.783</u>	<u>446.585.028</u>

As at 31 December advances received from related parties are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
THY A.O.	359.952.538	280.683.467
	<u>359.952.538</u>	<u>280.683.467</u>

## 8. RELATED PARTY TRANSACTIONS (continued)

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
<b>Sales</b>		
THY A.O.	2.692.032.649	1.996.620.219
Sun Express	81.280.012	76.309.060
TEC	33.902.907	37.906.385
Goodrich	1.475.295	889.259
Uçak Koltuk	648.482	-
TGS	258.977	545.650
Turkbine Teknik	117.686	452.642
Others	374.753	265.013
	<b>2.810.090.761</b>	<b>2.112.988.228</b>
<b>Purchases</b>		
THY A.O.	107.670.533	128.902.982
Goodrich	18.469.938	18.255.389
TGS	10.762.642	10.196.248
THY Opet	850.738	978.633
Uçak Koltuk	802.403	1.079.694
TCI	766.316	88.484
Sun Express	32.189	50.030
Others	127.502	26.705
	<b>139.482.261</b>	<b>159.578.165</b>
<b>Interest expenses</b>		
THY A.O.	34.022.226	31.440.777
	<b>34.022.226</b>	<b>31.440.777</b>

For the years ended 31 December 2016, total amount of salaries and other benefits provided to key management personnel is TL 4.180.788 (31 December 2015: TL 3.152.756).

## 9. TRADE RECEIVABLES AND PAYABLES

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables	185.231.934	170.970.211
Notes receivables	21.176.011	6.366.631
Discount on receivables	(44.828)	(16.209)
Provision for doubtful receivables (*)	(112.855.047)	(89.848.198)
	<b>93.508.071</b>	<b>87.472.435</b>

(\*) 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 32.

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

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Trade payables	221.481.850	218.107.151
Accrued expenses	34.893.668	35.162.626
Discount on payables	(117.134)	(109.840)
	<u>256.258.384</u>	<u>253.159.937</u>

**10. PAYABLES RELATED TO EMPLOYEE BENEFITS**

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Salary accruals (*)	52.079.448	44.926.825
Social security premiums payable	31.966.236	13.391.247
Personnel credit card payables	66.898	16.312
Payables to personnel	15.202	12.559
	<u>84.127.784</u>	<u>58.346.943</u>

(\*) Salary accruals are comprised of salary expenses of december.

**11. OTHER RECEIVABLES AND PAYABLES**

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Other receivables	460.102	441.039
Receivables from personnel	322.254	246.826
Deposits and guarantees given	227.518	149.892
Receivables from foreign technical suppliers	410.540	55.128
Doubtful receivables	-	1.305
Provision for doubtful receivables (-)	-	(1.305)
	<u>1.420.412</u>	<u>892.885</u>

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Provision at the beginning of the year	1.305	1.041
Foreign currency translation	-	264
Collections during year	(1.305)	-
Provision at the end of the year	<u>-</u>	<u>1.305</u>

## 11. OTHER RECEIVABLES AND PAYABLES (continued)

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Taxes and funds payable	77.984.130	61.177.886
Deposits and guaranteed received	9.407.338	20.222.458
Other payables	3.736.562	456.929
	<u><b>91.128.030</b></u>	<u><b>81.857.273</b></u>

## 12. INVENTORIES

As at 31 December inventories are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Components and repairable spare parts	1.878.131.034	1.429.381.547
Technical equipment inventories	659.645.399	485.817.859
Scrap equipment inventories	67.790.879	57.137.122
Technical equipment inventories in transit	63.353.219	47.041.643
Accumulated depreciation of components and repairable spare parts (-)	(714.430.667)	(493.468.201)
Provision for impairment of inventories (-)	(67.790.879)	(47.542.042)
	<u><b>1.886.698.985</b></u>	<u><b>1.478.367.928</b></u>

As at 31 December 2016, inventories were insured to the extent of TL 879.800.000 (31 December 2015: TL 726.900.000).

