

**TÜRK HAVA YOLLARI TEKNİK
ANONİM ŞİRKETİ**

Convenience Translation to English of
Condensed Interim Financial Statements
for the Six-Month Period Ended 30 June 2016
with Independent Auditor's Review Report
(Originally Issued in Turkish)

**TÜRK HAVA YOLLARI TEKNİK
ANONİM ŞİRKETİ**

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(Convenience Translation to English of Review Report on Condensed
Interim Financial Statements Originally Issued in Turkish)

Independent Auditors' Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Türk Hava Yolları Teknik Anonim Şirketi (the "Company"), as at 30 June 2016, the condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with Turkish Accounting Standard 34, 'Interim Financial Reporting' ("TAS 34") issued by Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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



Conclusion

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

Emphasis of Matter

We draw attention to Note 19 to the condensed interim financial information which describes the large-scale operations with related parties of the Company. For the period 1 January – 30 June 2016, 83% of sales are realized with the related companies. Our conclusion is not qualified in respect of this matter.

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



Hatice Nesrin Tuncer
Partner
İstanbul, Türkiye
19 August 2016

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Convenience Translation to English of Condensed Interim Financial Statements
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TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Condensed Balance Sheet as at 30 June 2016

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

ASSETS	Notes	Reviewed 30 June 2016	Audited 31 December 2015
Current Assets			
Cash and Cash Equivalents	4	3.663.950	5.883.476
Trade Receivables		475.280.087	590.306.557
- Trade Receivables From Related Parties	19	387.647.807	502.834.122
- Trade Receivables From Non-Related Parties	5	87.632.280	87.472.435
Other Receivables		3.242.998	20.065.397
- Other Receivables From Related Parties	19	989.642	19.172.512
- Other Receivables From Non-Related Parties		2.253.356	892.885
Inventories	6	1.635.469.376	1.478.367.928
Prepaid Expenses	12	68.082.093	29.839.071
Other Current Assets		147.382	54.406
TOTAL CURRENT ASSETS		2.185.885.886	2.124.516.835
Non-Current Assets			
Financial Investments		375.025	5.025
Equity Accounted Investees	7	106.805.479	88.969.887
Property and Equipment	8	1.174.620.127	1.209.996.235
Intangible Assets		26.818.290	32.312.594
-Other Intangible Assets	9	26.818.290	32.312.594
Prepaid Expenses	12	13.622.467	14.952.575
TOTAL NON-CURRENT ASSETS		1.322.241.388	1.346.236.316
TOTAL ASSETS		3.508.127.274	3.470.753.151

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Condensed Balance Sheet as at 30 June 2016

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

	Notes	Reviewed 30 June 2016	Audited 31 December 2015
Current Liabilities		950.765.051	1.007.726.095
Other Financial Liabilities		13.468.685	11.125.057
Trade Payables		261.823.099	309.725.551
- Trade Payables to Related Parties	19	54.773.961	56.565.614
- Trade Payables to Non-Related Parties	5	207.049.138	253.159.937
Payables Related to Employee Benefits		67.847.585	58.346.943
Other Payables		211.507.163	234.973.626
- Other Payables to Related Parties	19	143.545.964	153.116.353
- Other Payables to Non-Related Parties		67.961.199	81.857.273
Deferred Income	12	346.844.433	329.871.498
Current Tax Liability		12.874.740	29.195.620
Short-term Provisions		31.753.768	30.105.835
- Provisions for Employee Benefits	11	19.190.453	13.033.930
- Other Short-term Provisions	11	12.563.315	17.071.905
Other Current Liabilities		4.645.578	4.381.965
Non-Current Liabilities		629.084.102	653.999.740
Other Financial Liabilities		-	172
Other Payables		425.515.044	446.585.028
- Other Payables to Related Parties	19	425.515.044	446.585.028
- Other Payables to Non-Related Parties		-	-
Deferred Income		1.886.498	3.268.946
Long-term Provisions		89.755.594	80.049.351
- Provisions for Employee Benefits		83.293.534	73.189.555
- Other Long-term Provisions		6.462.060	6.859.796
Deferred Tax Liability	17	111.926.966	124.096.243
EQUITY			
Equity Attributable to Equity Holders of the Parent		1.928.278.121	1.809.027.316
Share Capital	13	960.850.000	960.850.000
Adjustment to Share Capital		84.081	84.081
Items That Will Never Be Reclassified to Profit or Loss		2.644.287	(1.216.164)
- Actuarial Losses from Defined Pension Plans		2.644.287	(1.216.164)
Items That Are or May Be Reclassified to Profit or Loss		706.603.529	716.459.868
- Foreign Currency Translation Differences		706.603.529	716.459.868
Restricted Profit Reserves		13.084.833	10.925.693
Retained Earnings/ (Accumulated Losses)		119.764.698	(49.933.881)
Net Profit for the period		125.246.693	171.857.719
TOTAL LIABILITIES AND EQUITY		3.508.127.274	3.470.753.151

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

Convenience Translation to English of Condensed Interim Financial Statements
Originally Issued in Turkish

