



**TÜRK HAVA YOLLARI TEKNİK  
ANONİM ŞİRKETİ**

Convenience Translation to English of  
Condensed Interim Financial Statements  
for the Six-Month Period Ended 30 June 2014  
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 balance sheet of Türk Hava Yolları Teknik Anonim Şirketi (the "Company") as at 30 June 2014, the condensed statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended and notes to the interim financial information ("the condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with Turkish Accounting Standards 34 *Interim Financial Reporting* ("TAS 34") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

#### *Scope of Review*

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

#### *Conclusion*

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

İstanbul, 18 August 2014

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

Hatice Nesrin Tuncer  
Partner

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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 2014**

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

<b>ASSETS</b>	<b>Notes</b>	<b>Reviewed 30 June 2014</b>	<b>Audited 31 December 2013</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	3	1.463.885	2.046.901
Trade Receivables		257.752.190	161.423.303
- Trade Receivables From Related Parties	19	203.564.990	111.221.498
- Trade Receivables From Non-Related Parties	4	54.187.200	50.201.805
Other Receivables		13.575.076	9.857.621
- Other Receivables From Related Parties	19	8.103.954	4.958.461
- Other Receivables From Non-Related Parties		5.471.122	4.899.160
Inventories	5	690.722.701	650.689.705
Prepaid Expenses	11	26.939.781	5.926.652
Current Income Tax Assets		-	1.716.795
Other Current Assets	12	68.066.669	84.265.205
<b>TOTAL CURRENT ASSETS</b>		<b>1.058.520.302</b>	<b>915.926.182</b>
<b>Non-Current Assets</b>			
Financial Investments		5.025	5.025
Equity Accounted Investees	6	61.955.680	56.306.699
Property and Equipment	7	769.994.323	701.744.956
Intangible Assets		6.313.724	7.323.887
-Other Intangible Assets	8	6.313.724	7.323.887
Prepaid Expenses	11	42.689.822	49.188.535
<b>TOTAL NON-CURRENT ASSETS</b>		<b>880.958.574</b>	<b>814.569.102</b>
<b>TOTAL ASSETS</b>		<b>1.939.478.876</b>	<b>1.730.495.284</b>

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

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Condensed Balance Sheet as at 30 June 2014

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

	Notes	Reviewed 30 June 2014	Audited 31 December 2013
<b>Current Liabilities</b>		<b>445.786.995</b>	<b>359.397.392</b>
Other Financial Liabilities		11.320.920	3.992.929
Trade Payables		151.900.276	125.386.041
- Trade Payables to Related Parties	19	44.082.134	27.463.485
- Trade Payables to Non-Related Parties	4	107.818.142	97.922.556
Payables Related to Employee Benefits		32.489.046	22.463.709
Other Payables		73.522.684	70.557.339
- Other Payables to Related Parties	19	51.086.165	49.569.338
- Other Payables to Non-Related Parties		22.436.519	20.988.001
Deferred Income	11	150.254.983	129.508.367
Current Profit Tax Liability		8.657.041	-
Short-term Provisions		15.820.946	6.418.125
- Provisions for Employee Benefits	10	10.856.011	4.106.669
- Other Short-term Provisions	10	4.964.935	2.311.456
Other Current Liabilities		1.821.099	1.070.882
<b>Non-Current Liabilities</b>		<b>432.401.290</b>	<b>314.497.814</b>
Other Payables		349.473.478	228.440.942
- Other Payables to Related Parties	19	349.473.478	228.440.942
Deferred Income	11	-	177.055
Long-term Provisions for Employee Benefits		48.326.232	42.515.141
Deferred Tax Liability	17	34.601.580	43.364.676
<b>EQUITY</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>1.061.290.591</b>	<b>1.056.600.078</b>
Share Capital	13	693.000.000	693.000.000
Items That Will Never Be Reclassified to Profit or Loss		(2.785.745)	(2.785.745)
- Actuarial Losses from Defined Pension Plans		(2.785.745)	(2.785.745)
Items That Are or May Be Reclassified to Profit or Loss		258.343.066	263.953.309
- Foreign Currency Translation Differences		258.343.066	263.953.309
Restricted Profit Reserves		9.504.301	9.277.564
Retained Earnings		92.928.213	135.024.343
Net Profit/ (Loss) for the period		10.300.756	( 41.869.393)
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1.939.478.876</b>	<b>1.730.495.284</b>

The accompanying notes are an integral part of these 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 2014**