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Provision at the beginning of the period	47.542.042	27.106.828
Foreign currency translation	10.887.244	8.144.434
Current period provision	9.361.593	12.290.780
Provision at the end of the period	<u><b>67.790.879</b></u>	<u><b>47.542.042</b></u>

12. INVENTORIES (continued)

For the year ended 31 December 2016, the movement of components and repairable spare parts are as follows:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance as at 1 January 2016	1.429.381.547
Foreign currency translation	300.663.689
Additions	385.657.276
Disposals	(237.571.478)
<b>Closing balance as at 31 December 2016</b>	<b>1.878.131.034</b>
<u>Accumulated depreciation</u>	
Opening balance as at 1 January 2016	493.468.201
Foreign currency translation	120.482.156
Current charge for the period	199.288.180
Disposals	(98.807.870)
<b>Closing balance as at 31 December 2016</b>	<b>714.430.667</b>
<b>Net book value as at 31 December 2016</b>	<b>1.163.700.367</b>

For the year ended 31 December 2015 the movement of components and repairable spare parts are as follows:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance as at 1 January 2015	800.829.359
Foreign currency translation	203.306.847
Additions	495.023.500
Disposals	(69.778.159)
<b>Closing balance as at 31 December 2015</b>	<b>1.429.381.547</b>
<u>Accumulated depreciation</u>	
Opening balance as at 1 January 2015	307.874.719
Foreign currency translation	84.831.626
Current charge for the period	163.398.361
Disposals	(62.636.505)
<b>Closing balance as at 31 December 2015</b>	<b>493.468.201</b>
<b>Net book value as at 31 December 2015</b>	<b>935.913.346</b>

### 13. PRE-PAID EXPENSES AND DEFERRED INCOME

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Advances given for orders (*)	8.269.258	25.990.495
Short-term prepaid expenses (**)	6.552.499	3.848.576
	<u>14.821.757</u>	<u>29.839.071</u>

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

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Advances given for fixed asset purchases	1.516.736	1.568.688
Long-term prepaid expenses (**)	14.412.683	13.383.887
	<u>15.929.419</u>	<u>14.952.575</u>

(\*\*) TL 16.120.371 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 2015: TL 15.115.584 ).

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Advances received (*)	360.296.572	285.957.195
Short-term deferred income	39.933.979	43.914.303
	<u>400.230.551</u>	<u>329.871.498</u>

(\*) Advances received consist of order advances received from THY A.O. amounting to TL 359.952.538 (31.12.2015: TL 280.683.467).

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Long-term deferred income	598.695	3.268.946
	<u>598.695</u>	<u>3.268.946</u>

#### 14. PROPERTY AND EQUIPMENT

For the year ended 31 December 2016, the movement of property and equipment are as follows:

Cost	Plant,		Other		Leasehold	Total
	Machinery and Equipment	Vehicles	Furniture and Fixtures	Tangible Assets		
Opening balance as at 1 January 2016	337.835.456	19.526.736	81.990.962	6.076.390	3.774.002	1.190.959.785
Foreign currency translation	71.054.074	4.115.392	17.246.396	1.278.140	793.844	250.512.795
Additions	41.679.082	3.193.745	8.767.570	3.021.803	8.899.059	27.328.084
Disposals	(12.719.169)	(353.438)	(543.640)	(142.263)	-	(34.398)
Transfers (*)	27.074.972	18.463	(7.645.935)	146.673	(5.325.874)	(16.638.177)
<b>Closing balance as at 31 December 2016</b>	<b>464.924.415</b>	<b>26.500.898</b>	<b>99.815.353</b>	<b>10.380.743</b>	<b>8.141.031</b>	<b>1.452.128.089</b>
<b>Accumulated depreciation</b>						
Opening balance as at 1 January 2015	177.563.007	13.282.487	47.023.642	3.457.927	-	188.840.033
Foreign currency translation	44.088.890	3.174.837	10.592.415	857.770	-	52.769.913
Current charge for the period	36.132.553	2.566.035	9.372.783	874.930	-	78.616.167
Disposals	(238.250)	(276.436)	(449.710)	(89.563)	-	(29.350)
Transfers	4.699.779	-	(4.699.853)	74	-	-
<b>Closing balance as at 31 December 2016</b>	<b>262.245.979</b>	<b>18.746.923</b>	<b>61.839.274</b>	<b>5.101.138</b>	<b>-</b>	<b>320.196.763</b>
<b>Net book value as at 1 January 2016</b>	<b>160.272.449</b>	<b>6.244.249</b>	<b>34.967.320</b>	<b>2.618.463</b>	<b>3.774.002</b>	<b>1.002.119.752</b>
<b>Net book value as at 31 December 2016</b>	<b>202.678.436</b>	<b>7.753.975</b>	<b>37.976.076</b>	<b>5.279.605</b>	<b>8.141.031</b>	<b>1.131.931.326</b>
						<b>1.393.760.449</b>

(\*) As at 31 December 2016, construction in progress amounting to TL 2.369.878 is transferred to intangible assets.