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ
Condensed Interim Statement of Profit or Loss and Other Comprehensive Income
For the Six-Month Period Ended 30 June 2016

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

	<u>Notes</u>	<u>Reviewed 1 January - 30 June 2016</u>	<u>Reviewed 1 January - 30 June 2015</u>
Revenue	14	1.478.584.996	1.043.849.794
Cost of Sales (-)	14	<u>(1.170.914.383)</u>	<u>(875.101.896)</u>
GROSS PROFIT		307.670.613	168.747.898
General Administrative Expenses (-)	15	(156.905.875)	(126.208.284)
Marketing and Sales Expenses (-)		(5.253.315)	(6.649.724)
Research and Development Expenses (-)		(6.509.732)	(5.277.465)
Other Operating Income	16	20.565.159	18.972.222
Other Operating Expenses (-)	16	<u>(9.528.370)</u>	<u>(20.084.654)</u>
OPERATING PROFIT		150.038.480	29.499.993
Loss from Investing Activities		(47.461)	(72.396)
Share of Investments' Profit Accounted by Using the Equity Method	7	<u>15.723.970</u>	<u>6.959.117</u>
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		165.714.989	36.386.714
Financial Income		6.659.079	12.749.618
Financial Expenses (-)		<u>(17.819.020)</u>	<u>(14.931.606)</u>
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		154.555.048	34.204.726
Tax Expense of Continuing Operations		(29.308.355)	(25.514.459)
- Current Tax Expense	17	(41.526.174)	-
- Deferred Tax Benefit/ (Expense)	17	<u>12.217.819</u>	<u>(25.514.459)</u>
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		125.246.693	8.690.267
OTHER COMPREHENSIVE INCOME			
Not To Be Reclassified to Profit or Loss		3.860.451	(2.735.838)
Actuarial Losses From Defined Pension Plans		4.825.564	(3.419.798)
Tax Benefit of Actuarial Losses From Defined Pension Plans		(965.113)	683.960
To Be Reclassified to Profit or Loss		(9.856.339)	214.510.148
Currency Translation Differences		(8.795.250)	200.150.141
Currency Translation Differences of Equity Accounted Investees		<u>(1.061.089)</u>	<u>14.360.007</u>
OTHER COMPREHENSIVE INCOME		(5.995.888)	211.774.310
TOTAL COMPREHENSIVE INCOME		119.250.805	220.464.577

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

Convenience Translation to English of Condensed Interim Financial Statements Originally Issued in Turkish

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Condensed Interim Statement of Changes in Equity

For the Six-Month Period Ended 30 June 2016

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

	Paid Share Capital	Adjustment to Share Capital	Accumulated Other Comprehensive Income or Expenses Not To Be Reclassified to Profit or Loss	Actuarial Losses From Defined Pension Plans	Currency Translation Differences	Restricted Profit Reserves	Retained Earnings		Effect of Business Combination Under Common Control	Total Equity
							Retained Earnings	Net Profit/ (Loss) for the Period		
Balances as at 1 January 2015	693.000.000	-	2.137.265	365.139.212	9.504.301	92.928.213	(40.455.626)	-	1.122.253.365	
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	377.800.606	9.917.309	(8.469.871)	(40.455.626)	267.850.000	1.301.477.767	
Transfers	-	-	-	-	1.008.384	(41.464.010)	40.455.626	-	-	
Total Comprehensive Income Effect of Business Combination Under Common Control (Note 3)	267.850.000	-	(2.735.838)	214.510.148	-	-	8.690.267	-	220.464.577	
Balances as at 30 June 2015	960.850.000	84.081	(984.570)	592.310.754	10.925.693	(49.933.881)	8.690.267	-	1.521.942.344	
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	-	-	3.860.451	(9.856.339)	-	-	125.246.693	-	119.250.805	
Balances as at 30 June 2016	960.850.000	84.081	2.644.287	706.603.529	13.084.833	119.764.698	125.246.693	-	1.928.278.121	

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Condensed Interim Statement of Cash Flows