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

	<u>Notes</u>	<u>Reviewed 1 January - 30 June 2014</u>	<u>Reviewed 1 January - 30 June 2013</u>
Revenue	14	695.979.162	415.292.812
Cost of Sales (-)	14	<u>(601.619.038)</u>	<u>(374.328.277)</u>
<b>GROSS PROFIT</b>		<b><u>94.360.124</u></b>	<b><u>40.964.535</u></b>
General Administrative Expenses (-)	15	(73.422.801)	(56.229.919)
Marketing and Sales Expenses (-)		( 4.225.671)	( 4.326.552)
Research and Development Expenses (-)		( 6.112.042)	( 4.712.050)
Other Operating Income	16	14.532.073	14.256.392
Other Operating Expenses (-)	16	<u>(7.091.278)</u>	<u>(5.624.567)</u>
<b>OPERATING PROFIT/ (LOSS)</b>		<b><u>18.040.405</u></b>	<b><u>(15.672.161)</u></b>
Income from Investing Activities		(109.882)	1.511.837
Share of Investments' Loss Accounted by Using the Equity Method	6	<u>3.746.251</u>	<u>(14.412.884)</u>
<b>OPERATING PROFIT/ (LOSS) BEFORE FINANCIAL INCOME/ (EXPENSE)</b>		<b><u>21.676.774</u></b>	<b><u>(28.573.208)</u></b>
Financial Income		138.505	3.124.110
Financial Expenses (-)		<u>(10.909.188)</u>	<u>( 14.619)</u>
<b>PROFIT/ (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b><u>10.906.091</u></b>	<b><u>(25.463.717)</u></b>
<b>Tax Income/ (Expense) of Continuing Operations</b>		<b>(605.335)</b>	<b>(10.560.598)</b>
- Current Tax Expense		(8.624.453)	-
- Deferred Tax Income/ (Expense)	17	<u>8.019.118</u>	<u>(10.560.598)</u>
<b>PROFIT/ (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b><u>10.300.756</u></b>	<b><u>(36.024.315)</u></b>
<b>OTHER COMPEHENSIIVE INCOME</b>			
Items That Are or May Be Reclassified to Profit or Loss		(5.610.243)	71.439.639
Currency Translation Differences		<u>(5.610.243)</u>	<u>71.439.639</u>
<b>OTHER COMPREHENSIVE INCOME</b>		<b><u>(5.610.243)</u></b>	<b><u>71.439.639</u></b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u>4.690.513</u></b>	<b><u>35.415.324</u></b>

The accompanying notes are an integral part of these 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 2014**  
(All amounts are expressed in Turkish Lira (TL).)

	Items That Will Never Be Reclassified to Profit or Loss		Items That Are or May Be Reclassified to Profit or Loss		Retained Earnings			Net Profit/ (Loss) for the Period	Total Equity
	Paid Share Capital	Actuarial Losses From Defined Pension Plans	Foreign Currency Translation Differences	Restricted Profit Reserves	Retained Earnings				
<b>Balances as at 1 January 2013</b>	693.000.000	(2.449.729)	86.841.809	8.080.406	120.647.508	15.573.993	921.693.987		
Transfers	-	-	-	1.197.158	14.376.835	(15.573.993)	-		
<b>Total Comprehensive Income</b>	-	-	71.439.639	-	-	(36.024.315)	35.415.324		
<b>Balance as at 30 June 2013</b>	693.000.000	(2.449.729)	158.281.448	9.277.564	135.024.343	(36.024.315)	957.109.311		
<b>Balances as at 1 January 2014</b>	693.000.000	(2.785.745)	263.953.309	9.277.564	135.024.343	(41.869.393)	1.056.600.078		
Transfers	-	-	-	226.737	(42.096.130)	41.869.393	-		
<b>Total Comprehensive Income</b>	-	-	(5.610.243)	-	-	10.300.756	4.690.513		
<b>Balance as at 30 June 2014</b>	693.000.000	(2.785.745)	258.343.066	9.504.301	92.928.213	10.300.756	1.061.290.591		

The accompanying notes are an integral part of these 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 Cash Flows**

**For the Six-Month Period Ended 30 June 2014**

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

	Notes	Reviewed 1 January - 30 June 2014	Reviewed 1 January - 30 June 2013
<b>Profit /(Loss) for the period</b>		10.300.756	(36.024.315)
<b>Adjustments to reconcile cash flow generated from operating activities:</b>			
Adjustments for depreciation and amortisation	5,7,8	66.670.236	36.864.861
Adjustments for provisions, net	10	9.451.234	118.111
Adjustments for provisions for employee benefits		11.112.208	5.019.529
Adjustments for provisions for doubtful receivables	4	2.807.297	2.428.668
Adjustments for interest income and expenses		10.481.949	(191.334)
Adjustments for discount for receivables	16	6.953	415.240
Adjustments for discount for payables	16	(225.450)	(62.350)
Unrealized foreign exchange and translation differences		(2.834.926)	36.577.392
Share of Investment's loss accounted by using the equity method	6	(3.746.251)	14.412.884
Adjustments for deferred tax (income)/ expense	17	(8.019.118)	10.560.598
Adjustments for current tax expense	17	8.624.453	-
<b>Operating Profit Before Working Capital Changes</b>		<b>104.629.341</b>	<b>70.119.284</b>
<b>Changes in Working Capital:</b>			
Adjustments for increase in inventories		(83.357.502)	(107.548.670)
Adjustments for increase in trade receivables		(88.617.740)	(24.360.382)
Adjustments for increase in other receivables		(3.717.455)	(2.972.976)
Adjustments for (increase)/ decrease in other current and non current assets		5.673.139	(11.571.100)
Adjustments for increase in trade payables and due to related parties		26.739.685	6.263.386
Adjustments for increase in other payables and due to related parties		113.377.427	148.456.502
Adjustments for increase in prepaid expense		(14.514.416)	(39.872.431)
Adjustments for increase in deferred income		20.569.561	20.272.021
Changes in payables related to employee benefits		10.025.337	4.694.383
Adjustments for increase in other current and non current liabilities		2.499.600	813.597
<b>Cash Flows Generated From Operating Activities</b>		<b>93.306.977</b>	<b>64.293.614</b>
Interest received		138.505	205.953
Employee benefit indemnity paid		(5.301.117)	(1.187.418)
<b>Net Cash Generated From Operating Activities</b>		<b>88.144.365</b>	<b>63.312.149</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of intangible assets	7	105.433	96.685
Proceeds from sale of property and equipment	7	(93.344.025)	(70.583.853)
Purchase of intangible assets	8	(541.780)	(307.006)
Cash generated from sale of shares of investment		165.000	-
Cash outflow arising from capital increase in investments		(2.440.000)	(1.539.395)
<b>Net cash used in investing activities</b>		<b>(96.055.372)</b>	<b>(72.333.569)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in financial borrowings		7.327.991	-
Repayments of principal in financial borrowings		-	(4.652.876)
<b>Net Cash (Used In)/ From Financing Activities</b>		<b>7.327.991</b>	<b>(4.652.876)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(583.016)</b>	<b>(13.674.296)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>2.046.901</b>	<b>17.858.412</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>1.463.885</b>	<b>4.184.116</b>

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2014

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

**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.

Total number of average employees working for the company as at 30 June 2014 is 2.275 (31 December 2013: 2.012). Total number of employees working for the company as at 30 June 2014 is 2.591 (31 December 2013:1.981).

