TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim
Financial Statements As at and For
The Six-Month Period
Ended 30 June 2018

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Reviewed	**Audited**
ASSETS	**Notes**	**30 June 2018**	**31 December 2017**
Current Assets			
Cash and Cash Equivalents	5	2,550	1,891
Financial Investments	6	87	195
Trade Receivables			
-Trade Receivables From Non-Related Parties		656	592
Other Receivables			
-Other Receivables from Non-Related Parties	10	990	319
Derivative Financial Instruments	28	286	203
Inventories		204	193
Prepaid Expenses		120	119
Current Income Tax Assets	26	18	32
Other Current Assets		68	87
TOTAL CURRENT ASSETS		**4,979**	**3,631**
Non-Current Assets			
Financial Investments	6	183	51
Other Receivables			
-Other Receivables from Non-Related Parties	10	718	619
Investments Accounted by Using Equity Method	3	297	320
Property and Equipment	12	12,919	13,002
Intangible Assets			
- Other Intangible Assets	13	65	66
- Goodwill		12	12
Prepaid Expenses		642	496
TOTAL NON-CURRENT ASSETS		**14,836**	**14,566**
TOTAL ASSETS		**19,815**	**18,197**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 30 June 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Reviewed	Audited
LIABILITIES	**Notes**	**30 June 2018**	**31 December 2017**
Current Liabilities			
Short Term Borrowings	7	867	744
Short-Term Portion of Long-Term Borrowings	7 and 14	1,061	983
Other Financial Liabilities	8	16	16
Trade Payables			
-Trade Payables to Related Parties	9	172	168
-Trade Payables to Non-Related Parties		714	687
Payables Related to Employee Benefits		143	200
Other Payables			
-Other Payables to Related Parties	9	-	7
-Other Payables to Non-Related Parties		62	65
Derivative Financial Instruments	28	123	128
Deferred Income	11	1,746	1,016
Current Tax Provision	26	19	12
Short-Term Provisions			
-Provisions for Employee Benefits	15	44	41
-Other Provisions	15	19	22
Other Current Liabilities		198	208
TOTAL CURRENT LIABILITIES		**5,184**	**4,297**
Non- Current Liabilities			
Long-Term Borrowings	7 and 14	7,871	7,339
Other Payables			
-Other Payables to Non-Related Parties		120	83
Deferred Income	11	57	42
Long-Term Provisions			
-Provisions for Employee Benefits	17	118	128
Deferred Tax Liability	26	997	962
TOTAL NON-CURRENT LIABILITIES		**9,163**	**8,554**
Equity			
Share Capital	19	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	19	(15)	(15)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	(144)	(108)
-Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges	19	200	61
-Gains on Remeasuring FVOCI	19	(7)	1
Restricted Profit Reserves	19	36	36
Previous Years Profit	19	3,760	3,551
Net Profit for the Period		41	223
TOTAL EQUITY		**5,468**	**5,346**
TOTAL LIABILITIES AND EQUITY		**19,815**	**18,197**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss
For the Six-Month Period Ended 30 June 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Reviewed	Not Reviewed	Reviewed	Not Reviewed
PROFIT OR LOSS	**Notes**	**1 January - 30 June 2018**	**1 April - 30 June 2018**	**1 January - 30 June 2017**	**1 April - 30 June 2017**
Revenue	20	5,940	3,177	4,597	2,617
Cost of Sales (-)	21	(4,853)	(2,506)	(3,972)	(2,109)
GROSS PROFIT		**1,087**	**671**	**625**	**508**
General Administrative Expenses (-)	22	(140)	(69)	(139)	(70)
Marketing and Sales Expenses (-)	22	(677)	(335)	(555)	(298)
Other Operating Income	23	65	40	104	57
Other Operating Expenses (-)	23	(77)	(90)	(18)	(8)
OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES		**258**	**217**	**17**	**189**
Income from Investment Activities	24	40	19	109	82
Expenses from Investment Activities	24	-	-	(1)	(1)
Share of Investments' Profit Accounted by Using The Equity Method	3	32	29	22	24
OPERATING PROFIT		**330**	**265**	**147**	**294**
Financial Income	25	45	44	31	16
Financial Expenses (-)	25	(335)	(162)	(719)	(397)
PROFIT / (LOSS) BEFORE TAX		**40**	**147**	**(541)**	**(87)**
Tax Expense		**1**	**(20)**	**107**	**26**
Current Tax Expense	26	(33)	(18)	(24)	(13)
Deferred Tax Income	26	34	(2)	131	39
NET PROFIT / (LOSS) FOR THE PERIOD		**41**	**127**	**(434)**	**(61)**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Other Comprehensive Income
For the Six-Month Period Ended 30 June 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Reviewed	Not Reviewed	Reviewed	Not Reviewed
OTHER COMPREHENSIVE INCOME	**Notes**	**1 January - 30 June 2018**	**1 April - 30 June 2018**	**1 January - 30 June 2017**	**1 April - 30 June 2017**
Items That May Be Reclassified Subsequently To Profit or Loss		**95**	**246**	**(54)**	**(11)**
Currency Translation Adjustment		(36)	(37)	1	(1)
(Losses) / Gains on Remeasuring FVOCI		(10)	(10)	1	1
Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges		163	363	(59)	(7)
Fair Value Gains / (Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		11	12	(11)	(7)
Related Tax of Other Comprehensive Income		(33)	(82)	14	3
Items That Will Not Be Reclassified Subsequently To Profit or Loss		**-**	**-**	**1**	**1**
Actuarial Gains on Retirement Pay Obligation		-	-	1	1
Related Tax of Other Comprehensive Income		-	-	-	-
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD		**95**	**246**	**(53)**	**(10)**
TOTAL COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD		**136**	**373**	**(487)**	**(71)**
Basic Gain / (Loss) Per Share (Full US Cents)	27	0.03	0.09	(0.31)	(0.04)
Diluted Gain / (Loss) Per Share (Full US Cents)	27	0.03	0.09	(0.31)	(0.04)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss				Retained Earnings		
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Profit for The Period	Total Equity
As of 1 January 2018	**1,597**	**(15)**	**(108)**	**61**	**1**	**36**	**3,551**	**223**	**5,346**
Adjustment on initial application of IFRS 15	-	-	-	-	-	-	(7)	-	(7)
Adjustment on initial application of IFRS 9	-	-	-	-	-	-	(7)	-	(7)
Restated As of 1 January 2018	**1,597**	**(15)**	**(108)**	**61**	**1**	**36**	**3,537**	**223**	**5,332**
Transfers	-	-	-	-	-	-	223	(223)	-
Total comprehensive income	-	-	(36)	139	(8)	-	-	41	136
As of 30 June 2018	**1,597**	**(15)**	**(144)**	**200**	**(7)**	**36**	**3,760**	**41**	**5,468**

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

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

		Items That Will Not Be Reclassified Subsequently To Profit or Loss	Items That May Be Reclassified Subsequently To Profit or Loss				Retained Earnings		
	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Gains on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net (Loss) for The Period	Total Equity
As of 1 January 2017	**1,597**	**(11)**	**(106)**	**20**	**-**	**36**	**3,628**	**(77)**	**5,087**
Transfers	-	-	-	-	-	-	(77)	77	-
Total comprehensive income	-	1	1	(56)	1	-	-	(434)	(487)
As of 30 June 2017	**1,597**	**(10)**	**(105)**	**(36)**	1	**36**	**3,551**	**(434)**	**4,600**