For the Six-Month Period Ended 30 June 2016

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

	Notes	Reviewed 1 January - 30 June 2016	Reviewed 1 January - 30 June 2015
Profit for the period		125.246.693	8.690.267
Adjustments to reconcile cash flow generated from operating activities:			
Adjustments for depreciation and amortization	6,8,9	171.466.633	130.371.880
Adjustments for provisions, net	11	557.719	13.415.706
Adjustments for provisions for employee benefits		16.592.192	4.335.269
Adjustments for provisions for doubtful receivables	5	(4.072.233)	114.806
Adjustments for interest income and expenses		17.794.078	14.350.293
Adjustments for discount for receivables and payables, net	16	1.157	2.426
Unrealized foreign exchange and translation differences		(5.772.736)	(4.862.106)
(Gain)/Loss on sale of property, plant and equipment		47.461	72.396
Share of Investment's profit accounted by using the equity method	7	(15.723.970)	(6.959.117)
Adjustments for deferred tax (benefit)/ expense	17	(12.217.819)	25.514.459
Adjustments for tax expense	17	41.526.174	-
Operating Profit Before Working Capital Changes		335.445.349	185.046.279
Adjustments for increase in inventories		(258.766.494)	(299.198.412)
Adjustments for decrease/ (increase) in trade receivables		119.097.546	(14.607.851)
Adjustments for decrease/ (increase) in other receivables		16.822.399	(4.858.063)
Adjustments for (increase)/ decrease in other current and non current assets		(92.976)	1.605.060
Adjustments for (decrease)/ increase in trade payables and due to related parties		(47.902.452)	117.038.948
Adjustments for decrease in other payables and due to related parties		(13.896.074)	(16.047.452)
Adjustments for increase in prepaid expense		(36.912.914)	(61.598.519)
Adjustments for increase in deferred income		15.590.487	72.239.356
Adjustments in payables related to employee benefits		9.500.642	5.766.364
Adjustments for increase/ (decrease) in other current and non current liabilities		263.613	(842.281)
Cash Flows Generated From Operating Activities		139.149.126	(15.456.571)
Interest received		24.942	548.681
Taxes paid		(57.847.054)	(1.860.232)
Employee benefit indemnity paid		(1.662.649)	(878.643)
Net Cash Generated From/ (Used in) Operating Activities		79.664.365	(17.646.765)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	8	9.006.725	548.077
Purchase of property and equipment	8	(41.716.148)	(36.444.419)
Purchase of intangible assets	9	(1.665.957)	(5.771.328)
Cash outflow arising from capital increase in investments		(2.870.000)	-
Net cash used in investing activities		(37.245.380)	(41.667.670)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of principal in financial borrowings		(16.341.594)	(13.482.215)
Adjustments for (decrease)/ increase in other payables to realated parties		(30.640.373)	65,542,800
Increase in financial borrowings		2.343.456	4.741.322
Net Cash (Used In)/ From Financing Activities		(44.638.511)	56.801.907
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2.219.526)	(2.512.528)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	5.883.476	5.564.888
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	3.663.950	3.052.360

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

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

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

Total number of average employees working for the company as at 30 June 2016 is 5.970 (31 December 2015: 5.317). Total number of employees working for the company as at 30 June 2016 is 6.084 (31 December 2015: 5.646).

	<u>30 June 2016</u>	<u>31 December 2015</u>
Administrative staff	2.013	1.635
Production staff	4.071	4.011
Total	6.084	5.646

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

Sanayi Mahallesi Havaalanı İçyolu Caddesi

Sabiha Gökçen Havaalanı Sitesi Giriş.Kapısı No:1/1 Pendik/İSTANBUL

Associates

As at 30 June 2016 and 31 December 2015, associates accounted by using equity method and participation rate of the Company in these associates are as below:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Participation Rate</u>		<u>Country of Registration</u>
		<u>30 June 2016</u>	<u>31 December 2015</u>	
Turbine Teknik Gaz Turbinleri Bakım Onarım Anonim Şirketi (“Turbine Teknik”)	Technical	50%	50%	Turkey
P&W T.T. Uçak Bakım Merkezi Limited Şirketi (“TEC”)	Technical	49%	49%	Turkey
Goodrich THY Teknik Servis Merkezi Limited Şirketi (“Goodrich”)	Technical	40%	40%	Turkey
TCI Kabinçi Sistemleri Sanayi ve Ticaret Anonim Şirketi (“TCI”)	Maintenance	20%	20%	Turkey
	Cabin Interior			

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Preparation of Financial Statements

The financial statements have been prepared in accordance with the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676.

The condensed interim financial statements for the six-month period ended 30 June 2016 have been prepared in accordance with TAS 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2015.

Adjustment of Financial Statements in Hyperinflationary Periods

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

Basis of Measurements

All financial statements have been prepared on cost basis principal.

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

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

2.2 Statement of Compliance with TAS

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

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

2.3 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these condensed interim financial statements as at 30 June 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.

2.4 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed interim financial statements as at 30 June 2016 are consistent with those used in the preparation of statements for the year ended 31 December 2015.

2.5 New and Revised Standards and Interpretations

Standards issued but not yet effective and not early adopted

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

TFRS 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 (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on the financial position or performance of the Company.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 New and Revised Standards and Interpretations (continued)

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

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

IFRS 9 Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 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 IAS 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 15 Revenue from Contracts with Customers

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

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Notes to the Condensed Interim Financial Statements

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 New and Revised Standards and Interpretations (continued)

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

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.

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 [consolidated] 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 Unrealised 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.

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

2.6 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 Standarts ("TAS") by Public Oversight Authority ("POA"). The merger is assumed to be realized at 1 January 2014, 30 June 2014 and 31 December 2014 are restated.