As at 31 December 2016, property and equipment were insured amounting to TL 300.391.450 against earthquake, fire, flood and similar disasters (31 December 2015: TL 226.271.089).



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

For the year 31 December 2015, the movement of property and equipment are as follows:

<u>Cost</u>	Plant, Machinery and Equipment		Furniture and Fixtures		Other Tangible Assets		Construction in Progress	Leasehold Improvements	Total
	Vehicles								
Opening balance as at 1 January 2015	206.236.246	13.517.293	57.721.712	4.272.293	2.917.193	911.074.136	1.195.738.873		
Foreign currency translation	52.357.998	3.431.640	14.653.110	1.084.608	740.589	231.294.728	303.562.673		
Additions	79.631.963	2.670.869	7.754.949	709.298	2.679.538	48.612.231	142.058.848		
Disposals	(475.423)	(93.066)	(485.847)	(7.350)	-	(21.310)	(1.082.996)		
Transfers (*)	84.672	-	2.347.038	17.541	(2.563.318)	-	(114.067)		
<b>Closing balance as at 31 December 2015</b>	<b>337.835.456</b>	<b>19.526.736</b>	<b>81.990.962</b>	<b>6.076.390</b>	<b>3.774.002</b>	<b>1.190.959.785</b>	<b>1.640.163.331</b>		
<b>Accumulated depreciation</b>									
Opening balance as at 1 January 2015	120.289.322	8.999.035	29.630.356	2.205.673	-	91.656.300	252.780.686		
Foreign currency translation	32.198.806	2.408.712	8.134.559	602.944	-	27.858.776	71.203.797		
Current charge for the period	25.473.721	1.942.113	9.716.307	649.884	-	69.344.943	107.126.968		
Disposals	(398.842)	(67.373)	(457.580)	(574)	-	(19.986)	(944.355)		
<b>Closing balance as at 31 December 2015</b>	<b>177.563.007</b>	<b>13.282.487</b>	<b>47.023.642</b>	<b>3.457.927</b>	<b>-</b>	<b>188.840.033</b>	<b>430.167.096</b>		
<b>Net book value as at 1 January 2015</b>	<b>85.946.924</b>	<b>4.518.258</b>	<b>28.091.356</b>	<b>2.066.620</b>	<b>2.917.193</b>	<b>819.417.836</b>	<b>942.958.187</b>		
<b>Net book value as at 31 December 2015</b>	<b>160.272.449</b>	<b>6.244.249</b>	<b>34.967.320</b>	<b>2.618.463</b>	<b>3.774.002</b>	<b>1.002.119.752</b>	<b>1.209.996.235</b>		

(\*) As at 31 December 2015, construction in progress amounting to TL 114.067 is transferred to intangible assets.

## 15. INTAGIBLE ASSETS

For the year ended 31 December 2016, the movement of other intangible assets is as follows:

	<u>Rights</u>
<b><u>Cost</u></b>	
Opening balance as at 1 January 2016	61.788.915
Foreign currency translation	12.997.007
Additions	3.506.949
Disposals	2.369.878
<b>Closing balance as at 31 December 2016</b>	<b>80.662.749</b>
<b><u>Accumulated depreciation</u></b>	
Opening balance as at 1 January 2016	29.476.321
Foreign currency translation	9.277.468
Current charge for the period	18.533.613
<b>Closing balance as at 31 December 2016</b>	<b>57.287.403</b>
<b>Net book value as at 31 December 2016</b>	<b>23.375.346</b>

For the year ended 31 December 2015, the movement of other intangible assets is as follows:

	<u>Rights</u>
<b><u>Cost</u></b>	
Opening balance 1 January 2015	43.820.857
Foreign currency translation	11.124.503
Additions	6.734.252
Disposals	(4.764)
Transfers	114.067
<b>Closing balance 31 December 2015</b>	<b>61.788.915</b>
<b><u>Accumulated depreciation</u></b>	
Opening balance 1 January 2015	9.570.843
Foreign currency translation	3.514.959
Current charge for the period	16.395.283
Disposals	(4.764)
<b>Closing balance 31 December 2015</b>	<b>29.476.321</b>
<b>Net book value 31 December 2016</b>	<b>32.312.594</b>

## 16. PROVISIONS, CONTINGENTS AND LIABILITIES

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

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Provisions for unused vacation	18.746.312	13.033.930
	<b>18.746.312</b>	<b>13.033.930</b>