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Cash Flows
For the Six-Month Period Ended 30 June 2018
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	Reviewed 1 January - 30 June 2018	Reviewed 1 January - 30 June 2017
Profit / (Loss) for the period		41	(434)
Adjustments to Reconcile Profit / (Loss)			
Adjustments for Depreciation and Amortisation Expense	12 and 13	536	507
Adjustments for Provisions Related with Employee Benefits	15 and 17	22	21
Adjustments for Provisions for Payables	15	1	2
Adjustments for Reversal of Probable Risks		(5)	(5)
Adjustments for Interest Income	24 and 25	(30)	(46)
Adjustments for Interest Expense	17 and 25	138	103
Adjustments For Unrealised Foreign Exchange Losses		(69)	433
Adjustments for Manufacturers' Credits	11	1	2
Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments	25	(21)	56
Adjustments for Undistributed Profits of Associates	3	(32)	(22)
Adjustments for Tax Income	26	(1)	(107)
Adjustments for Gains Arised From Sale of Tangible Assets	24	(4)	(47)
Adjustments for Losses Arised from Sale of Other Non-Current Assets		20	9
Operating Profit Before Changes in Working Capital		**597**	**472**
Increase in Trade Receivables from Non Related Parties		(59)	(202)
Increase in Other Non-Related Party Receivables Related with Operations	10	(135)	(73)
Adjustments for Increase in Inventories		(11)	(8)
Adjustments for (Increase) / Decrease in Prepaid Expenses		(147)	19
Increase in Trade Payables to Related Parties	9	4	26
Increase in Trade Payables to Non-Related Parties		27	71
Adjustments for Decrease in Payables Due to Employee Benefits		(57)	(6)
Increase in Other Operating Payables to Non-Related Parties		26	14
Increase in Deferred Income	11	735	758
Decrease / (Increase) in Other Assets Related with Operations		19	(18)
Cash Flows From Operations		**999**	**1,053**
Payments for Provisions Related with Employee Benefits	17	(7)	(9)
Income taxes paid	26	26	8
Net Cash From Operating Activities		**1,018**	**1,052**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		14	941
Cash Payments From Purchasing of Property, Plant and Equipment (*)	12 and 13	(482)	(421)
Cash Payments From Purchasing of Other Long-term Assets	6	(24)	(1,018)
Other Cash Advances and Loans		(658)	419
Dividends Received		31	18
Interest Received	24 and 25	30	44
Net Cash Flows / (Used In) Investing Activities		**(1,089)**	**(17)**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds From Loans	7	1,304	57
Payments of Finance Lease Liabilities	7	(477)	(1,283)
Interest Paid		(97)	(64)
Other (Outflows) / Inflows of Cash	8	-	17
Net Cash Used in Financing Activities		**730**	**(1,273)**
Net Change in Cash and Cash Equivalents		**659**	**(238)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,891**	**1,466**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	**2,550**	**1,228**

(*) USD 0 portion of property and equipment and intangible assets purchases in total of USD 482 for the period ended 30 June 2018 was financed through finance leases. (30 June 2017: USD 385 portion of property and equipment and intangible assets purchases in total of USD 806 was financed through finance leases.)

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

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the "Company" or "THY") was incorporated in Turkey in 1933. As of 30 June 2018 and 31 December 2017, the shareholders and their respective shareholdings in the Company are as follows:

	30 June 2018	**31 December 2017**
Turkey Wealth Fund (*)	% 49.12	% 49.12
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	-	-
Other (publicly held)	% 50.88	% 50.88
Total	% 100.00	% 100.00

(*) Republic of Turkey Prime Ministry Privatization is changed as Republic of Turkey Treasury and Finance Ministry Privatization Administration. 49.12% share of the Company and its subsidiaries (together the "Group") owned by Republic of Turkey Treasury and Finance Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatisation Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

The number of employees working for the Group as of 30 June 2018 is 32,738 (31 December 2017: 31,510). The average number of employees working for the Group for the period ended 30 June 2018 and 2017 are 32,025 and 30,427 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mahallesi, Havaalanı Caddesi No: 3/1
34149 Yeşilköy İSTANBUL.

The Company's stocks have been traded on Borsa İstanbul (BIST) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 30 June 2018 and 31 December 2017:

		Ownership Rate		Country of
Name of the Company	Principal Activity	30 June 2018	31 December 2017	Registration
THY Teknik A.Ş. (THY Teknik)	Aircraft Maintenance Services	100%	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Training & Airport Operations	100%	100%	Turkey
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş. (*)	Airport Investment	100%	100%	Turkey

(*) The association was established in November 2017 to operate in the fields of airport investment and management by the Board of Directors.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. COMPANY ORGANIZATION AND ITS OPERATIONS (cont'd)

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Company as of 30 June 2018 and 31 December 2017:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO İkram Hizmetleri A.Ş. (Turkish DO&CO)	Turkey	50%	50%	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)	Turkey	49%	49%	Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Turkey	50%	50%	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)	Turkey	50%	50%	Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich)	Turkey	40%	40%	Maintenance Services
Uçak Koltuk Sanayi ve Ticaret A.Ş (Uçak Koltuk)	Turkey	50%	50%	Cabin Interior Products
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI)	Turkey	50%	50%	Cabin Interior Products
Vergi İade Aracılık A.Ş.	Turkey	30%	30%	VAT Return and Consultancy

The Group owns 49%, 40% and 30% equity shares of TEC, Goodrich and Vergi İade Aracılık A.Ş. respectively. However, based on the contractual arrangements between the Group and the other respective investors, decisions about the relevant activities of the arrangements require both the Group and the other respective investor agreement. Thus, the Group concluded that it has joint control over TEC, Goodrich and Vergi İade Aracılık A.Ş..

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

Board of Directors has approved the condensed consolidated interim financial statements as of 30 June 2018 on 8 August 2018. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Basis of Preparation

The condensed consolidated interim financial statements, except for investment property and derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Adjustment of Financial Statements in Hyperinflationary Periods

As of 1 January 2005, "IAS 29: Financial Reporting in Hyperinflationary Economies" was no longer applied henceforward.

Functional and Reporting Currency

Functional currency

The condensed consolidated interim financial statements of the Group are presented in US Dollars, which is the presentation currency of the Company.

Although the currency of the country in which the Company is domiciled is Turkish Lira (TL), 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 consolidated 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 IAS 21 (the Effects of Changes in Foreign Exchange Rates).

Except where otherwise indicated, all values are rounded the nearest million (US Dollar 000,000).

Basis of Consolidation

a. The condensed consolidated interim financial statements include the accounts of the parent company, THY, its Subsidiaries and its Joint Ventures on the basis set out in sections (b) below. Financial statements of the subsidiaries and affiliates are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.

b. The Group has nine joint ventures (Note: 1). These joint ventures are economical activities whereby decisions about strategic finance and operating policy are jointly made by the consensus of the Group and other investors. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method. Under the equity method, joint ventures are initially recognized at cost and adjusted to recognize any distributions received impairments in the joint ventures and the Company's share of the profit or loss after the date of acquisition. Joint ventures' losses that exceed the Group's share are not recognized, unless the Company has incurred legal or constructive obligations on behalf of the joint venture.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control occurs when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.2 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these condensed consolidated interim financial statements as at and for the period ended 30 June 2018 except for described below are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2017.

2.3 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed consolidated interim financial statements as at 30 June 2018 except for described below are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2017. The changes in accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ending 31 December 2018.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

The Group has initially adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018.

The effect of initially applying these standards is mainly attributed to the following:

- recognition of ticket breakage revenue after the scheduled flight date;
- recognition of ticket reissue revenue with the scheduled flight date;
- an increase in impairment losses recognized on financial assets.

IFRS 15 Revenue From Contracts With Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretation. The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method – by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information presented for 2017 has not been restated and continues to be as previously reported under IAS 18 and IAS 11 and related interpretations. The details of the significant changes and quantitative impact of the changes are set out below.

Rendering of services:

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recognized as operating revenue when the transportation service is provided. Tickets sold but not used (unflown) yet are recognized as passenger flight liabilities. IFRS 15 does not have a material effect on the Group's financial statements and accounting policies.