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4. CASH AND CASH EQUIVALENTS

As at 30 June 2016 and 31 December 2015, cash and cash equivalents comprised the following :

	<u>30 June 2016</u>	<u>31 December 2015</u>
Cash	50.512	-
Banks- demand deposits	2.639.378	5.771.676
Banks- time deposits	974.060	111.800
	<u>3.663.950</u>	<u>5.883.476</u>

As at 30 June 2016 and 31 December 2015, the details of time deposits comprised the following::

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>30 June 2016</u>
323.000	TL	30 June 2016	%10,23	01 July 2016	323.000
225.000	USD	30 June 2016	%1,00	01 July 2016	651.060
					<u>974.060</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	04 January 2016	111.800
					<u>111.800</u>

5. TRADE RECEIVABLES AND PAYABLES

As at 30 June 2016 and 31 December 2015, trade receivables from non-related comprised the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Trade receivables	156.182.215	170.970.211
Notes receivables	12.120.314	6.366.631
Discount on receivables (-)	(22.044)	(16.209)
Provision for doubtful receivables	(80.648.205)	(89.848.198)
	<u>87.632.280</u>	<u>87.472.435</u>

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Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

5. TRADE RECEIVABLES AND PAYABLES (continued)

For the periods ended 30 June 2016 and 2015, the movements of provision for doubtful receivables comprised the following:

	1 January - 30 June 2016	1 January - 30 June 2015
Provision at the beginning of the period	89.848.198	67.681.847
Foreign currency translation	(5.127.760)	10.586.215
Current period charge	1.334.573	6.412.427
Collections during period	(5.406.806)	(6.297.621)
Provision at the end of the period	80.648.205	78.382.868

As at 30 June 2016 ve 31 December 2015, trade payables to non-related parties comprised the following:

	30 June 2016	31 December 2015
Trade payables	179.715.168	218.107.151
Expense accruals	27.461.851	35.162.626
Discount on payables	(127.881)	(109.840)
	207.049.138	253.159.937

6. INVENTORIES

As at 30 June 2016 ve 31 December 2015, inventories comprised the following:

	30 June 2016	31 December 2015
Components and repairable spare parts	1.523.603.394	1.429.381.547
Technical equipment inventories	592.385.262	485.817.859
Technical equipment inventories in transit	52.744.769	47.041.643
Scrap equipment inventories	49.398.733	57.137.122
Provision for impairment of inventories (-)	(39.849.853)	(47.542.042)
Accumulated depreciation of components and repairable spare parts (-)	(542.812.929)	(493.468.201)
	1.635.469.376	1.478.367.928

For the periods ended 30 June 2016 and 2015, the movements of provision for impairment of inventories are as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Provision at the beginning of the period	47.542.042	27.106.828
Foreign currency translation	(238.367)	4.458.825
Current period charge	-	12.898.356
Reversal of inventory provision	(7.453.822)	-
Provision at the beginning of the period	39.849.853	44.464.009

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

6. INVENTORIES (continued)

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

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

For the period ended 30 June 2015, the movement of components and repairable spare parts comprised the following:

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance 1 January 2015	800.829.359
Foreign currency translation	126.881.151
Additions	192.907.300
Disposals	(76.138.666)
Closing balance 30 June 2015	1.044.479.144
<u>Accumulated depreciation</u>	
Opening balance 1 January 2015	307.874.719
Foreign currency translation	52.256.082
Current charge for the period	73.604.510
Disposals	(2.770.191)
Closing balance 30 June 2015	430.965.120
Net book value 30 June 2015	613.514.024

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Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

7. SHARES IN OTHER ENTITIES

As at 30 June 2016 and 31 December 2015, shares in other entities comprised the following:

	30 June 2016	31 December 2015
TEC	92.961.224	77.475.957
Turbine Teknik	6.199.028	6.742.671
TCI	4.566.008	2.652.413
Goodrich	3.079.219	2.098.846
	106.805.479	88.969.887

For the periods ended 30 June 2016 and 2015, the shares of investment profit/(losses) accounted for using the equity method comprised the following:

	1 January – 30 June 2016	1 January – 30 June 2015
TEC	15.826.897	7.724.149
Goodrich	998.875	(179.590)
Turbine Teknik	(543.644)	425.116
TCI	(558.158)	(1.010.558)
	15.723.970	6.959.117

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Notes to the Condensed Interim Financial Statements

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

8

PROPERTY AND EQUIPMENT

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

Cost	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
Opening balance 1 January 2016	337.828.824	19.533.374	81.990.947	6.076.390	3.774.002	1.190.959.785	1.640.163.323
Foreign currency translation	(1.626.637)	(94.052)	(394.784)	(29.258)	(18.173)	(5.734.433)	(7.897.338)
Additions	14.307.246	1.398.277	3.900.878	580.778	4.260.184	17.268.785	41.716.148
Disposals	(159.046)	(13.982)	(28.271)	(71.090)	(8.992.940)	(4.314)	(9.269.643)
Transfers (*)	576.153	-	3.440.613	98.279	7.619.580	(13.683.214)	(1.948.589)
Closing balance 30 June 2016	350.926.540	20.823.617	88.909.383	6.655.099	6.642.653	1.188.806.609	1.662.763.901
Accumulated depreciation							
Opening balance 1 January 2016	177.562.371	13.283.124	47.023.642	3.457.927	-	188.840.024	430.167.089
Foreign currency translation	(994.636)	(73.578)	(266.810)	(19.549)	-	(1.225.706)	(2.580.280)
Current charge for the period	16.757.286	1.149.808	4.826.987	388.482	-	37.649.859	60.772.422
Disposals	(140.593)	(5.405)	(21.573)	(43.680)	-	(4.206)	(215.457)
Transfers (*)	-	-	(71)	71	-	-	-
Closing balance 30 June 2016	193.184.428	14.353.949	51.562.175	3.783.251	-	225.259.971	488.143.774
Net book value 30 June 2016	157.742.112	6.469.668	37.347.208	2.871.848	6.642.653	963.546.638	1.174.620.127