	<u>30 June 2014</u>	<u>31 June 2013</u>
Adminstrative Staff	720	619
Production Staff	1.871	1.362
<b>Total</b>	<b>2.591</b>	<b>1.981</b>

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

İstanbul Bakırköy-Yeşilköy Atatürk Airport Gate B .

**Associates**

As of 30 June 2014 and 31 December 2013, associates accounted by using equity method and participation rate of the Company in these associates are as below:

Name of the Company	Principal Activity	Participation Rate		Country of Registration
		30 June 2014	31 December 2013	
Turkbine Teknik Gaz Turbinleri Bakım Onarım Anonim Şirketi (“Turkbine Teknik”)	Aircraft Maintenance	50%	50%	Türkiye
P&W T.T. Uçak Bakım Merkezi Limited Şirketi (“TEC”)	Aircraft Maintenance	49%	49%	Türkiye
Goodrich THY Teknik Servis Merkezi Limited Şirketi (“Goodrich”)	Aircraft Maintenance	40%	40%	Türkiye
TCI Kabiniçi Sistemleri Sanayi ve Ticaret Anonim Şirketi (“TCI”)	Cabin Interior	20%	21%	Türkiye

**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 2014 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 2013.

**Adjustment of Financial Statements in Hyperinflationary Periods**

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

**Notes to the Condensed Interim Financial Statements**

**For the Six-Month Period Ended 30 June 2014**

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

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

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

**Basis of Measurements**

All financial statements have been prepared on cost basis principal.

**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 .

**Additional paragraph for convenience translation to English**

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

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

**Notes to the Condensed Interim Financial Statements**

**For the Six-Month Period Ended 30 June 2014**

*(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 2014 are same with those used in the preparation of the Company’s financial statements as at and for the year ended 31 December 2013.

**2.4 Summary of Significant Accounting Policies**

The accounting policies used in preparation of condensed interim financial statements as at 30 June 2014 are consistent with those used in the preparation of statements for the year ended 31 December 2013.

**2.5 New and Revised Standards and Interpretations**

In accounting policies considered in preparation of condensed interim financial statements as at and for the six-month period ended 30 June 2014, the Company applied all Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations that are effective as of 1 January 2014.

Accounting policies considered in preparation of condensed interim financial statements as of and for the six-month period ended 30 June 2014 have been applied consistently with those used in the previous year apart from TFRS standards that are effective as of 1 January 2014 and all interpretations published by Turkey Financial Reporting Interpretations Committee (“TFRYK”). Impacts of these standards and interpretations on the financial position or performance of the Company are explained in related paragraphs. The new standards, amendments and interpretations which are effective as at 1 January 2014 are as follows:

**Investment Entities (Amendments to TFRS 10, TFRS 12 and TAS 27)**

TFRS 10 is amended for entities that meet the definition of an investment entity to qualify for the consolidation exception. According to the amendment, financial assets of an investment entity should be measured at fair value under TFRS 9 Financial Instruments, or to the extent possible under TMS 39 Financial Instruments: Recognition and Measurement. The amendments had no significant impact on the financial position or performance of the Company.

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

**2.5 New and Revised Standards and Interpretations** (continued)

*TAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments had no significant impact on the financial position or performance of the Company.

*TAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial assets (Amendments)*

As a consequential amendment to IFRS 13 Fair Value Measurement, some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets are modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendment has affected disclosure principles of the recoverable amounts for non-financial assets. The amendments had no significant impact on the financial position or performance of the Company.

*TAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*

Amendments to IAS 39 Financial Instruments: Recognition and Measurement provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments had no significant impact on the financial position or performance of the Company.

*TFRIC Interpretation 21 Levies*

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The Interpretation had no significant impact on the financial position or performance of the Company.

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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)**

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

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

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. 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. The new standard removes the 1 January 2015 effective date of IFRS 9. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. 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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*(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)*

• **Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)**

The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognize them as a reduction of the service cost in the period in which the related service is rendered. The amendment is effective for annual periods beginning on or after 1 July 2014. Early application is permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

• **IFRS 14 Regulatory Deferral Accounts**

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

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

The standard is the result of a joint project and IASB and 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 recognizing revenue over time..

The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted under IFRS. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

• **Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation**

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate.

The amendments are effective for annual periods beginning on after 1 January 2016, and are to be applied prospectively. Early adoption is permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

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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)*

- **Amendments to IFRS 11 – Accounting for acquisition of interests in joint operations**

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

**2.6 Determination of Fair Values**

Various accounting policies and explanations of the Group necessitate to determinate the fair value of both financial and non-financial assets and liabilities. If applicable, additional information about assumptions used for determination of fair value are presented in notes particular to assets and liabilities.