**16. PROVISIONS, CONTINGENTS AND LIABILITIES (continued)**

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

For the years ended 31 December 2016 and 2015 the movements of provision for unused vacation are as follows:

	<u>1 January – 31 December 2016</u>	<u>1 January – 31 December 2015</u>
Provision at the beginning of the period	13.033.930	11.006.065
Foreign currency translation	1.043.628	(1.382)
Current period charge	5.756.966	4.256.794
Provision no longer required	(1.088.212)	(2.227.547)
Provision at the end of the period	<u>18.746.312</u>	<u>13.033.930</u>

**(b) Other short-term provisions**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Provision for legal claims	12.479.422	17.071.905
	<u>12.479.422</u>	<u>17.071.905</u>

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

	<u>1 January – 31 December 2016</u>	<u>1 January – 31 December 2015</u>
Provision at the beginning of the period	17.071.905	7.203.388
Foreign currency translation	(969.296)	585.680
Current period charge (Note 23)	2.479.701	11.941.316
Provision no longer required (Note 23)	(6.102.888)	(2.658.479)
Provision at the end of the period (*)	<u>12.479.422</u>	<u>17.071.905</u>

(\*) As at 31 December 2016, provision for legal claims amounting to TL 6.094.844 is related with reinstatement cases (31 December 2015: TL 9.046.984).

**(c) Other long-term provisions**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Provisions for other long term liabilities (*)	6.602.039	6.859.796
	<u>6.602.039</u>	<u>6.859.796</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.

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

	<u>1 January – 31 December 2016</u>	<u>1 January – 31 December 2015</u>
Provision at the beginning of the period	6.859.796	3.537.327
Foreign currency translation	8.942	816.455
Provision no longer required	(266.699)	-
Current period charge	-	2.506.014
Provision at the end of the period	<u>6.602.039</u>	<u>6.859.796</u>

## 17. COMMITMENTS AND CONTINGENCIES

### Company as lessee

#### *Leasing Agreements:*

Leasing period is 20 years and is related to the construction in progress of aircraft hangar land.

As at 31 December 2016 leasing payment amounting to TL 12.588.211 (31 December 2015: TL 11.059.416) is accounted as rent expense in income statement.

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Within one year	15.528.138	13.702.343
One- five years	69.323.380	61.523.431
After five years	102.309.766	107.282.413
	<u><b>187.161.284</b></u>	<u><b>182.508.187</b></u>

## 18. EMPLOYEE BENEFITS

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Provision for employee benefits	91.515.272	73.189.555
	<u><b>91.515.272</b></u>	<u><b>73.189.555</b></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 4.426 as at 1 January 2017 (1 January 2016: TL 4.093).

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:

**18. EMPLOYEE BENEFITS (continued)**

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 31 December 2016 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 (31 December 2015: 7,00%) and 11,00% interest rate (31 December 2015: 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% (31 December 2015: 3,74%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 4.426 which is in effect since 1 January 2017 is used in the calculation of Company's provision for retirement pay liability. The movements of provision for employee benefits are as follows:

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Provisions at the beginning of the period	73.189.555	59.141.771
Service charge for the period	28.091.420	9.553.053
Interest charges	2.736.058	2.210.907
Payments	(4.255.261)	(1.425.466)
Actuarial loss (gain)/ loss	(8.246.500)	3.709.290
Provisions at the end of the period	<b>91.515.272</b>	<b>73.189.555</b>

**19. OTHER ASSET AND LIABILITIES**

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Job advances	68.953	15.252
Personnel advances	1.756	39.154
	<b>70.709</b>	<b>54.406</b>

**20. SHAREHOLDERS' EQUITY**

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

	<b>%</b>	<b>31 December 2016</b>	<b>%</b>	<b>31 December 2015</b>
THY A.O.	100	960.850.000	100	960.850.000
		<b>960.850.000</b>		<b>960.850.000</b>

As at 31 December 2016, the Company's share capital is comprised of 960.850.000 shares issued with par value of TL 1 each (2015: 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.

On 4 June 2015, the Company has merged with THY Habom by taking over all its assets and liabilities. After the merger the share capital of the company has increased by TL 267.850.000 to TL 960.850.000.

*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.

20. SHAREHOLDERS' EQUITY (continued)

*Restricted Profit Reserves (continued)*

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.