The Group develops estimates using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. The data used for the estimate/forecast for the amount of unredeemed tickets is revised under the IFRS 15 and provisional ticket breakage revenue is recognized/calculated with the tickets not flown on the scheduled flight date. Change fee revenue is recognized at the time of the flight (service provided) and not at the time of sale as per previous practice. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

The following table summarizes the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

Retained Earnings	Notes	Impact of adopting IFRS 15 at 1 Jan 2018
Decrease of Expired Ticket Revenue	(a)	7
Decrease of Ticket Reissue Revenue	(b)	2
Related Tax		(2)
Impact at 1 January 2018		**7**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 15 Revenue From Contracts With Customers (cont'd)

The following tables summarize the impacts of adopting IFRS 15 on the Group's interim statement of financial position as at 30 June 2018 and its interim statement of profit or loss. There was no material impact on the Group's interim statement of cash flows and OCI for the six month period ended 30 June 2018.

Impact on the condensed consolidated interim statement of financial positon

30 June 2018	Notes	As Reported	Adjustment	Amounts without adoption of IFRS 15
ASSETS				
CURRENT ASSETS		**4,979**	-	**4,979**
NON-CURRENT ASSETS		**14,836**	-	**14,836**
TOTAL ASSETS		**19,815**	-	**19,815**
LIABILITIES				
CURRENT LIABILITIES		**5,184**	**19**	**5,165**
Deferred Income	(a), (b)	1,746	19	1,727
NON-CURRENT LIABILITIES		**9,163**	**-**	**9,163**
EQUITY		**5,468**	**(19)**	**5,487**
Previous Years Profit	(a), (b)	3,760	(7)	3,767
Net Profit / (Loss) for the Period	(a), (b)	41	(12)	53
TOTAL LIABILITIES AND EQUITY		**19,815**	-	**19,815**

Impact on the condensed interim consolidated statement of profit or loss

PROFIT OR LOSS	Notes	As Reported	Adjustment	Amounts without adoption of IFRS 15
Revenue	(a), (b)	5,940	(10)	5,950
GROSS PROFIT		**1,087**	**(10)**	**1,097**
OPERATING PROFIT / (LOSS) BEFORE INVESTMENT ACTIVITIES		**258**	**-**	**258**
OPERATING PROFIT / (LOSS)		**330**	**-**	**330**
PROFIT / (LOSS) BEFORE TAX		**40**	**(10)**	**50**
Tax Expense		**1**	**(2)**	**3**
Deferred Tax (Expense) / Income	(a), (b)	34	(2)	36
NET PROFIT / (LOSS) FOR THE PERIOD		**41**	**(12)**	**53**

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 15 Revenue From Contracts With Customers (cont'd)

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's services are set out below.

a) Expired Ticket Revenue

Tickets for which the passenger is not expected to exercise their rights under the ticket contract with the Group will expire. Tickets that expire unused represent unexercised passenger rights and are often referred to as passenger ticket breakage. The Group recognizes breakage (or unexercised rights) as revenue. Since the break date of these specific tickets can not be identified ultimately, the Group estimates and recognizes the expected breakage amount by using historical data and trends. The data used for the estimation for the amount of unredeemed tickets is revised under the IFRS 15 and provisional ticket breakage revenue is calculated with the tickets not flown on their scheduled flight date. The impacts of the changes over the breakage calculation method are an increase in the liabilities and a decrease in the revenue and equity.

b) Ticket Reissue Revenue

Each fare type that the Group issues will have its own conditions attached, which may include it being restricted, non-upgradeable or non-refundable. This means that if passengers need to make a change to their booking, cancel flights or buy replacement tickets then a change fee may apply. Under previous standards the Group recognize change fees as revenue when a passenger request a change and pays the fee. With the adoption of IFRS 15 the change service is not considered distinctly because the customer cannot benefit from it without taking the flight. Although the change service is provided in advance of the flight, the benefit from it is not provided until the customer takes the flight. As a result, the change fee is recognized as revenue together with the original ticket sale on the date of travel. The impacts of the changes are an increase in the liabilities and a decrease in the revenue and equity.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings.

	Impact of adopting IFRS 9 on opening balance
Retained Earnings	
Recognition of expected credit losses under IFRS 9	9
Related tax	(2)
Impact at 1 January 2018	**7**

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized for the FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized for the at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	Amortized cost	2,369	2,364
Cash and cash equivalents	Loans and receivables	Amortized cost	2,424	2,422
Corporate debt securities	Available for sale	FVOCI-debt instrument	183	183
Interest rate swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	4	4
Forward exchange contracts used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	39	39
Total financial assets			**5,019**	**5,012**

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

The corporate debt securities categorized as available-for-sale under IAS 39 are held by the Group's treasury unit in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The corporate debt securities mature in one to two years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of USD 7 in the allowance for impairment over these receivables was recognized in opening retained earnings at 1 January 2018 on transition to IFRS 9.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs. The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held).

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

Impairment of Financial Assets (cont'd)

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss and OCI. As a result, the Company reclassified impairment gains amounting to USD 4, recognized under IAS 39, from 'other operating expenses and other operating income' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the six months ended 30 June 2018.

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

Loss allowance as at 31 December 2017 under IAS 39	75
Additional impairment recognized at 1 January 2018 on;	
Trade and other receivables as at 31 December 2017	8
Cash and cash equivalents	1
Loss allowance as at 31 December 2017 under IFRS 9	**84**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

Trade Receivables and Contract Assets

The following analysis provides further detail about the calculation of ECLs related to trade receivables and contract assets on the adoption of IFRS 9. The Company considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past two years. The Company performed the calculation of ECL rates separately for trade and other receivables.

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, delinquency status, geographic region, age of relationship.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June 2018.

Maturity Ranges As of 30.06.2018	Weighted Average Lost Rate	Gross Carrying Amount	Impairment Loss Allowance
Current	0.19%	603	1
1-30 days past due	1.04%	77	1
30-90 days past due	4.10%	18	1
90-360 days past due	4.12%	16	1
More than 1 year past due	43.52%	4	2
		718	6

The following table provides information about the exposure to credit risk and ECLs for time deposits, other receivables and debt to securities as at 30 June 2018.

Equivalent to External Credit Rating	Weighted Average Lost Rate	Gross Carrying Amount	Impairment Loss Allowance
AA2	0.02%	1,318	-
BA2	0.05%	2,726	1
B1	1.5%	118	2
		4,162	3

Transition

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

Non-Derivative Financial Instruments and Hedge Accounting

As of 2018, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against foreign exchange rate risk due to highly probable future foreign currency revenues. Unrealized foreign exchange differences arising from the financial lease liabilities are recognized in other comprehensive income.

2.4 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 consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Standards and Interpretations (cont'd)

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

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* 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 Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 23 –Uncertainty Over Income Tax Treatments

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

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Standards and Interpretations (cont'd)

Annual Improvements to IFRSs 2015-2017 Cycle (cont'd)

Improvements to IFRSs (cont'd)

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 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: Quoted (unadjusted) prices in active markets for identical assets and obligations.

- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.

- Level 3: Variables, which are not related to observable market variable for assets and liabilities (unobservable variables).

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

	30 June 2018	31 December 2017
Sun Express	97	105
TEC	63	56
Turkish DO&CO	56	60
THY Opet	43	54
TGS	29	36
Uçak Koltuk	4	4
TCI	3	3
Goodrich	2	2
Vergi İade Aracılık (*)	-	-
	297	320

(*) The Group's share in its shareholders' equity is less than USD 1.