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

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Notes to the Condensed Interim Financial Statements

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

8. PROPERTY AND EQUIPMENT (continued)

For the period ended at 30 June 2015, the movement of property and equipment comprised the following :

<u>Cost</u>	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
Opening balance 1 January 2015	206.236.824	13.517.293	57.721.136	4.272.293	2.917.193	911.074.135	1.195.738.874
Foreign currency translation	32.675.583	2.141.642	9.145.174	676.889	462.192	144.348.027	189.449.507
Additions	16.403.402	4.535	5.178.457	124.441	3.286.919	11.446.665	36.444.419
Disposals	(360.401)	(79.850)	(101.035)	(6.791)	-	-	(548.077)
Transfers (*)	78.228	-	1.584.007	16.206	(1.783.826)	-	(105.385)
Closing balance 30 June 2015	255.033.636	15.583.620	73.527.739	5.083.038	4.882.478	1.066.868.827	1.420.979.338

Accumulated depreciation

Opening balance 1 January 2015	120.289.900	8.999.034	29.629.780	2.205.673	-	91.656.301	252.780.688
Foreign currency translation	19.602.692	1.464.965	4.907.876	364.426	-	16.101.560	42.441.519
Current charge for the year	11.381.204	861.455	4.443.591	305.404	-	32.144.121	49.135.775
Disposals	(293.505)	(63.261)	(96.135)	(539)	-	-	(453.440)
Closing balance 30 June 2015	150.980.291	11.262.193	38.885.112	2.874.964	-	139.901.982	343.904.542

Net book value 30 June 2015	104.053.345	4.321.427	34.642.627	2.208.074	4.882.478	926.966.845	1.077.074.796
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(*) As at 30 June 2015, construction in progress amounting to TL 105.385 is transferred to intangible assets.

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Notes to the Condensed Interim Financial Statements

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9. INTANGIBLE ASSETS

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

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

For the period ended 30 June 2015, the movement of intangible assets comprised the following:

	<u>Rights</u>
<u>Cost</u>	
Opening balance 1 January 2015	43.820.857
Foreign currency translation	6.942.855
Additions	5.771.328
Transfer	105.386
Closing balance 30 June 2015	56.640.426
<u>Accumulated depreciation</u>	
Opening balance 1 January 2015	9.570.843
Foreign currency translation	1.891.020
Current charge for the period	7.631.595
Closing balance 30 June 2015	19.093.458
Net book value 30 June 2015	37.546.968

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10. COMMITMENTS AND CONTINGENCIES

Leasing Agreements :

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

For the period ended 30 June 2016 leasing payment amounting to TL 6.342.714 (30 June 2015: TL 5.595.925) is accounted as rent expense in income statement.

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

	<u>30 June 2016</u>	<u>31 December 2015</u>
Within one year	13.983.574	13.702.343
One- five years	62.916.918	61.523.431
After five years	95.348.851	107.282.413
	<u>172.249.343</u>	<u>182.508.187</u>

11. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES

As at 30 June 2016 and 31 December 2015 short-term provisions are as follows:

(a) Short-term provisions for employee benefits

	<u>30 June 2016</u>	<u>31 December 2015</u>
Provisions for unused vacation	19.190.453	13.033.930
	<u>19.190.453</u>	<u>13.033.930</u>

For the periods ended 30 June 2016 and 2015 the movements of provision for unused vacation are as follows:

	<u>1 January – 30 June 2016</u>	<u>1 January – 30 June 2015</u>
Provision at the beginning of the period	13.033.930	11.006.065
Foreign currency translation	694.073	48.365
Current period provision	6.211.360	3.953.676
Payments during the period	(748.910)	(1.838.889)
Provision at the end of the period	<u>19.190.453</u>	<u>13.169.217</u>

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11. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES (continued)

(b) Other short-term provisions

	<u>30 June 2016</u>	<u>31 December 2015</u>
Provisions for legal claims	12.563.315	17.071.905
	<u>12.563.315</u>	<u>17.071.905</u>

For the periods ended 30 June 2016 and 2015 the movements of provision for legal claims are as follows:

	<u>1 January – 30 June 2016</u>	<u>1 January – 30 June 2015</u>
Provision at the beginning of the period	17.071.905	7.203.388
Foreign currency translation	(9.572)	1.034.508
Charge for the period	2.398.812	10.211.492
Reversal of provision for the legal claims	(6.897.830)	(3.016.853)
Provision at the end of the period (*)	<u>12.563.315</u>	<u>15.432.535</u>

(*) As at 30 June 2016, provision for legal claims amounting to TL 6.741.196 is related with reinstatement cases (30 June 2015: TL 13.428.079).