Evaluation methods in terms of levels are described as follows:

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

**3. CASH AND CASH EQUIVALENTS**

At 30 June 2014 and 31 December 2013, cash and cash equivalents comprised the following :

	<u>30 June 2014</u>	<u>31 December 2013</u>
Cash	109.820	-
Banks- demand deposits	754.065	796.901
Banks- time deposits	600.000	1.250.000
	<u>1.463.885</u>	<u>2.046.901</u>

At 30 June 2014 and 31 December 2013, 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 2014</u>
600.000	TL	30.06.2014	%10,55	01.07.2014	600.000
					<u>600.000</u>
<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>31 December 2013</u>
1.250.000	TL	31.12.2013	%9,00	02.01.2014	1.250.000
					<u>1.250.000</u>



**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2014

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

**4. TRADE RECEIVABLES AND PAYABLES**

As at 30 June 2014 ve 31 December 2013, current trade receivables comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Trade receivables	105.255.796	99.326.325
Notes receivables	1.562.822	1.890.990
Discount on receivables (-)	(6.823)	(5.971)
Provision for doubtful receivables (-)	<u>(52.624.595)</u>	<u>(51.009.539)</u>
	<u><b>54.187.200</b></u>	<u><b>50.201.805</b></u>

For the periods ended 30 June 2014 and 2013, the movements of provision for doubtful receivables comprised the following:

	<u>30 June 2014</u>	<u>30 June 2013</u>
Provision at the beginning of the period	51.009.539	38.007.632
Current period charge	2.807.297	2.428.668
Collections during period	-	(259.833)
Foreign currency translation	(1.192.241)	3.066.551
Provision at the end of the period	<u><b>52.624.595</b></u>	<u><b>43.243.018</b></u>

As at 30 June 2014 ve 31 December 2013, short term trade payables comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Trade payables	94.102.651	84.659.926
Expense accruals	13.987.727	13.318.566
Discount on payables (-)	(272.236)	(55.936)
	<u><b>107.818.142</b></u>	<u><b>97.922.556</b></u>

**5. INVENTORIES**

As at 30 June 2014 ve 31 December 2013, inventories comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Components and repairable spare parts	602.273.342	560.821.195
Technical equipment inventories	311.695.275	293.511.456
Scrap equipment inventories	21.750.549	18.831.939
Technical equipment inventories in transit	18.190.975	12.211.174
Accumulated depreciation of components and repairable spare parts (-)	(244.624.114)	(220.355.668)
Provision for impairment of inventories (-)	<u>(18.563.326)</u>	<u>(14.330.391)</u>
	<u><b>690.722.701</b></u>	<u><b>650.689.705</b></u>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2014

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

**5. INVENTORIES (continued)**

For the periods ended 30 June 2014 and 2013, the movements of provision for impairment of inventories are as follows:

	<b>1 January – 30 June 2014</b>	<b>1 January – 30 June 2013</b>
Provision at the beginning of the period	14.330.391	17.701.999
Current period charge	4.317.493	-
Reversal of provision for impairment	-	(1.150.982)
Foreign currency translation	(84.558)	1.338.228
Provision at the beginning of the period	<b>18.563.326</b>	<b>17.889.245</b>

At 30 June 2014, the movement of components and repairable spare parts comprised the following:

<b><u>Cost</u></b>	<b><u>Components and repairable spare parts</u></b>
Opening balance 1 January 2014	560.821.195
Additions	64.137.688
Disposals	(19.821.392)
Foreign currency translation	(2.864.149)
<b>Closing balance 30 June 2014</b>	<b>602.273.342</b>
<b><u>Accumulated depreciation</u></b>	
Opening balance 1 January 2014	220.355.668
Current charge for the year	43.324.506
Disposals	(17.140.459)
Foreign currency translation	(1.915.601)
<b>Closing balance 30 June 2014</b>	<b>244.624.114</b>
<b>Net book value 30 June 2014</b>	<b>357.649.228</b>
<b>Net book value 31 December 2013</b>	<b>340.465.527</b>

**5. INVENTORIES (continued)**

At 30 June 2013, 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 2013	373.795.361
Additions	65.349.431
Disposals	(23.866.706)
Foreign currency translation	29.818.074
<b>Closing balance 30 June 2013</b>	<b>445.096.160</b>
<u>Accumulated depreciation</u>	
Opening balance 1 January 2013	145.803.609
Current charge for the year	27.519.055
Disposals	(18.231.253)
Foreign currency translation	13.397.584
<b>Closing balance 30 June 2013</b>	<b>168.488.995</b>
<b>Net book value 30 June 2013</b>	<b>276.607.165</b>
<b>Net book value 31 December 2012</b>	<b>227.991.752</b>

**6. EQUITY ACCOUNTED INVESTEEES**

As at 30 June 2014 and 31 December 2013, equity accounted investees comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
TEC	50.445.901	46.355.553
Turbine Teknik	8.722.600	8.632.686
TCI	1.398.987	560.053
Goodrich	1.388.192	758.407
	<b>61.955.680</b>	<b>56.306.699</b>

For the periods ended 30 June 2014 and 2013, the shares of investment losses accounted for using the equity method comprised the following:

	<u>1 January – 30 June 2014</u>	<u>1 January – 30 June 2013</u>
TEC	4.407.480	(12.935.499)
TCI	(1.443.114)	(541.605)
Goodrich	645.394	(489.258)
Turbine Teknik	136.491	(446.522)
	<b>3.746.251</b>	<b>(14.412.884)</b>

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7

**PROPERTY AND EQUIPMENT**

As at 30 June 2014, property and equipment comprised the following:

<u>Cost</u>	<u>Plant, Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Other Tangible Assets</u>	<u>Construction in Progress</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Opening balance 1 January 2014	148.208.520	10.533.582	14.321.627	2.806.321	634.481.270	31.551.137	841.902.457
Additions	21.862.629	1.807.619	1.765.472	510.776	6.724.090	60.673.439	93.344.025
Disposals	(239.263)	(316.976)	(9.460)	(333)	-	(56.313)	(622.345)
Transfers	-	-	316	-	(622.426.070)	622.425.754	-
Foreign currency translation	(756.910)	(53.796)	(73.142)	(14.332)	(3.240.335)	(161.132)	(4.299.647)
<b>Closing balance 30 June 2014</b>	<b>169.074.976</b>	<b>11.970.429</b>	<b>16.004.813</b>	<b>3.302.432</b>	<b>15.538.955</b>	<b>31.645.871</b>	<b>930.324.490</b>
<u>Accumulated depreciation</u>							
Opening balance 1 January 2014	92.992.136	7.092.426	10.404.907	1.622.649	-	28.045.383	140.157.501
Current charge for the year	7.623.553	618.078	830.586	193.187	-	12.537.649	21.803.053
Disposals	(134.468)	(316.976)	(8.822)	(333)	-	(56.313)	(516.912)
Foreign currency translation	(613.968)	(47.494)	(68.289)	(11.811)	-	(371.913)	(1.113.475)
<b>Closing balance 30 June 2014</b>	<b>99.867.253</b>	<b>7.346.034</b>	<b>11.158.382</b>	<b>1.803.692</b>	<b>-</b>	<b>28.520.006</b>	<b>160.330.167</b>
<b>Net book value 1 January 2014</b>	<b>55.216.384</b>	<b>3.441.156</b>	<b>3.916.720</b>	<b>1.183.672</b>	<b>634.481.270</b>	<b>3.505.754</b>	<b>701.744.956</b>
<b>Net book value 30 June 2014</b>	<b>69.207.723</b>	<b>4.624.395</b>	<b>4.846.431</b>	<b>1.498.740</b>	<b>15.538.955</b>	<b>3.125.865</b>	<b>769.994.323</b>

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

As at 30 June 2013, property and equipment comprised the following :

<u>Cost</u>	<u>Plant, Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Other Tangible Assets</u>	<u>Construction in Progress</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Opening balance 1 January 2013	106.750.096	9.129.541	10.747.618	1.924.393	390.270.847	25.161.531	543.984.026
Additions	5.577.273	-	789.337	133.102	63.386.364	697.777	70.583.853
Disposals	(702.967)	(890.798)	(8.954)	-	-	-	(1.602.719)
Foreign currency translation	8.515.575	728.274	857.349	153.510	31.132.343	2.007.163	43.394.214
<b>Closing balance 30 June 2013</b>	<b>120.139.977</b>	<b>8.967.017</b>	<b>12.385.350</b>	<b>2.211.005</b>	<b>484.789.554</b>	<b>27.866.471</b>	<b>656.359.374</b>
<u>Accumulated depreciation</u>							
Opening balance 1 January 2013	69.754.869	6.024.281	7.143.928	1.126.974	-	18.769.787	102.819.839
Current charge for the year	4.923.072	291.801	655.962	133.749	-	2.718.705	8.723.289
Disposals	(660.560)	(837.060)	(8.414)	-	-	-	(1.506.034)
Foreign currency translation	5.838.069	445.559	611.450	98.486	-	1.671.822	8.665.386
<b>Closing balance 30 June 2013</b>	<b>79.855.450</b>	<b>5.924.581</b>	<b>8.402.926</b>	<b>1.359.209</b>	<b>-</b>	<b>23.160.314</b>	<b>118.702.480</b>
<b>Net book value 1 January 2013</b>	<b>36.995.227</b>	<b>3.105.260</b>	<b>3.603.690</b>	<b>797.419</b>	<b>390.270.847</b>	<b>6,391.744</b>	<b>441.164.187</b>
<b>Net book value 30 June 2013</b>	<b>40.284.527</b>	<b>3.042.436</b>	<b>3.982.424</b>	<b>851.796</b>	<b>484.789.554</b>	<b>4.706.157</b>	<b>537.656.894</b>

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**8. INTANGIBLE ASSETS**

As at 30 June 2014, intangible assets comprised the following:

	<u>Rights</u>
<b><u>Cost</u></b>	
Opening balance 1 January 2014	11.539.013
Additions	541.780
Foreign currency translation	(58.931)
<b>Closing balance 30 June 2014</b>	<b>12.021.862</b>
<b><u>Accumulated depreciation</u></b>	
Opening balance 1 January 2014	4.215.126
Current charge for the period	1.542.677
Foreign currency translation	(49.665)
<b>Closing balance 30 June 2014</b>	<b>5.708.138</b>
<b>Net book value 30 June 2014</b>	<b>6.313.724</b>
<b>Net book value 31 December 2013</b>	<b>7.323.887</b>

As at 30 June 2013, intangible assets comprised the following:

	<u>Rights</u>
<b><u>Cost</u></b>	
Opening balance 1 January 2013	5.252.928
Additions	307.006
Foreign currency translation	419.031
<b>Closing balance 30 June 2013</b>	<b>5.978.965</b>
<b><u>Accumulated depreciation</u></b>	
Opening balance 1 January 2013	1.866.831
Current charge for the period	622.517
Foreign currency translation	188.883
<b>Closing balance 30 June 2013</b>	<b>2.678.231</b>
<b>Net book value 30 June 2013</b>	<b>3.300.734</b>
<b>Net book value 31 December 2012</b>	<b>3.386.097</b>

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**9. COMMITMENTS AND CONTINGENCIES**

*Leasing Agreements :*

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

For the period ended 30 June 2014 leasing payment amounting to TL 1.668.331 (30 June 2013: TL 1.921.579) is accounted as rent expense in income statement.