Share of investments' profit / (loss) accounted by using the equity method are as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Sun Express	(13)	-	(9)	10
TEC	7	1	6	4
Turkish DO&CO	6	3	5	2
THY Opet	25	19	16	5
TGS	8	7	4	3
Uçak Koltuk	(1)	(1)	-	-
	32	29	22	24

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Sun Express as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	1,502	1,439
Total liabilities	1,306	1,228
Shareholders'equity	197	210
Group's share in joint venture's shareholders' equity	97	105

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	589	357	461	299
Loss for the period	(25)	-	(19)	19
Group's share in joint venture's (loss) / profit for the period	(13)	-	(9)	10

Financial information for TEC as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	198	163
Total liabilities	69	49
Shareholders'equity	129	114
Group's share in joint venture's shareholders' equity	63	56

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	275	126	229	130
Profit for the period	14	2	13	8
Group's share in joint venture's profit for the period	7	1	6	4

Financial information for Turkish DO&CO as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	168	180
Total liabilities	55	60
Shareholders'equity	113	120
Group's share in joint venture's shareholders' equity	56	60

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Turkish DO&CO as of 30 June 2018 and 2017 are as follows (cont'd):

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	148	77	126	63
Profit for the period	12	6	11	6
Group's share in joint venture's profit for the period	6	3	5	2

Financial information for THY Opet as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	443	616
Total liabilities	357	509
Shareholders'equity	86	107
Group's share in joint venture's shareholders' equity	43	54

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	1,058	580	701	370
Profit for the period	50	38	33	10
Group's share in joint venture's profit for the period	25	19	16	5

Financial information for TGS as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	109	127
Total liabilities	52	54
Shareholders'equity	57	72
Group's share in joint venture's shareholders' equity	29	36

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	144	78	117	66
Profit for the period	15	13	7	6
Group's share in joint venture's profit for the period	8	7	4	3

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Uçak Koltuk as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	16	16
Total liabilities	9	8
Shareholders'equity	7	8
Group's share in joint venture's shareholders' equity	4	4

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	4	3	6	4
Loss for the period	(1)	-	(1)	-
Group's share in joint venture's loss for the period	(1)	(1)	-	-

Financial information for TCI as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	12	10
Total liabilities	7	4
Shareholders'equity	5	6
Group's share in joint venture's shareholders' equity	3	3

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	3	2	2	-
Loss for the period	(1)	-	(1)	-
Group's share in joint venture's loss for the period	-	-	-	-

Financial information for Goodrich as of 30 June 2018 and 2017 are as follows:

	30 June 2018	31 December 2017
Total assets	7	7
Total liabilities	3	4
Shareholders'equity	4	4
Group's share in joint venture's shareholders' equity	2	2

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Goodrich as of 30 June 2018 and 2017 are as follows (cont'd):

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue	9	4	8	4
Profit for the period	-	-	1	1
Group's share in joint venture's profit for the period	-	-	-	-

4. SEGMENTAL REPORTING

Group management makes decisions regarding resource allocation to segments based upon the results and the activities of its air transport and aircraft technical maintenance services segments for the purpose of segments' performance evaluation. The Group's main activities can be summarized as follows:

Air Transport ("Aviation")

The Group's aviation activities consist of mainly domestic and international passenger and cargo air transportation.

Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector. The detailed information about the sales revenue of the Group is given in Note 20.

4.1 Total Assets and Liabilities

Total Assets	30 June 2018	31 December 2017
Aviation	19,786	18,085
Technical	1,205	1,256
Total	20,991	19,341
Less: Eliminations due to consolidation	(1,176)	(1,144)
Total assets in consolidated financial statements	19,815	18,197

Total Liabilitites	30 June 2018	31 December 2017
Aviation	14,432	12,874
Technical	251	363
Total	14,683	13,237
Less: Eliminations due to consolidation	(336)	(386)
Total liabilitites in consolidated financial statements	14,347	12,851

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 30 June 2018	**Aviation**	**Technic**	**Inter-segment elimination**	**Total**
Sales to External Customers	5,828	112	-	5,940
Inter-Segment Sales	24	481	(505)	-
Revenue	5,852	593	(505)	5,940
Cost of Sales (-)	(4,917)	(441)	505	(4,853)
Gross Profit	935	152	-	1,087
Administrative Expenses (-)	(101)	(40)	1	(140)
Marketing and Sales Expenses (-)	(673)	(4)	-	(677)
Other Operating Income	59	15	(9)	65
Other Operating Expenses (-)	(68)	(17)	8	(77)
Operating Profit Before Investment Activities	152	106	-	258
Income from Investment Activities	40	-	-	40
Share of Investments' Profit Accounted by Using The Equity Method	25	7	-	32
Operating Profit	217	113	-	330
Financial Income	32	15	(2)	45
Financial Expense (-)	(333)	(4)	2	(335)
Profit Before Tax	(84)	124	-	40

1 January - 30 June 2017	**Aviation**	**Technic**	**Inter-segment elimination**	**Total**
Sales to External Customers	4,519	78	-	4,597
Inter-Segment Sales	18	411	(429)	-
Revenue	4,537	489	(429)	4,597
Cost of Sales (-)	(4,040)	(361)	429	(3,972)
Gross Profit	497	128	-	625
Administrative Expenses (-)	(96)	(45)	2	(139)
Marketing and Sales Expenses (-)	(553)	(2)	-	(555)
Other Operating Income	104	19	(19)	104
Other Operating Expenses (-)	(19)	(16)	17	(18)
Operating (Loss) / Profit Before Investment Activities	(67)	84	-	17
Income from Investment Activities	109	-	-	109
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Loss Accounted by Using The Equity Method	15	7	-	22
Operating (Loss) / Profit	56	91	-	147
Financial Income	36	-	(5)	31
Financial Expense (-)	(718)	(6)	5	(719)
(Loss) / Profit Before Tax	(626)	85	-	(541)

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont'd)

4.3 Investment Operations

1 January - 30 June 2018	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	400	82	-	482
Current period depreciation and amortization change	462	74	-	536
Investments accounted by using the equity method	231	66	-	297

1 January - 30 June 2017	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	753	53	-	806
Current period depreciation and amortization change	439	68	-	507
Investments accounted by using the equity method	194	52	-	246

5. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
Cash	2	2
Banks – Time deposits	2,422	1,768
Banks – Demand deposits	125	116
Other liquid assets	1	5
	2,550	1,891

Details of the time deposits as of 30 June 2018 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2018
15	TL	13.18% - 16.58%	July 2018	3
150	USD	3.33% - 3.73%	August 2018	150
1,945	EUR	1.93% - 2.42%	September 2018	2,269
				2,422

Details of the time deposits as of 31 December 2017 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
153	TL	11.41% - 12.58%	January 2018	41
141	USD	2.87% - 3.53%	March 2018	142
1,322	EUR	1.60% - 2.34%	March 2018	1,585
				1,768

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	30 June 2018	31 December 2017
Time deposits with maturity more than 3 months	87	195

Time deposit with maturity of more than 3 months as of 30 June 2018 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2018
74	EUR	2.09%	October 2018	87

Time deposit with maturity of more than 3 months as of 31 December 2017 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
162	EUR	1.68% - 1.93%	May 2018	195

Long-term financial investments are as follows:

	30 June 2018	31 December 2017
Financial assets		
- FVOCI	182	50
Other	1	1
	183	51

Details of FVOCI as of 30 June 2018 is as follows:

	30 June 2018	31 December 2017
FVOCI		
- Treasury bills	148	17
- Eurobonds	34	33
	182	50

Period remaining to contractual maturity dates for FVOCI as of 30 June 2018 is as follows:

	30 June 2018	31 December 2017
1 to 5 years	104	-
Over 5 years	78	50
	182	50

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS

Short term borrowings are as follows:

	30 June 2018	31 December 2017
Short term borrowings	867	744

Short term borrowings as of 30 June 2018 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2018
280	USD	2.09% - 2.30%	October 2018	280
504	EUR	0.40% - 0.75%	February 2019	587
				867

Short term borrowings as of 31 December 2017 is as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2017
400	USD	1.64% - 2.30%	October 2018	400
288	EUR	0.40% - 0.75%	December 2018	344
				744

Short term portions of long term borrowings are as follows:

	30 June 2018	31 December 2017
Finance lease obligations (Note: 14)	913	954
Bank borrowings	148	29
	1,061	983

Long term borrowings are as follows:

	30 June 2018	31 December 2017
Finance lease obligations (Note: 14)	6,757	7,259
Bank borrowings	1,114	80
	7,871	7,339

Details of bank borrowings as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Less than 1 year	148	29
Between 1 – 5 years	1,114	80
	1,262	109

Amount	Currency	Interest Rate Type	Effective Interest Rate	Payment Period	30 June 2018
500	EUR	Fixed	4.00% - 4.60%	May'19 - June'23	582
584	EUR	Floating	Euribor + 2.45%- Euribor + 3.50%	Feb'17 - June'23	680
					1,262

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS (cont'd)

Details of bank borrowings as of 30 June 2018 and 2017 are as follows (cont'd):

Amount	Currency	Interest Rate Type	Effective Interest Rate	Payment Period	31 December 2018
91	EUR	Floating	Euribor + 2.45%	Feb'17-Sep' 21	109

Reconciliation of liabilities arising from financing activities:

	2017	Reimbursement of financial debt	Non-cash Changes	New financial debt	2018
Lease Liabilities	8,213	(570)	27	-	7,670
Bank Borrowings	853	(305)	(24)	1,605	2,129
	9,066	(875)	3	1,605	9,799

8. OTHER FINANCIAL LIABILITIES

Short-term other financial liabilities of the Group are as follows:

	30 June 2018	31 December 2017
Other financial liabilities	16	16

Other financial liabilities consist of overnight interest-free borrowings from banks obtained for settlement of monthly tax and social security premium payments.

9. RELATED PARTY TRANSACTIONS

Other short-term payables from related parties are as follows:

	30 June 2018	31 December 2017
THY Opet	-	7

Short-term trade payables to related parties that are accounted by using the equity method are as follows:

	30 June 2018	31 December 2017
THY Opet	95	77
Turkish DO&CO	28	28
TEC	25	36
TGS	17	16
Sun Express	5	8
Goodrich	2	1
TCI	-	2
	172	168

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with related parties for the period ended 30 June 2018 and 2017 are as follows:

a) Sales to related parties:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Sun Express	25	12	13	6
TEC	13	6	5	3
TGS	2	1	3	2
Uçak Koltuk	2	2	-	-
Turkish DO&CO	1	1	1	1
	43	22	22	12

b) **Purchases from related parties:**

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
THY Opet	895	487	610	329
TEC	154	64	131	64
Turkish DO&CO	140	73	113	63
TGS	135	75	111	61
Sun Express	87	41	81	41
Goodrich	7	3	5	3
Other	3	3	2	2
	1,421	746	1,053	563

Transactions between the Group and THY Opet are related to the supply of aircraft fuel; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and Sun Express are related to wet lease and seat sales operations; transactions between the Group and TGS are related to ground services and transactions between the Group and TEC are related to engine maintenance services. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 2 (1 January- 30 June 2017: USD 2).

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

10. OTHER RECEIVABLES

Other short-term receivables from non-related parties as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Predelivery payments made for aircrafts	646	117
Bank deposits with transfer limitations (*)	126	55
Receivables from technical purchases	98	71
Value added tax receivables	89	54
Receivables from pilots for flight training	16	16
Receivables from employees	1	1
Other receivables	14	5
	990	319

(*) As of 30 June 2018, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Gabon, Benin and Iran. (As of 31 December 2017, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Gabon and Benin.)

Other long-term receivables from non-related parties as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Predelivery payments made for aircrafts	353	247
Receivables related to investment certificates	238	256
Receivables from pilots for flight training	105	101
Deposits and guarentees given	16	9
Bank deposits with transfer limitations (**)	6	6
	718	619

(**) As of 30 June 2018, the balance of this account includes bank deposits in Syria.

11. DEFERRED INCOME

Deferred income is as follows:

	30 June 2018	31 December 2017
Passenger flight liabilites	1,709	1,000
Other short-term deferred income	37	16
	1,746	1,016

Passenger flight liability is as follows:

	30 June 2018	31 December 2017
Flight liability generating from ticket sales	1,462	763
Flight liability generating from frequent flyer program	247	237
	1,709	1,000

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

11. DEFERRED INCOME (cont'd)

Other short-term deferred income is as follows:

	30 June 2018	31 December 2017
Advances received	21	10
Unearned bank protocol revenue accruals	10	1
Deferred finance income	5	5
Other income accruals	1	-
	37	16

Long-term deferred income is as follows:

	30 June 2018	31 December 2017
Deferred finance income	38	40
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(30)	(29)
Unearned bank protocol revenue accruals	18	-
	57	42

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. PROPERTY AND EQUIPMENT

	Land, Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
Cost									
Opening balance at 1 January 2018	222	376	187	16,398	648	551	520	334	19,236
Additions	71	27	8	114	58	60	8	134	480
Transfer (*)	-	1	-	7	8	-	14	(32)	(2)
Disposals	-	(14)	(2)	(55)	(2)	(54)	(6)	-	(133)
Closing balance at 30 June 2018	293	390	193	16,464	712	557	536	436	19,581
Accumulated Depreciation									
Opening balance at 1 January 2018	78	204	132	5,138	225	285	172	-	6,234
Depreciation charge	6	17	11	401	22	48	26	-	531
Disposals	-	(4)	(2)	(55)	(2)	(34)	(6)	-	(103)
Closing balance at 30 June 2018	84	217	141	5,484	245	299	192	-	6,662
Net book value at 30 June 2018	209	173	52	10,980	467	258	344	436	12,919
Net book value at 31 December 2017	144	172	55	11,260	423	266	348	334	13,002

(*) Tangible assets amounting to USD 2 are transferred to intangible assets.

As of 30 June 2018, carrying value of the aircrafts and spare engines acquired through finance leases is USD 10,578 (31 December 2017: USD 10,826)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 512 (30 June 2017: USD 476), general administrative expenses is amounting to USD 21 (30 June 2017: USD 28) and marketing and sales expenses is amounting to USD 3 (30 June 2017: USD 3).

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. PROPERTY AND EQUIPMENT (cont'd)

	Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
Cost									
Opening balance at 1 January 2017	218	367	176	16,279	608	539	500	235	18,922
Additions	-	4	3	610	58	48	1	79	803
Transfer	4	1	3	22	-	-	-	(31)	(1)
Disposals	-	(7)	(1)	(967)	(41)	(25)	-	-	(1,041)
Closing balance at 30 June 2017	222	365	181	15,944	625	562	501	283	18,683
Accumulated Depreciation									
Opening balance at 1 January 2017	66	177	112	4,549	204	203	135	-	5,446
Depreciation charge	5	15	11	384	20	44	19	-	498
Disposals	-	(2)	(1)	(108)	(11)	(16)	-	-	(138)
Closing balance at 30 June 2017	71	190	122	4,825	213	231	154	-	5,806
Net book value at 30 June 2017	151	175	59	11,119	412	331	347	283	12,877
Net book value at 31 December 2016	152	190	64	11,730	404	336	365	235	13,476

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

13. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2018	44	148	5	197
Additions	-	2	-	2
Transfers	-	2	-	2
Closing balance at 30 June 2018	44	152	5	201
Accumulated Amortization				
Opening balance at 1 January 2018	-	130	1	131
Amortization charge	-	5	-	5
Closing balance at 30 June 2018	-	135	1	136
Net book value at 30 June 2018	44	17	4	65
Net book value at 31 December 2017	44	18	4	66

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2017	44	140	5	189
Additions	-	3	-	3
Transfers	-	1	-	1
Closing balance at 30 June 2017	44	144	5	193
Accumulated Amortization				
Opening balance at 1 January 2017	-	115	1	116
Amortization charge	-	9	-	9
Closing balance at 30 June 2017	-	124	1	125
Net book value at 30 June 2017	44	20	4	68
Net book value at 31 December 2016	44	25	4	73

The Group considers slot rights and licenses obtained by purchase of MNG Teknik and included in other rights above amounting to USD 10 at cost as intangible assets having indefinite useful lives since they do not have expiry dates and usable in the foreseeable future.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

14. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	30 June 2018	31 December 2017
Less than 1 year	1,066	1,105
Between 1 – 5 years	3,653	3,718
Over 5 years	3,676	4,189
	8,395	9,012
Less: Future interest expenses	(725)	(799)
Principal value of future rentals stated in financial statements	7,670	8,213

	30 June 2018	31 December 2017
Interest Range:		
Floating rate obligations	4,692	4,979
Fixed rate obligations	2,978	3,234
	7,670	8,213

The Group acquired certain portion of its aircrafts and spare engines through finance leases. The lease terms are between 10 to 12 years. The Group has options to purchase related assets for an insignificant amount at the end of lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased asset.