12. PREPAID EXPENSES AND DEFERRED INCOME

As at 30 June 2016 and 31 December 2015, short term prepaid expenses comprised the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Advances given for orders (*)	58.658.110	25.990.495
Short-term prepaid expenses (**)	9.423.983	3.848.576
	<u>68.082.093</u>	<u>29.839.071</u>

As at 30 June 2016 and 31 December 2015, long term prepaid expenses comprised the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Advances given for fixed asset purchases	1.272.104	1.568.688
Long-term prepaid expenses (**)	12.350.363	13.383.887
	<u>13.622.467</u>	<u>14.952.575</u>

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

(**) As at 30 June 2016, TL 14.166.529 of prepaid expenses comprise costs related with Kırıy 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 30 June 2016 and 31 December 2015, short term deferred income comprised the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Advances received	300.829.341	285.957.195
Deferred income	46.015.092	43.914.303
	<u>346.844.433</u>	<u>329.871.498</u>

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

13. SHAREHOLDERS' EQUITY

As at 30 June 2016 and 31 December 2015, the ownership structure of the Company's share capital is as follows:

	<u>%</u>	<u>30 June 2016</u>	<u>%</u>	<u>31 December 2015</u>
THY A.O.	100	960.850.000	100	960.850.000
		<u>960.850.000</u>		<u>960.850.000</u>

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

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14. REVENUE AND COST OF SALES

For the periods ended 30 June 2016 and 2015 revenue is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Aircraft maintenance income	482.223.412	362.279.326
Line maintenance income	329.191.422	218.719.928
Pool income	305.122.522	215.124.358
Component maintenance income	206.812.981	116.334.902
Equipment sales income	61.005.253	63.535.380
Engine maintenance income	56.432.962	45.112.461
Others	37.796.444	22.743.439
Revenue	1.478.584.996	1.043.849.794
Cost of sales (-)	(1.170.914.383)	(875.101.896)
Gross profit	307.670.613	168.747.898

For the periods ended 30 June 2016 and 2015 cost of sales is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Personnel expenses	370.574.110	271.725.987
Equipment expenses	296.322.167	261.840.982
Maintenance expenses	148.590.299	95.124.774
Service expenses	147.858.987	87.578.042
Depreciation and amortisation expenses	126.391.445	92.287.335
Transportation expenses	35.185.306	28.857.756
Provision for employee benefits	13.616.093	2.123.992
Rent expenses	7.180.859	6.813.528
Lighting, heating and water expenses	3.613.454	5.227.458
Others	21.581.663	23.522.042
	1.170.914.383	875.101.896

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Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2016

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

15. GENERAL ADMINISTRATIVE EXPENSES

For the periods ended 30 June 2016 and 2015 general administrative expenses is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Personnel expenses	61.781.710	48.246.933
Depreciation and amortisation expenses	45.046.980	38.084.545
Service expenses	17.231.782	15.601.967
Equipment expenses	6.535.204	4.347.819
Lighting, heating and water expenses	4.313.518	3.429.265
Rent expenses	4.090.947	4.948.061
Others	17.905.734	11.549.694
	156.905.875	126.208.284

16. OTHER OPERATING INCOME AND EXPENSES

For the periods ended 30 June 2016 and 2015 other operating income is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Provisions no longer required	6.897.830	3.016.853
Provisions no longer required for doubtful trade and other receivables	5.406.806	6.297.621
Plant maintenance income	1.615.911	1.096.263
Insurance, indemnities and penalties income	1.461.043	3.013.519
Foreign exchange gain from trade operations	1.369.703	446.099
Other equipment income	662.818	251.630
Late payment interest income of trade receivables	435.702	2.251.983
Others	2.715.346	2.598.254
	20.565.159	18.972.222

For the periods ended 30 June 2016 ve 2015 other operating expense is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Provision for the legal claims	2.398.812	10.211.492
Expense of job security provisions	2.050.546	1.219.373
Provision for doubtful receivables	1.334.573	6.412.427
Others	3.744.439	2.241.362
	9.528.370	20.084.654

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17. TAX ASSET AND LIABILITIES

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

	<u>1 January – 30 June 2016</u>	<u>1 January – 30 June 2015</u>
Current period tax expense	(41.526.174)	-
Deferred tax (expense)/ income	12.217.819	(25.514.459)
	<u>(29.308.355)</u>	<u>(25.514.459)</u>

Corporate Taxes

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

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

The effective tax rate in 2016 is 20% (2015: 20%).