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

	<u>30 June 2014</u>	<u>31 December 2013</u>
Within one year	3.805.133	3.278.285
One- five years	17.394.893	16.937.805
After five years	52.216.644	56.855.733
	<u><u>73.416.670</u></u>	<u><u>77.071.823</u></u>

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

As at 30 June 2014 and 31 December 2013 short-term provisions are as follows:

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

	<u>30 June 2014</u>	<u>31 December 2013</u>
Provisions for unused vacation	10.856.011	4.106.669
	<u><u>10.856.011</u></u>	<u><u>4.106.669</u></u>

For the periods ended 30 June 2014 ve 2013 the movements of provision for unused vacation are as follows:

	<u>1 January – 30 June 2014</u>	<u>1 January – 30 June 2013</u>
Provision at the beginning of the period	4.106.669	1.503.632
Current period provision	6.743.841	3.882.093
Foreign currency translation	5.501	119.945
Provision at the end of the period	<u><u>10.856.011</u></u>	<u><u>5.505.670</u></u>

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

	<u>30 June 2014</u>	<u>31 December 2013</u>
Provisions for legal claims	4.964.935	2.311.456
	<u><u>4.964.935</u></u>	<u><u>2.311.456</u></u>

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

**10. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES (continued)**

**(b) Other short-term provision (continued)**

For the periods ended 30 June 2014 and 2013 the movements of provision for legal claims are as follows:

	<u>1 January – 30 June 2014</u>	<u>1 January – 30 June 2013</u>
Provision at the beginning of the period	2.311.456	6.746.697
Charge for the period	2.707.393	550.474
Reversal of provision for the legal claims	-	(4.314.456)
Foreign currency translation	(53.914)	(827.453)
Provision at the end of the period	<u>4.964.395</u>	<u>2.155.262</u>

**11. PREPAID EXPENSES AND DEFERRED INCOME**

As at 30 June 2014 and 31 December 2013, short term prepaid expenses comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Advances given for orders	25.325.699	4.089.174
Short-term prepaid expenses	1.614.082	1.837.478
	<u>26.939.781</u>	<u>5.926.652</u>

As at 30 June 2014 and 31 December 2013, long term prepaid expenses comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Advances given for fixed asset purchases	42.426.511	48.887.877
Long-term prepaid expenses	263.311	300.658
	<u>42.689.822</u>	<u>49.188.535</u>

As at 30 June 2014 and 31 December 2013, short term deferred income comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Advances received	149.648.826	128.653.668
Deferred income	606.157	854.699
	<u>150.254.983</u>	<u>129.508.367</u>

For the year ended 31 December 2013 long term deferred income comprises deferred income amounting to TL 177.055.

**12. OTHER ASSETS AND LIABILITIES**

As at 30 June 2014 and 31 December 2013 other assets and liabilities are as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Deferred VAT	67.989.811	84.226.480
Personnel advances	37.311	35.339
Job advances	39.547	3.386
	<u>68.066.669</u>	<u>84.265.205</u>



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**13. SHAREHOLDERS' EQUITY**

As at 30 June 2014, the Company's share capital is comprised of 693,000,000 shares issued with par value of TL 1 each (31 December 2013: 693.000.000 shares with par value of TL 1each). These shares are written to the name. The Company is not included in the registered capital system.

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

	<u>%</u>	<u>30 June 2014</u>	<u>%</u>	<u>31 December 2013</u>
THY A.O.	100	693.000.000	100	693.000.000
		<u>693.000.000</u>		<u>693.000.000</u>

*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.

**14. REVENUE AND COST OF SALES**

For the periods ended 30 June 2014 ve 2013 revenue is as follows:

	<u>1 January - 30 June 2014</u>	<u>1 January - 30 June 2013</u>
Aircraft maintenance income	257.138.437	136.506.675
Pool income	150.076.715	88.749.659
Component maintenance income	133.084.021	79.197.478
Line maintenance income	83.464.216	5.701.772
Equipment sales income	50.379.343	32.070.905
Engine maintenance income	14.362.412	14.123.201
Others	7.474.018	58.943.122
<b>Revenue (Net)</b>	<b>695.979.162</b>	<b>415.292.812</b>
Cost of sales (-)	(601.619.038)	(374.328.277)
<b>Gross profit</b>	<b>94.360.124</b>	<b>40.964.535</b>

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

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

For the periods ended 30 June 2014 ve 2013 cost of sales is as follows:

	<b>1 January - 30 June 2014</b>	<b>1 January - 30 June 2013</b>
Equipment expenses	173.640.372	110.221.302
Maintenance expenses	158.274.188	51.998.420
Personnel expenses	146.085.322	109.059.599
Depreciation and amortisation expenses	51.586.956	33.349.603
Transportation expenses	12.879.857	14.278.746
Provision for employee termination benefits	9.739.583	4.481.733
Others	49.412.760	50.938.874
	<b>601.619.038</b>	<b>374.328.277</b>

**15. GENERAL ADMINISTRATIVE EXPENSES**

For the periods ended 30 June 2014 ve 2013 cost of sales is as follows:

	<b>1 January - 30 June 2014</b>	<b>1 January - 30 June 2013</b>
Personnel expenses	25.799.286	24.210.548
Depreciation and amortisation expenses	15.064.505	3.473.633
Service expenses	11.392.297	14.862.626
Equipment expenses	3.506.538	2.300.327
Rent expenses	2.801.670	3.660.175
Provision for employee termination benefits	1.978.724	477.239
Lighting, heating and water expenses	1.862.234	955.806
Others	11.017.547	6.289.565
	<b>73.422.801</b>	<b>56.229.919</b>

**16. OTHER OPERATING INCOME AND EXPENSES**

For the periods ended 30 June 2014 ve 2013 other operating income is as follows:

	<b>1 January - 30 June 2014</b>	<b>1 January - 30 June 2013</b>
Provisions no longer required	6.707.303	4.578.309
Plant maintenance income	1.014.443	1.133.974
Foreign exchange gain from trade operations	508.241	1.343.092
Income from discount of payables	225.450	62.350
Late payment interest income of trade receivables	224.236	928.571
Insurance, indemnities and penalties income	146.595	3.954.998
Others	5.705.805	2.255.098
	<b>14.532.073</b>	<b>14.256.392</b>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

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

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

For the periods ended 30 June 2014 ve 2013 other operating expense is as follows:

	<u>1 January - 30 June 2014</u>	<u>1 January - 30 June 2013</u>
Provision for doubtful receivables	(2.807.297)	(2.428.668)
Provision for the legal claims	(2.707.393)	(550.474)
Expense of discount of receivables	(6.953)	(415.240)
Others	(1.569.635)	(2.230.185)
	<u>(7.091.278)</u>	<u>(5.624.567)</u>

**17. TAX ASSET AND LIABILITIES**

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

	<u>1 January - 30 June 2014</u>	<u>1 January - 30 June 2013</u>
Current period tax expense	(8.624.453)	-
Deferred tax (expense)/ income	8.019.118	(10.560.598)
	<u>(605.335)</u>	<u>(10.560.598)</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 2014 is 20% (2013: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2013 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.

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2014

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

**17. 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 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.

At 30 June 2014 and 31 December 2013, the deferred tax assets and liabilities comprised the following:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Inventories	(43.972.686)	(49.207.611)
Fixed assets	(21.618.240)	(22.861.836)
Rezerves	9.495.583	9.544.325
Provisions for retiment pay liability	9.665.247	9.324.362
Provision for doubtful receivables	4.606.548	4.338.963
Provision for impairment of inventories	3.712.665	2.866.078
Provisions for vacation pay liability	2.171.202	821.334
Provision for legal claims	992.987	462.292
Others	345.114	1.347.417
	<u><b>(34.601.580)</b></u>	<u><b>(43.364.676)</b></u>

For the periods ended 30 June 2014 and 2013, the movements of deferred tax liability comprised the following:

	<u>1 January – 30 June 2014</u>	<u>1 January – 30 June 2013</u>
Deferred tax liability at the beginning of the period	43.364.676	9.515.877
Deferred tax expense/ (income)	(8.019.118)	10.560.598
Foreign currency translation	(743.978)	1.323.944
Deferred tax liability at the end of the period	<u><b>34.601.580</b></u>	<u><b>21.400.419</b></u>

**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

	<u>1 January– 30 June 2014</u>	<u>1 January– 30 June 2013</u>
Number of total outstanding shares as of 1 January (in full)	693.000.000	693.000.000
Number of outstanding shares as of 31 June (in full)	693.000.000	693.000.000
Weighted Average number of shares outstanding during the period (in full)	693.000.000	693.000.000
Net profit/ (loss) for the period	10.300.756	(36.024.315)
Earnings/(loss) per share (Kr)	<u><b>1,49</b></u>	<u><b>(5,20)</b></u>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended 30 June 2014

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

**19. RELATED PARTY TRANSACTIONS**

As at 30 June 2014 and 31 December 2013 short term trade receivables from related parties are as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
THY A.O.	186.181.990	87.053.022
Güneş Express Havacılık Anonim Şirketi ("Sun Ekspres")	8.805.489	10.244.685
TEC	7.170.340	6.924.681
Türk Hava Yolları Habom Anonim Şirketi ("THY Habom")	708.399	6.428.887
TCI	400.625	321.177
TGS Yer Hizmetleri Anonim Şirketi ("TGS")	242.291	140.511
Goodrich	55.625	108.535
Uçak Koltuk A.Ş.	231	-
	<u>203.564.990</u>	<u>111.221.498</u>

As at 30 June 2014 and 31 December 2013 short term other receivables from related parties are as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
THY A.O.	8.098.215	3.269.930
TCI	5.166	1.687.847
Turkbine Teknik	477	115
Uçak Koltuk	96	569
	<u>8.103.954</u>	<u>4.958.461</u>

As at 30 June 2014 and 31 December 2013 short term trade payables to related parties are as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
THY A.O.	23.939.776	13.835.192
THY Habom	16.120.593	9.880.096
Goodrich	3.058.623	2.216.403
TEC	-	193.647
TGS	711.145	196.399
THY Opet	208.236	253.073
TCI	34.398	888.675
Sun Express	8.770	-
THY Aydın Çıldır Havalimanı	593	-
	<u>44.082.134</u>	<u>27.463.485</u>

As at 30 June 2014 and 31 December 2013 short term other payables to related parties are as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
THY A.O.	50.979.606	49.552.430
THY Habom	106.559	16.908
	<u>51.086.165</u>	<u>49.569.338</u>

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

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For the Six-Month Period Ended 30 June 2014

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

**19. RELATED PARTY TRANSACTIONS (continued)**

As at 30 June 2014 and 31 December 2013 long term other payables to related parties are as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
THY A.O.	349.473.478	228.440.942
	<u>349.473.478</u>	<u>228.440.942</u>