As of 30 June 2018, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.74% (31 December 2017: 2.77%) for the fixed rate obligations and 1.62% (31 December 2017: 1.48%) for the floating rate obligations.

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 30 June 2018 and 31 December 2017 are as follows:

Short-term provision for employee benefits is as follows:

	30 June 2018	31 December 2017
Provisions for unused vacation	44	41

Changes in the provisions for the years ended 30 June 2018 and 2017 are set out below:

	1 January - 30 June 2018	1 January - 30 June 2017
Provisions at the beginning of the period	41	44
Provisions for the current period	15	9
Provisions released	(4)	(3)
Foreign currency translation differences	(8)	-
Provisions at the end of the period	44	50

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

The Group recognizes an obligation for unused vacation days based on salaries of employees at the end of each reporting period.

Other short-term provision is as follows:

	30 June 2018	**31 December 2017**
Provisions for legal claims	19	22

Changes in the provisions for legal claims for the years ended 30 June 2018 and 2017 are set out below:

	1 January - 30 June 2018	**1 January - 30 June 2017**
Provisions at the beginning of the riod	22	17
Provisions for the current period	2	3
Provisions released	(1)	(1)
Foreign currency translation differences	(4)	1
Provisions at the end of the period	19	20

The Group recognizes provisions for lawsuits against itself due to its operations. The lawsuits against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. It is expected that provision amount will be paid within one year.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

16. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letters of guarantees given as of 30 June 2018 is USD 1,077. (31 December 2017: USD 859).

	30 June 2018		**31 December 2017**	
	Original currency amount	**USD equivalent**	**Original currency amount**	**USD equivalent**
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,077	-	859
-Collaterals				
TL	35	8	34	9
EUR	585	681	326	391
USD	380	380	451	451
Other	-	8	-	8
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		1,077		859

The ratio of other GPM ("D") given by the group to its equity is 0% as of 30 June 2018 (31 December 2017: 0%)

b) Operational lease obligations: The breakdown of operational lease obligations related to aircrafts is as follows:

	30 June 2018	**31 December 2017**
Less than 1 year	482	359
Between 1 – 5 years	1,157	950
More than 5 years	925	757
	2,564	2,066

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

16. COMMITMENTS (cont'd)

c) Other operational lease debts :

The Group has operational lease agreements for 15 years related to the land for the aircraft maintenance hangar and building and another operational lease agreement for 23 years related to the land for the aircraft maintenance hangar. The liabilities of the Group related to these lease agreements are as follows:

	30 June 2018	**31 December 2017**
Less than 1 year	4	4
Between 1 – 5 years	20	20
More than 5 years	20	23
	44	47

d) Aircraft purchase commitments:

To be delivered between the years 2018-2023, the Group signed an agreement for 230 aircrafts, (220 of aircrafts are contractual and 10 of them are optional) with a list price value of 37.4 billion US Dollars (full). The Group has made an advance payment of 1,039 million US Dollars (full) relevant to these purchases as of 30 June 2018.

17. EMPLOYEE BENEFITS

Provisions for long-term retirement pay liability as of 30 June 2018 and 31 December 2017 is comprised of the following:

	30 June 2018	**31 December 2017**
Provisions for retirement pay liability	118	128

Provisions for retirement pay liability are recorded as follows:

Under Labor Law effective in Turkey, it is an obligation to make legal retirement pay to employees whose employment is terminated in certain ways. Also, according to Article 60 of Social Security Law numbered 506 which was revised by the laws 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is an obligation to make legal retirement pay to those who entitled to receive retirement pay when leaving their work. Some transfer provisions related to employment conditions prior to retirement are removed from the Law by the revise made on 23 May 2002. Retirement pay liability assumptions and calculations are changed in line with the revise made on 8 May 2008, which altered age of retirement.

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,191 (full) as of 30 June 2018. (31 December 2017: US Dollar 1,326 (full)).

Retirement pay liability is not subject to any funding legally. Provisions for retirement pay liability are calculated by estimating the present value of probable liability that will arise due to retirement of employees.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

17. EMPLOYEE BENEFITS (cont'd)

IAS 19 ("Employee Benefits") stipulates the progress of company's liabilities by use of actuarial valuation methods under defined benefit plans. Actuarial assumptions used in calculation of total liabilities are described as follows:

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 30 June 2018 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.00% annual inflation rate (31 December 2017: 7.00%) and 12.00% interest rate (31 December 2017: 12.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.52% (31 December 2017: 2.64%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,191 (full) which is in effect since 30 June 2018 is used in the calculation of Group's provision for retirement pay liability.

Movement in the provisions for retirement pay liability is as follows:

	1 January - 30 June 2018	**1 January - 30 June 2017**
Provisions at the beginning of the period	128	113
Service charge for the period	12	15
Interest charges	6	2
Actuarial loss / (gain)	1	(1)
Payments	(7)	(9)
Foreign currency translation difference	(22)	(1)
Provisions at the end of the period	118	119

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

18. EXPENSES BY NATURE

Expenses by nature for the six-month period ended 30 June 2018 and 2017 are as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Fuel expenses	1,724	920	1,284	693
Personnel expenses	893	441	812	425
Depreciation and amortisation expenses	536	267	507	250
Aircraft maintenance expenses	367	197	276	143
Ground services expenses	366	191	299	164
Passenger services and catering expenses	280	135	238	124
Air traffic control expenses	270	140	229	126
Airport expenses	252	134	212	120
Commissions and incentives	221	117	171	100
Operating lease expenses	167	82	153	83
Reservation systems expenses	141	73	122	68
Wet lease expenses	122	57	88	47
Advertisement and promotion expenses	89	37	64	32
Service expenses	38	17	34	16
Rents	36	19	32	17
Taxes and duties	28	9	24	8
IT & communication expenses	25	13	23	12
Insurance expenses	23	11	24	12
Transportation expenses	17	9	14	7
Consultancy expenses	14	10	7	4
Utility expenses	5	3	4	2
Systems use and associateship expenses	5	2	4	2
Membership fees	3	1	3	1
Other expenses	48	25	42	21
	5,670	2,910	4,666	2,477

19. SHAREHOLDERS' EQUITY

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

	Class	%	30 June 2018	%	31 December 2017
Turkey Wealth Fund (*)	A	49.12	678	49.12	678
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	C	-	-	-	-
Other (publicly held)	A	50.88	702	50.88	702
Paid-in capital (Turkish Lira)			1,380		1,380
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124
Historic capital (Turkish Lira) (***)			2,504		2,504
Historic capital (USD Equivalent) (***)			1,597		1,597

(*) 1,644 (full) shares belonging to various private shareholders were not taken into consideration when the Group was included to the privatization program in 1984. Subsequently, these shares were registered on behalf of Privatization Administration according to Articles of Association of the Group, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

49.12% share of the Group owned by Republic of Turkey Treasury and Finance Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatization Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

(**) Inflation adjustment on share capital represents indexation of historical capital payments based on inflation indices until 31 December 2004.

(***) Historic capital amounts are represented in Millions of Turkish Lira.

As of 30 June 2018, the Group's issued and paid-in share capital consists of 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are registered. The Class C share belongs to the Republic of Turkey Treasury and Finance Ministry Privatization Administration and has the following privileges:

Articles of Association 7: Positive vote of the board member representing class C share with Board's approval is necessary for transfer of shares issued to the name.