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Share capital	960.850.000	960.850.000
Adjustments to share capital	84.081	84.081
Items that will never be reclassified to profit or loss	5.381.036	(1.216.164)
Foreign currency translation	1.148.978.860	716.459.868
Restricted profit reserves	13.084.833	10.925.693
Retained earnings/ (Accumulated losses)	119.764.698	(49.933.881)
Net profit	284.304.880	171.857.719
	<u><b>2.532.448.388</b></u>	<u><b>1.809.027.316</b></u>

21. REVENUE AND COST OF SALES

For the years ended 31 December revenue is as follows:

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Aircraft maintenance income	1.002.550.585	848.525.353
Line maintenance income	685.626.072	539.159.426
Pool income	629.565.876	519.752.618
Component maintenance income	472.567.705	358.131.620
Equipment sales income	179.858.932	106.902.903
Engine maintenance income	136.857.154	93.062.593
Others	97.339.950	64.169.280
<b>Revenue</b>	<u><b>3.204.366.274</b></u>	<u><b>2.529.703.793</b></u>
Cost of sales (-)	<u>(2.532.310.015)</u>	<u>(1.974.310.132)</u>
<b>Gross profit</b>	<u><b>672.056.259</b></u>	<u><b>555.393.661</b></u>

**21. REVENUE AND COST OF SALES (continued)**

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Equipment expenses	786.105.256	533.437.022
Personnel expenses	762.572.616	603.511.097
Maintenance expenses	311.990.530	272.732.230
Service expenses	283.008.188	248.062.132
Depreciation and amortization expenses	260.443.327	205.109.637
Transportation expenses	65.933.018	59.766.437
Rent expenses	15.744.583	13.516.720
Utilization expenses	9.412.583	9.556.166
Others	37.099.914	28.618.691
	<b><u>2.532.310.015</u></b>	<b><u>1.974.310.132</u></b>

**22. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES**

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Personnel expenses	118.646.558	94.984.370
Depreciation and amortization expenses	84.769.905	81.753.812
Service expenses	35.920.936	36.496.904
Equipment expenses	11.658.954	10.739.108
Utilization expenses	9.075.790	8.996.328
Rent expenses	9.094.567	7.656.769
Others	35.635.764	28.137.642
	<b><u>304.802.474</u></b>	<b><u>268.764.933</u></b>

**22. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (continued)**

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Personnel expenses	7.098.941	5.893.908
Equipment expenses	803.022	638.679
Service expenses	747.727	1.395.815
Depreciation and amortization expenses	33.641	41.694
Others	3.691.575	3.895.806
	<u><b>12.374.905</b></u>	<u><b>11.865.902</b></u>

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Personnel expenses	8.268.019	7.202.980
Service expenses	549.986	668.254
Depreciation and amortization expenses	137.388	10.705
Others	1.431.146	1.816.163
	<u><b>10.386.539</b></u>	<u><b>9.698.102</b></u>

**23. OTHER OPERATING INCOME AND EXPENSES**

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Reversal of provision for law suits (Note 16)	6.102.888	2.658.479
Reversal of provision for doubtful receivables (Note 32)	4.032.438	6.426.694
Insurance, indemnities and penalties income	3.493.449	6.190.684
Plant maintenance income	3.380.456	2.286.058
Foreign exchange gain from trade operations, net	2.354.114	1.582.599
Late payment interest income of trade receivables	1.228.138	3.905.945
Others	7.816.574	5.090.130
	<u><b>28.408.057</b></u>	<u><b>28.140.589</b></u>



**23. OTHER OPERATING INCOME AND EXPENSES (continued)**

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Provision for doubtful receivables (Note 32)	13.402.768	11.644.893
Labor-job protection compensation	2.786.814	1.303.776
Provision for law suits (Note 16)	2.479.701	11.941.316
Others	4.051.170	311.991
	<b>22.720.453</b>	<b>25.201.976</b>

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

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Loss on sale of equity accounted investees	2.176.283	-
Loss on sales of fixed assets	81.227	72.396
	<b>2.257.510</b>	<b>72.396</b>

**25. EXPENSES RECLASSIFIED ON THE BASIS OF LINE**

Expenses for the years ended 31 December are presented in Note 21 and Note 22 according to their functions.

**26. FINANCIAL INCOME AND EXPENSES**

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Foreign exchange gains,net	35.808.206	16.537.395
Interest income	147.788	725.928
	<b>35.955.994</b>	<b>17.263.323</b>

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

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Interest expenses on loans	33.730.840	31.440.777
Cost of employee termination benefits interest (Note 18)	2.736.058	2.210.907
Bank expenses	155.635	147.583
	<b>36.622.533</b>	<b>33.799.267</b>

## 27. ANALYSIS OF OTHER COMPERHENSIVE INCOME COMPONENTS

For the year ended 31 December 2016, the Company's other comprehensive income which is not to be reclassified to profit or loss is TL 6.597.200 as income (31 December 2015: TL 2.967.432 as expense), other comprehensive income to be reclassified to profit or loss is TL 432.518.992 as income (31 December 2015: TL 338.659.263 as income).