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

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

Income Withholding Tax

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

Deferred Tax

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

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

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17. TAX ASSET AND LIABILITIES (continued)

As at 30 June 2016 and 31 December 2015, the deferred tax assets and liabilities comprised the following:

	30 June 2016	31 December 2015
Provisions for retirement pay liability	16.658.707	14.637.911
Advances received	12.939.822	13.002.428
Provision for impairment of inventories	7.969.971	9.508.408
Provision for doubtful receivables	6.735.844	8.752.758
Provisions for vacation pay liability	3.838.091	2.606.786
Provision for legal claims	2.076.153	3.414.381
Fixed assets	(79.364.880)	(82.954.899)
Inventories	(87.298.323)	(96.995.609)
Others	4.517.649	3.931.593
	(111.926.966)	(124.096.243)

For the periods ended 30 June 2016 and 2015, the movements of deferred tax liability comprised the following:

	1 January – 30 June 2016	1 January – 30 June 2015
Deferred tax liability at the beginning of the period	124.096.243	52.102.813
Foreign currency translation	(916,571)	11.312.119
Deferred tax expense/ (benefit)	(12.217.819)	25.514.459
Actuarial gain/ (loss)	965.113	(683.960)
Deferred tax liability at the end of the period	111.926.966	88.245.431

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18. EARNINGS/ (LOSS) 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

	1 January– 30 June 2016	1 January– 30 June 2015
Number of total outstanding shares as of 1 January (in full)	960.850.000	960.850.000
Number of outstanding shares as of 30 June (in full)	960.850.000	960.850.000
Weighted Average number of shares outstanding during the period (in full)	960.850.000	960.850.000
Net profit/ (loss) for the period	125.246.693	8.690.267
Earnings/(loss) per share (Kr)	13,03	0,90

19. RELATED PARTY TRANSACTIONS

As at 30 June 2016 and 31 December 2015 trade receivables from related parties are as follows:

	30 June 2016	31 December 2015
THY A.O	364.223.584	474.990.736
TEC	11.010.922	8.960.020
Güneş Express Havacılık A.Ş. (“Sun Ekspres”)	10.556.138	15.784.227
Goodrich	1.031.441	1.249.661
TCI	384.596	1.202.352
TGS Yer Hizmetleri A.Ş. (“TGS”)	340.21	598.16
Others	100.916	48.966
	387.647.807	502.834.122

As at 30 June 2016 and 31 December 2015 other receivables from related parties are as follows:

	30 June 2016	31 December 2015
THY A.O.	989.642	19.172.512
	989.642	19.172.512

As at 30 June 2016 and 31 December 2015 trade payables to related parties are as follows:

	30 June 2016	31 December 2015
THY A.O.	50.440.841	51.387.303
Goodrich	2.401.012	3.497.925
TGS	960.883	1.572.906
TSI Uçak Koltuk Üretimi Sanayi ve Ticaret A.Ş.(“Uçak Koltuk”)	941.946	-
THY Opet	3.502	89.215
Others	25.777	18.265
	54.773.961	56.565.614

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19. RELATED PARTY TRANSACTIONS (continued)

As at 30 June 2016 and 31 December 2015 short term other payables to related parties are as follows:

	<u>30 June 2016</u>	<u>31 December 2015</u>
THY A.O.	143.545.964	153.116.353
	<u>143.545.964</u>	<u>153.116.353</u>

As at 30 June 2016 and 31 December 2015 long-term other payables to related parties are as follows:

	<u>30 June 2016</u>	<u>31 December 2015</u>
THY A.O.	425.515.044	446.585.028
	<u>425.515.044</u>	<u>446.585.028</u>

For the periods ended 30 June 2016 and 2015, transactions with related parties are as follows:

	<u>1 January- 30 June 2016</u>	<u>1 January- 30 June 2015</u>
Sales		
THY A.O.	1.253.730.670	847.314.055
Sun Express	42.126.880	39.745.286
TEC	17.936.078	17.779.770
Goodrich	815.007	367.589
Uçak Koltuk	333.755	-
Turbine Teknik	64.135	195.837
TCI	37.243	272.561
TGS	14.423	378.244
THY Opet	-	44.137
	<u>1.315.058.191</u>	<u>906.097.479</u>

	<u>1 January- 30 June 2016</u>	<u>1 January- 30 June 2015</u>
Purchases		
THY A.O.	55.593.348	57.054.710
Goodrich	9.321.290	5.807.768
TGS	5.013.208	5.076.237
TCI	593.053	341.343
THY Opet	288.230	456.478
Uçak Koltuk	260.403	648
Others	54.015	33.044
	<u>71.123.547</u>	<u>68.770.228</u>

For the period ended 30 June 2016, total amount of salaries and other benefits provided to key management personnel is TL 2.425.309 (30 June 2015: TL 1.394.636).