For the periods ended 30 June 2014 and 2013, transactions with related parties are as follows:

	<u>1 January- 30 June 2014</u>	<u>1 January- 30 June 2013</u>
<b>Sales</b>		
THY A.O.	514.107.533	298.173.958
Sun Express	43.619.119	25.901.920
THY Habom	15.702.002	1.064.912
TEC	8.355.804	3.670.869
Goodrich	53.223	30.987
TCI	52.741	29.829
Turkbine Teknik	14.716	-
TGS	12.082	46.120
THY Opet	-	10.322
Uçak Koltuk	-	476
	<u>581.917.220</u>	<u>328.929.393</u>
<b>Purchases</b>		
THY Habom	27.827.571	18.828.962
THY A.O.	27.002.504	13.521.819
TGS	2.414.218	776.638
THY Opet	729.773	542.547
Sun Express	-	185.502
TEC	-	17.208
TCI	-	3.600
Goodrich	-	64
Uçak Koltuk	-	10
	<u>57.974.066</u>	<u>33.876.350</u>

For the periods ended 30 June 2014, total amount of salaries and other benefits provided to key management personnel is TL 1.360.908.06 (30 June 2013: TL 495.700).

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

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

Foreign Currency Risk Management

As at 30 June 2014 and 31 December 2013, the Company's foreign currency position table comprised the following:

	Foreign Currency Position Table														
	30 June 2014					31 December 2013									
	TL		EUR		GBP		Other		TL Equivalent		TL	EUR	GBP	Other	
	Equivalent	TL	EUR	TL	EUR	GBP	Other	TL	EUR	GBP	Other	TL	EUR	GBP	Other
1. Trade Receivables	15.009.744	4.927.217	10.031.172	45.159	6.196	17.710.922	8.808.845	8.825.934	76.144	-	-	-	-	-	-
2. Monetary Financial Assets	1.173.352	711.882	450.340	11.130	-	1.530.556	1.419.798	101.187	9.571	-	-	-	-	-	-
3. Other	34.316.312	30.068.090	4.213.796	34.426	-	10.409.021	8.890.817	1.270.341	71.315	-	-	-	-	-	-
4. Total Current Assets (1+2+3)	50.499.408	35.707.189	4.664.136	90.715	6.196	29.650.499	19.119.459	10.197.461	157.030	-	-	-	-	-	-
5. Other	40.778.848	20.000	40.648.376	110.472	-	48.502.221	526.136	7.200.849	451.847	-	-	-	-	-	-
6. Total Non-Current Assets (5)	40.778.848	20.000	40.648.376	110.472	-	48.502.221	526.136	47.200.849	451.847	-	-	-	-	-	-
7. Total Assets (4+6)	91.278.256	35.727.189	45.312.512	201.187	6.196	78.152.720	19.645.596	57.398.310	608.877	-	-	-	-	-	-
8. Trade Payables	53.930.034	33.643.483	19.377.716	704.166	204.669	68.219.594	53.397.437	13.857.573	835.872	-	-	-	-	-	-
9. Financial Borrowings	11.320.920	11.320.920	-	-	-	3.992.929	3.992.929	(227.224)	-	-	-	-	-	-	-
10. Other Monetary Liabilities	258.901	37.404	221.497	-	-	8.077.450	8.304.674	-	-	-	-	-	-	-	-
11. Other Non-Monetary Liabilities	8.237.979	851.241	7.386.737	-	-	7.527.621	6.252.282	1.275.340	-	-	-	-	-	-	-
12. Total Current Liabilities (8+9+10+11)	73.747.834	45.853.048	26.985.950	704.166	204.669	87.817.595	71.947.323	14.905.688	835.872	-	-	-	-	-	-
14. Trade Payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	576.145	500.000	76.145	-	-	695.787	618.467	77.319	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17. Non Current Liabilities (14+15+16)	576.145	500.000	76.145	-	-	695.787	618.467	77.319	-	-	-	-	-	-	-
13. Total Liabilities (12)	73.747.834	45.853.048	26.985.950	704.166	204.669	87.817.595	71.947.323	14.905.688	835.872	-	-	-	-	-	-
14. Net Foreign Currency Asset/ (Liability) Position (7-13)	17.530.423	(10.125.859)	18.326.562	(502.979)	(198.473)	(9.664.875)	(52.301.727)	42.492.622	(236.995)	-	-	-	-	-	-
15. Net Foreign Currency Asset/ (Liability) Position of Monetary Items (1+2-8-9-10)	(49.326.759)	(39.362.708)	(9.117.701)	(647.876)	(198.474)	(61.048.495)	(55.466.398)	(4.703.227)	(750.157)	-	-	-	-	-	-

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

	<b>30 June 2014</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	(3.936.271)	3.936.271
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(3.936.271)</u>	<u>3.936.271</u>
4-EUR net asset / liability	(911.770)	911.770
5-Part of hedged from EUR risk (-)	-	-
6- EUR net effect (4+5)	<u>(911.770)</u>	<u>911.770</u>
7-GBP net asset / liability	(64.788)	64.788
8-Part of hedged from GBPrisk (-)	-	-
9-GBP net effect (7+8)	<u>(64.788)</u>	<u>64.788</u>
10-Other net asset / liability	(19.847)	19.847
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(19.847)</u>	<u>19.847</u>
<b>TOTAL (3+6+9+12)</b>	<u><u>(4.932.676)</u></u>	<u><u>4.932.676</u></u>



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

*Foreign Currency Risk Management (continued)*

*Foreign currency sensitivity (continued)*

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

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

None.