## 28. TAX ASSET AND LIABILITIES

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current corporate tax provision	81.408.734	34.097.135
Prepaid taxes and funds	(73.386.302)	(4.901.515)
<b>Current tax liabilities</b>	<b>8.022.432</b>	<b>29.195.620</b>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Curent period tax expense	(65.054.623)	(34.326.909)
Deferred tax expense	(49.255.350)	(55.687.550)
	<b>(114.309.973)</b>	<b>(90.014.459)</b>

### 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 2016 is 20% .

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2015 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.

28. TAX ASSET AND LIABILITIES (continued)

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 2016</u>	<u>31 December 2015</u>
Inventories	(135.930.942)	(96.995.609)
Fixed assets	(123.865.962)	(82.954.899)
Provision for employment termination indemnity	18.303.054	14.637.911
Provision for inventories	13.558.176	9.508.408
Provision for doubtful receivables	9.206.449	8.752.758
Provision for vacation pay	3.749.262	2.606.786
Provision for legal claims	2.152.177	3.414.381
Advances taken for orders	-	13.002.428
Others	9.738.396	3.931.593
	<u>(203.089.390)</u>	<u>(124.096.243)</u>

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Deferred tax liability at the beginning of the period	124.096.243	52.102.813
Foreign currency translation	28.088.497	17.047.738
Deferred tax expense	49.255.350	55.687.550
Tax income (loss) of actuarial losses from defined pension plans	1.649.300	(741.858)
Deferred tax liability at the end of the period	<u>203.089.390</u>	<u>124.096.243</u>

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

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Reconciliation of current tax provision		
Profit from operations before tax	398.614.853	261.872.178
%20 tax rate	(79.722.971)	(52.374.436)
Taxation effects on:		
- foreign exchange rate translation loss	(36.001.908)	(31.576.694)
- deductions	1.255.493	468.045
- non-deductible expenses	(10.112.378)	(8.626.810)
- equity accounted investees	10.271.791	2.095.436
	<u>(114.309.973)</u>	<u>(90.014.459)</u>

## 29. 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 2016</u>	<u>1 January – 31 December 2015</u>
Number of total outstanding shares as of 1 January (in full)	960.850.000	960.850.000
Number of outstanding shares as of 31 December (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 income/ (loss) for the period	284.304.880	171.857.719
Earnings/(loss) per share (Kr)	<u>29,59</u>	<u>17,89</u>

## 30. EFFECT OF EXCHANGE RATE CHANGES

Analysis of effects of exchange rate changes as at 31 December 2016 and 2015 is presented in Note 32.

## 31. 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.

## 32. 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 optimization 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.

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

*(b) Financial risk factors (continued)*

	Receivables					
	Trade Receivables			Other Receivables		
31 December 2016	Related party	Third party	Third party	Related party	Third party	Deposits in banks
Maximum Credit Risk as of balance sheet date (*)	839.319.793	93.508.071	1.207.351	1.420.412	5.756.721	-
- The part of maximum risk under guarantee with collateral etc.	-	5.151.466	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	839.319.793	16.705.923	1.207.351	1.420.412	5.756.721	-
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	-	-	-	-	-	-
- the part under guarantee with collateral etc.	-	76.802.148	-	-	-	-
D. Net book value of impaired assets	-	5.151.466	-	-	-	-
- Past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	112.855.047	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	(112.855.047)	-	-	-	-
- 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.	-	-	-	-	-	-

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

*(b) Financial risk factors (continued)*

	Receivables					
	Trade Receivables		Other Receivables		Deposits in banks	
31 December 2015	Related party	Third party	Related party	Third party	Third party	
Maximum Credit Risk as of balance sheet date (*)	502.834.122	87.472.435	19.172.512	892.885		5.883.476
- The part of maximum risk under guarantee with collateral etc.	-	7.041.421	-	-		-
A. Net book value of financial assets that are neither past due nor impaired	502.834.122	11.750.623	19.172.512	892.885		5.883.476
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	-	-	-	-		-
- the part under guarantee with collateral etc.	-	75.721.812	-	-		-
D. Net book value of impaired assets	-	7.041.421	-	-		-
- Past due (gross carrying amount)	-	-	-	-		-
- Impairment (-)	-	89.848.198	-	1.305		-
- The part of net value under guarantee with collateral etc.	-	(89.848.198)	-	(1.305)		-
- 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.