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Condensed Interim Financial Statements

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

20. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

Foreign Currency Risk Management

As at 30 June 2016 and 31 December 2015, the Company's foreign currency position table comprised the following:

	Foreign Currency Position Table									
	30 June 2016			31 December 2015						
	TL Equivalent	TL	EUR	GBP	Other	TL Equivalent	TL	EUR	GBP	Other
1. Trade Receivables	17.521.193	3.247.098	13.583.895	533.432	156.768	20.063.038	3.382.295	16.240.198	440.547	-
2. Monetary Financial Assets	862.070	807.534	52.618	1.918	-	4.942.739	486.759	3.833.419	622.561	-
2b. Non-monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	7.676.386	2.490.698	4.637.266	320.938	227.483	7.882.718	3.277.924	4.567.262	37.532	-
4. Total Current Assets (1+2+3)	26.059.649	6.545.330	18.273.779	856.288	384.251	32.888.495	7.146.978	24.640.879	1.100.640	-
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
5. Other	24.994	-	24.994	-	-	24.785	-	24.785	-	-
6. Total Non-Current Assets (5)	24.994	-	24.994	-	-	24.785	-	24.785	-	-
7. Total Assets (4+6)	26.084.643	6.545.330	18.298.773	856.288	384.252	32.913.282	7.146.978	24.665.664	1.100.640	-
8. Trade Payables	62.955.194	35.673.851	23.438.670	2.259.756	1.582.917	68.667.588	35.953.466	28.638.943	2.392.628	1.682.550
9. Financial Borrowings	13.458.677	13.458.677	-	-	-	11.124.762	11.124.762	-	-	-
10. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
11. Other Non-Monetary Liabilities	181.762.056	179.813.686	1.814.160	39	134.171	187.798.786	185.662.304	2.015.880	2.150	118.452
12. Total Current Liabilities (8+9+10+11)	258.175.927	228.946.213	25.252.830	2.259.795	1.717.088	267.591.136	232.740.532	30.654.823	2,394,778	1.801.002
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	89.755.594	89.755.594	-	-	-	80.049.351	80.049.351	-	-	-
17. Non Current Liabilities (14+15+16)	89.755.594	89.755.594	-	-	-	80.049.351	80.049.351	-	-	-
13. Total Liabilities (12)	347.931.520	318.701.807	25.252.830	2,259,795	1,717,089	347,640,487	312,789,883	30,654,823	2,394,778	1,801,002
14. Net Foreign Currency Asset/ (Liability) Position (7-13)	(321,846,877)	(312,156,477)	(6,954,057)	(1,403,507)	(1,332,837)	(314,727,205)	(305,642,906)	(5,989,159)	(1,294,138)	(1,801,002)
15. Net Foreign Currency Asset/ (Liability) Position of Monetary Items (1+2-8-9-10)	(59,030,608)	(45,077,896)	(9,802,157)	(1,724,406)	(1,426,149)	(54,786,572)	(43,209,175)	(8,565,327)	(1,329,520)	(1,682,550)

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

Foreign Currency Risk Management (continued)

Foreign currency sensitivity

The Company is exposed to foreign currency risk due to TL, EUR and GBP (2015: TL, EUR and GBP) exchange rate fluctuations. The following table details the Company's sensitivity to a 10% increase and decrease in TL, EUR and GBP exchange rates. 10% is used in the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange currency fluctuations. Sensitivity analysis can only be made on the year-end outstanding foreign currency denominated monetary items and it shows the year end effects of the 10% of exchange currency fluctuation on the related items. The analysis includes foreign loans as well as loans that are denominated other than the creditors' functional currency and used for the Company's foreign operations. Positive value represents an increase in profit/loss and other equity items.

	30 June 2016	
	Profit/ (Loss) Before Tax	
	<u>If foreign currency appreciated 10 %</u>	<u>If foreign currency depreciated 10 %</u>
1-TL net asset / liability	(4.507.790)	4.507.790
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(4.507.790)</u>	<u>4.507.790</u>
4-EUR net asset / liability	(980.216)	980.216
5-Part of hedged from EUR risk (-)	-	-
6- EUR net effect (4+5)	<u>(980.216)</u>	<u>980.216</u>
7-GBP net asset / liability	(172.441)	172.441
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	<u>(172.441)</u>	<u>172.441</u>
10-Other net asset / liability	(142.615)	142.615
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(142.615)</u>	<u>142.615</u>
TOTAL (3+6+9+12)	<u><u>(5.803.062)</u></u>	<u><u>5.803.062</u></u>

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

Foreign Currency Risk Management (continued)

Foreign currency sensitivity (continued)

	31 December 2015	
	Profit/ (Loss) Before Tax	
	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)	<u>(4.320.918)</u>	<u>4.320.918</u>
4-EUR net asset / liability	(856.533)	856.533
5-Part of hedged from EUR risk (-)	-	-
6- EUR net effect (4+5)	<u>(856.533)</u>	<u>856.533</u>
7-GBP net asset / liability	(132.952)	132.952
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	<u>(132.952)</u>	<u>132.952</u>
10-Other net asset / liability	(168.255)	168.255
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(168.255)</u>	<u>168.255</u>
TOTAL (3+6+9+12)	<u><u>(5.478.658)</u></u>	<u><u>5.478.658</u></u>

21. EVENTS AFTER THE BALANCE SHEET DATE

According to the decision of Board of Director's meeting held on 29 July 2016, it is decided to sell the Company's all shares in Türkbine Teknik with a nominal value of TL 8.285.744 which constitute the 50% of 16.571.494 total shares to Zorlu O&M Enerji İşletme ve Bakım Hizmetleri Anonim Şirketi.