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

(b) Financial risk factors (continued)

Credit risk management

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 economic 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 at 31 December 2016 and 2015 are as follows:

<b>31.12.2016</b>	<b><u>Trade</u></b> <b><u>Receivables</u></b>	<b><u>Other</u></b> <b><u>Receivables</u></b>	<b><u>Deposits</u></b> <b><u>in Banks</u></b>	<b><u>Others</u></b>	<b><u>Total</u></b>
Past due 1-30 days	17.292.933	-	-	-	17.292.933
Past due 1-3 months	17.749.790	-	-	-	17.749.790
Past due 3-12 months	20.811.536	-	-	-	20.811.536
Past due 1-5 years	20.947.889	-	-	-	20.947.889
Total past due receivables	76.802.148	-	-	-	76.802.148
The part under guarantee with collateral etc.	5.151.466	-	-	-	5.151.466

  

<b>31.12.2015</b>	<b><u>Trade</u></b> <b><u>Receivables</u></b>	<b><u>Other</u></b> <b><u>Receivables</u></b>	<b><u>Deposits</u></b> <b><u>in Banks</u></b>	<b><u>Others</u></b>	<b><u>Total</u></b>
Past due 1-30 days	16.025.763	-	-	-	16.025.763
Past due 1-3 months	29.232.081	-	-	-	29.232.081
Past due 3-12 months	12.680.506	-	-	-	12.680.506
Past due 1-5 years	17.783.462	-	-	-	17.783.462
Total past due receivables	75.721.812	-	-	-	75.721.812
The part under guarantee with collateral etc.	7.041.421	-	-	-	7.041.421

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

(b) Financial risk factors (continued)

Credit risk management (continued)

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 5.151.466 (31 December 2015: TL 7.041.421).

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

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 2016 and 2015 is as follows:

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Provision at the beginning of the period	89.848.198	67.681.847
Foreign currency translation	13.636.519	16.948.152
Current period charge	13.402.768	11.644.893
Collections during period	(4.032.438)	(6.426.694)
<b>Provision at the end of the period</b>	<b><u>112.855.047</u></b>	<b><u>89.848.198</u></b>

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 non-derivative 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.



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

(b) Financial risk factors (continued)

Liquidity risk management (continued)

**31 December 2016**

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
<b>Non-derivative financial liabilities</b>						
Financial borrowings	102.253	102.253	102.253	-	-	-
Trade payables	335.235.920	335.353.054	335.353.054	-	-	-
Other payables	266.642.046	266.642.046	266.642.046	-	-	-
<b>Total</b>	<b>601.980.219</b>	<b>602.097.353</b>	<b>602.097.353</b>	-	-	-

**31 December 2015**

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
<b>Non-derivative financial liabilities</b>						
Financial borrowings	11.125.057	11.125.057	11.125.057	-	-	-
Trade payables	309.725.551	309.835.391	309.835.391	-	-	-
Other payables	234.973.626	234.973.626	234.973.626	-	-	-
<b>Total</b>	<b>555.824.234</b>	<b>555.934.074</b>	<b>555.934.074</b>	-	-	-

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:

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

#### (b) Financial risk factors (continued)

#### Foreign currency risk management (continued)

As at 31 December 2016 and 2015 foreign currency positions of the company are as follows:

	Foreign Currency Position Table									
	31 December 2016					31 December 2015				
	TL Equivalent	TL	Euro	GBP	Others	TL Equivalent	TL	Euro	GBP	Others
1. Trade Receivables	16.443.179	6.124.683	9.966.324	242.409	109.763	20.063.040	3.382.295	16.240.198	440.547	-
2. Monetary Financial Assets	3.237.530	708.426	2.522.833	6.270	-	4.942.739	486.759	3.833.419	622.561	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	4.151.830	516.938	3.295.594	339.298	-	7.882.718	3.277.924	4.567.262	37.532	-
4. Total Current Assets (1+2+3)	23.832.539	7.350.047	15.784.752	587.977	109.763	32.888.497	7.146.978	24.640.879	1.100.640	-
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	24.785	-	24.785	-	-
6. Total Non-Current Assets (5)	-	-	-	-	-	24.785	-	24,785	-	-
7. Total Assets (4+6)	23.832.539	7.350.047	15.784.752	587.977	109.763	32.913.282	7.146.978	24.665.664	1.100.640	-
8. Trade Payables	66.635.843	40.156.047	23.458.566	1.836.008	1.185.223	68.667.589	35.933.467	28.638.944	2.392.628	1.682.550
9. Financial Borrowings	102.253	102.253	-	-	-	11.124.762	11.124.762	-	-	-
10. Other Monetary Liabilities	2.515.359	2.515.359	-	-	-	-	-	-	-	-
11. Other Non-Monetary Liabilities	221.986.497	218.752.830	2.933.202	95.429	205.037	187.798.786	185.662.304	2.015.880	2.150	118.452
12. Total Short-Term Liabilities (8+9+10+11)	291.239.953	261.526.489	26.391.768	1.931.436	1.390.260	267.591.137	232.740.533	30.654.824	2,394,778	1.801.002
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	98.117.311	98.117.311	-	-	-	80.049.351	80,049,351	-	-	-
16b. Other Non-Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
17. Total Long-Term Liabilities (14+15+16)	98.117.311	98.117,311	-	-	-	80,049,351	80,049,351	-	-	-
13. Total Liabilities (12+17)	389.357.264	359.643.800	26.391.768	1.931.436	1.390.260	347.640.488	312.789.884	30.654.824	2.394.778	1.801.002
14. Net Foreign Currency Asset/ (Liability) Position (7-13)	(365.524.725)	(352.293.753)	(10.607.016)	(1.343.459)	(1.280.497)	(314.727.206)	(305.642.906)	(5.989.160)	(1.294.138)	(1.801.002)
15. Net Foreign Currency Asset/ (Liability) Position of Monetary Items (1+2-8-9-10)	(49.572.747)	(35.940.550)	(10.969.409)	(1.587.328)	(1.075.460)	(54.786.572)	(43.209.175)	(8.565.327)	(1.329.520)	(1.682.550)

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

(b) Financial risk factors (continued)

Foreign currency risk management (continued)

Foreign currency sensitivity

The Company is exposed to foreign currency risk due to TL, Euro and GBP (2016: 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.

	<b>31 December 2016</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	(3.594.055)	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-Euro net asset / liability	(1.096.941)	1.096.941
5-Part of hedged from Euro risk (-)	-	-
6- Euro 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>
<b>TOTAL (3+6+9+12)</b>	<b><u>(4.957.275)</u></b>	<b><u>4.957.275</u></b>

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

(b) Financial risk factors (continued)

Foreing currency risk management (continued)

Foreign currency sensitivity (continued)

	<b>31 December 2015</b>	
	<b>Profit (Loss) Before Tax</b>	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset / liability	(4.320.918)	4.320.918
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	(4.320.918)	4.320.918
4-Euro net asset / liability	(856.533)	856.533
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(856.533)	856.533
7-GBP net asset / liability	(132.952)	132.952
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	(132.952)	132.952
10-Other net asset / liability	(168.255)	168.255
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	(168.255)	168.255
<b>TOTAL (3+6+9+12)</b>	<b>(5.478.658)</b>	<b>5.478.658</b>

c) Interest rate risk management

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

33. FINANCIAL INSTRUMENTS

*Fair values of financial instruments*

<b>31 December 2016</b>	<b>Loans and receivables</b>	<b>Financial liabilities at amortized costs</b>	<b>Book value</b>	<b>Note</b>
<b><u>Financial assets</u></b>				
Cash and cash equivalents	5.756.721	-	5.756.721	5
Trade receivables	932.827.864	-	932.827.864	8, 9
Other receivables	2.627.763	-	2.627.763	8, 11
<b><u>Financial liabilities</u></b>				
Financial borrowings	-	102.253	102.253	7
Trade payables	-	335.235.920	335.235.920	8, 9
Other payables to related parties	-	175.514.016	175.514.016	8
<b>31 December 2015</b>	<b>Loans and receivables</b>	<b>Financial liabilities at amortized costs</b>	<b>Book value</b>	<b>Note</b>
<b><u>Financial assets</u></b>				
Cash and cash equivalents	5.883.476	-	5.883.476	5
Trade receivables	590.306.557	-	590.306.557	8, 9
Other receivables	20.065.397	-	20.065.397	8, 11
<b><u>Financial liabilities</u></b>				
Financial borrowings	-	11.125.057	11.125.057	7
Trade payables	-	309.725.551	309.725.551	8, 9
Other payables to related parties	-	153.116.353	153.116.353	8

34. EVENTS AFTER THE BALANCE SHEET DATE

None.