Articles of Association 10: The Board of Directors consists of nine members of which one member has to be nominated by the class C shareholder and the rest eight members has to be elected by class A shareholders.

Articles of Association 14: The following decisions of the Board are subject to the positive vote of the class C Shareholder:

a) Decisions that will negatively affect the Company's mission Defined in Article 3.1. of the Articles of Association,

b) Suggesting change in the Articles of Association at General Assembly,

19. SHAREHOLDERS' EQUITY (cont'd)

Articles of Association 14: The following decisions of the Board are subject to the positive vote of the class C Shareholder (cont'd):

c) Increasing share capital,

d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

e) Every decision or action which directly or indirectly put the Company under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Company's shares held by Turkish State decrease under 20%.)

f) Decisions relating to merges and liquidation,

g) Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

Restricted Profit Reserves

Turkish Commercial Code (TCC) stipulates that the general 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. Additionally, not limited with 20% of paid-in share capital, the general legal reserve is appropriated at the rate of 10% per annum of all cash dividends in excess of 5% of the paid-in share capital. Under TCC, the legal reserves can only be used to offset losses, to sustain business when conditions get worse, to prevent unemployment and are not available for any other usage unless they exceed 50% of paid-in share capital.

Foreign Currency Translation Differences

Currency translation differences under equity arise from Group's joint ventures accounted under equity method which have functional currencies other than USD.

Distribution of Dividends

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly in accordance with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with their dividend policy or articles of associations. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on financial statements of the company.

Actuarial Differences on Defined Benefit Plans

As a result of the adoption of IAS 19 (2011), all actuarial differences are recognized immediately in other comprehensive income.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

19. SHAREHOLDERS' EQUITY (cont'd)

Gains/Losses from Cash Flow Hedges

Hedge gain/losses against cash flow risk arise from the accounting of the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows under equity. Total of deferred gain/loss arising from hedging against financial risk are accounted in profit or loss when the hedged item impacts profit or loss.

20. REVENUE

Breakdown of gross profit is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Passenger revenue				
Scheduled	4,994	2,696	3,901	2,231
Unscheduled	20	15	17	12
Total passenger revenue	5,014	2,711	3,918	2,243
Cargo revenue				
Carried by passenger aircraft	399	208	325	188
Carried by cargo aircraft	385	190	255	139
Total cargo revenue	784	398	580	327
Total passenger and cargo revenue	5,798	3,109	4,498	2,570
Technical revenue	112	51	77	34
Other revenue	30	17	22	13
Net sales	5,940	3,177	4,597	2,617
Cost of sales (-)	(4,853)	(2,506)	(3,972)	(2,109)
Gross profit	1,087	671	625	508

Breakdown of total passenger and cargo revenue by geography is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
- Europe	1,674	924	1,229	715
- Far East	1,441	747	1,134	630
- Middle East	640	342	531	306
- America	826	461	624	372
- Africa	562	280	426	225
Total international flights	5,143	2,754	3,944	2,248
Domestic flights	655	355	554	322
Total passenger and cargo revenue	5,798	3,109	4,498	2,570

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

21. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Fuel expenses	1,724	920	1,284	693
Personnel expenses	689	343	626	329
Depreciation and amortisation expenses	512	255	476	234
Aircraft maintenance expenses	367	197	276	143
Ground services expenses	366	191	299	164
Passenger services and catering expenses	280	135	238	124
Air traffic control expenses	270	140	229	126
Airport expenses	252	134	212	120
Operating lease expenses	167	82	153	83
Wet lease expenses	122	57	88	47
Insurance expenses	22	11	23	12
Rents	19	10	16	9
Transportation expenses	17	9	14	7
Service expenses	16	7	14	7
Taxes and duties	8	4	7	4
IT & communication expenses	3	2	3	1
Utility expenses	3	2	2	1
Other expenses	16	7	12	5
	4,853	2,506	3,972	2,109

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Personnel expenses	57	26	56	29
Depreciation and amortisation expenses	21	11	28	14
IT & communication expenses	18	9	17	9
Service expenses	15	7	15	7
Consultancy expenses	9	7	3	2
Rents	6	3	6	3
Systems use and associateship expenses	5	2	4	2
Utility expenses	2	1	2	1
Insurance expenses	1	0	1	-
Taxes and duties	1	1	1	-
Other general administrative expenses	5	2	6	3
	140	69	139	70

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES (cont'd)

Breakdown of marketing and sales expenses is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Commissions and incentives	221	117	171	100
Personnel expenses	147	72	130	67
Reservation systems expenses	141	73	122	68
Advertisement and promotion expenses	89	37	64	32
Taxes and duties	19	4	16	4
Rents	11	6	10	5
Service expenses	7	3	5	2
Consultancy expenses	5	3	4	2
IT & communication expenses	4	2	3	2
Membership fees	3	1	3	1
Depreciation and amortisation expenses	3	1	3	2
Other marketing and sales expenses	27	16	24	13
	677	335	555	298

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Manufacturers' credits	15	7	21	11
Insurance, indemnities, penalties income	14	7	26	9
Non- interest income from banks	5	2	4	2
Provisions released	4	2	12	3
IFRS 9 Adjustment	4	2	-	-
Turnover premium from suppliers	3	2	3	2
Rent income	2	1	5	4
Rediscount interest income	1	2	-	-
Delay interest income	-	-	1	-
Foreign exchange gains from operational activities, net	-	-	28	23
Other operating income	17	15	4	3
	65	40	104	57

Breakdown of other operating expenses is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Foreign exchange losses from operational activities, net	47	69	-	-
Indemnity and penalty expenses	6	5	1	-
Provisions	5	2	9	4
Other operating expenses	19	14	8	4
	77	90	18	8

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Income from investment incentives	30	14	35	17
Interest income from financial investment	6	3	24	16
Gain on sale of fixed assets	4	2	48	47
Gain on sale of financial investments	-	-	2	2
	40	19	109	82

Breakdown of expense from investment activities is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Loss on sale of fixed assets	-	-	1	1

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Interest income	24	13	20	12
Fair value gains on derivative financial instruments, net	21	31	-	-
Rediscount interest income from repayments of aircrafts	-	-	2	1
Other financial incomes	-	-	9	3
	45	44	31	16

Breakdown of financial expenses is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Foreign exchange losses on financial activities, net	178	77	534	279
Finance lease interest expenses	109	55	101	52
Rediscount interest expense from repayments of aircrafts	23	13	-	-
Interest expenses on employee benefits	6	3	2	1
Aircraft financing expenses	5	2	22	17
Fair value losses on derivative financial instruments, net	-	-	56	46
Other financial expenses	14	12	4	2
	335	162	719	397

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	30 June 2018	31 December 2017
Prepaid taxes	18	32

Tax liability is as follows:

	30 June 2018	31 December 2017
Provisions for corporate tax	33	49
Prepaid taxes and funds	(14)	(37)
Corporate tax liability	19	12

Tax expense is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Current period tax expense	33	18	24	13
Deferred tax (income) / expense	(34)	2	(131)	(39)
Tax income	(1)	20	(107)	(26)

Tax effect related to other comprehensive income is as follows:

	1 January - 30 June 2018			1 January - 30 June 2017		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	(36)	-	(36)	1	-	1
Change in cash flow hedge reserve	174	(35)	139	(70)	14	(56)
Gains on Remeasuring FVOCI	(10)	2	(8)	1	-	1
Change in actuarial losses from retirement pay obligation	-	-	-	1	-	1
Other comprehensive income	128	(33)	95	(67)	14	(53)

There is no taxation effect for the changes in foreign currency translation difference that is included in other comprehensive income.

26. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax

The effective tax rate is 22%. In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017,"Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 30 June 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate tax rate is also 22%. Losses can be carried forward for offset against future taxable income for 5 years. However, losses cannot be carried back for offset against profits from previous periods.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of immoveable properties and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity until the end of the fifth year following the sale. The remaining 25% of such capital gains are subject to corporate tax. However, according to the amendments by Law numbered 7061, this rate is reduced from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their corporate tax returns between 1-25 April following the close of the accounting year. 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 dividend receiving companies who are Turkish residents and Turkish branches of foreign companies. Income withholding tax rate is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

The Group 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 corporate tax rate of 22% is used.

In Turkey, the companies cannot declare a consolidated tax return; therefore, subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and they are disclosed separately.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Breakdown of the deferred tax assets / (liabilities) is as follows:

	30 June 2018	31 December 2017
Fixed assets	(1,761)	(1,539)
Adjustments for passenger flight liabilities	(106)	(126)
Change in fair value of derivative instruments	(36)	(17)
Tax loss carried forward	713	537
Income and expense for future years	72	74
Accruals for expenses	47	48
Miles accruals	32	35
Provisions for employee benefits	24	24
Provisions for unused vacation	10	1
Other	8	1
Deferred tax liabilities	(997)	(962)

The changes of deferred tax liability for the period ended 1 January – 30 June 2018 and 2017 are as follows:

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance at 1 January	962	955
Adjustments for changes in accounting policies	(4)	-
Restated deferred tax liabilitity at the beginning of the period	958	955
Foreign currency translation difference	40	(10)
Tax expense / (income) from hedging reserves	35	(12)
Tax income from available for sale	(2)	-
Deferred tax income	(34)	(131)
Deferred tax liability at the end of the period	997	802

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation with current tax charge for year period 1 January – 30 June 2018 and 2017 are as follows:

Reconciliation of effective tax charge	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Loss from operations before tax	40	147	(541)	(87)
Domestic income tax rate of 20%	(8)	(29)	108	17
Taxation effects on:				
- investments accounted by using the equity method	7	6	4	4
- expense from investment certificates	6	3	7	3
-effect of change in the deferred tax rate	5	-	-	-
- adjustment for prior year loss	3	6	(3)	-
- foreign currency translation difference	(12)	(6)	(9)	2
Tax income in statement of loss	1	(20)	107	26

27. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated financial statements of profit or loss and other comprehensive income is determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus interest") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares are regarded as issued shares. Accordingly, the weighted average number of shares outstanding during the years has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and for each earlier year.

Earnings per share are calculated by dividing net profit by weighted average number of shares outstanding in the relevant period.

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

27. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 1 January – 30 June 2018 and 2017:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000	138,000,000,000	138,000,000,000
Number of shares outstanding at 30 June (in full)	138,000,000,000	138,000,000,000	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the period (in full)	138,000,000,000	138,000,000,000	138,000,000,000	138,000,000,000
Net profit / (loss) for the period	41	127	(434)	(61)
Basic profit / (loss) per share (Full US Cents) (*)	0.03	0.09	(0.31)	(0.04)
Diluted profit / (loss) per share (Full US Cents) (*)	0.03	0.09	(0.31)	(0.04)

(*) Basic and diluted (losses) per share are the same as there are no dilutive potential ordinary shares.

28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 30 June 2018 and 31 December 2017 are as follows:

Derivative financial assets	30 June 2018	31 December 2017
Derivative instruments for fuel prices cash flow hedge	243	184
Derivative instruments for cross currency rate cash flow hedge	39	15
Derivative instruments for interest rate cash flow hedge	4	4
	286	203

Derivative financial liabilities	30 June 2018	31 December 2017
Derivative instruments for cross currency rate cash flow hedge	67	78
Derivative instruments for interest rate cash flow hedge	39	46
Derivative instruments for fuel prices cash flow hedge	17	4
	123	128

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities as monetary and non-monetary items are below:

	30 June 2018					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	627	137	121	7	9	353
2a.Monetary Financial Assets	2,511	11	2,431	5	2	62
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	459	150	113	6	5	185
4.Current Assets (1+2+3)	**3,597**	**298**	**2,665**	**18**	**16**	**600**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	197	89	99	-	-	9
8.Non Current Assets (5+6+7)	**197**	**89**	**99**	**-**	**-**	**9**
9.Total Assets (4+8)	**3,794**	**387**	**2,764**	**18**	**16**	**609**
10.Trade Payables	629	426	152	1	3	47
11.Financial Liabilities	1,207	16	959	212	20	-
12a.Other Liabilities, Monetary	1,087	801	265	17	-	4
12b.Other Liabilities, Non Monetary	63	63	-	-	-	-
13.Current Liabilities (10+11+12)	**2,986**	**1,306**	**1,376**	**230**	**23**	**51**
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,485	-	4,292	2,027	166	-
16a.Other Liabilities, Monetary	14	7	5	-	-	2
16b.Other Liabilities, Non Monetary	118	118	-	-	-	-
17.Non Current Liabilities (14+15+16)	**6,617**	**125**	**4,297**	**2,027**	**166**	**2**
18.Total Liabilities (13+17)	**9,603**	**1,431**	**5,673**	**2,257**	**189**	**53**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	**(5,809)**	**(1,044)**	**(2,909)**	**(2,239)**	**(173)**	**556**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a -14-15-16a)	**(6,284)**	**(1,102)**	**(3,121)**	**(2,245)**	**(178)**	**362**
22.Fair value of foreign currency hedged financial assets	**-**	**-**	**-**	**-**	**-**	**-**
23.Hedged foreign currency assets	**867**	**-**	**867**	**-**	**-**	**-**
24.Hedged foreign currency liabilities	**-**	**-**	**-**	**-**	**-**	**-**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

	31 December 2017					
	USD EQUIVALENT	**TL**	**EUR**	**JPY**	**CHF**	**OTHER**
1.Trade Receivables	567	125	114	3	7	318
2a.Monetary Financial Assets	1,945	57	1,838	4	2	44
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	369	142	102	7	5	113
4.Current Assets (1+2+3)	**2,881**	**324**	**2,054**	**14**	**14**	**475**
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	107	4	94	-	-	9
8.Non Current Assets (5+6+7)	**107**	**4**	**94**	**-**	**-**	**9**
9.Total Assets (4+8)	**2,988**	**328**	**2,148**	**14**	**14**	**484**
10.Trade Payables	538	363	138	-	2	35
11.Financial Liabilities	721	16	478	207	20	-
12a.Other Liabilities, Monetary	958	793	145	19	1	-
12b.Other Liabilities, Non Monetary	63	63	-	-	-	-
13.Current Liabilities (10+11+12)	**2,280**	**1,235**	**761**	**226**	**23**	**35**
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	5,818	-	3,543	2,096	179	-
16a.Other Liabilities, Monetary	14	9	5	-	-	-
16b.Other Liabilities, Non Monetary	128	128				
17.Non Current Liabilities (14+15+16)	**5,960**	**137**	**3,548**	**2,096**	**179**	**-**
18.Total Liabilities (13+17)	**8,240**	**1,372**	**4,309**	**2,322**	**202**	**35**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	**(5,252)**	**(1,044)**	**(2,161)**	**(2,308)**	**(188)**	**449**
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(5,537)**	**(999)**	**(2,357)**	**(2,315)**	**(193)**	**327**
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from TL, EURO, JPY and CHF. The following table details the Group's sensitivity to a 10% increase and decrease in TL,EURO, JPY and CHF.10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss with a same effect on equity. The Group accounted investment loans in scope of cash flow hedge accounting and foreign exchange income/expense arising from these loans are recognized in equity. 10% increase and decrease effect of foreign exchange rates are calculated with the same method and the calculated foreign exchange gains/losses are presented as hedged portion in the foreign exchange sensitivity table. Furthermore, the hedged portion of foreign exchange gains/losses via forwards and cross currency swap transactions is classified as the amount hedged against USD in the statement of exchange rate sensitivity analysis.

	30 June 2018			
	Profit / (Loss)		**Equity**	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(104)	104	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	(104)	104	-	-
4- Euro net asset / liability	149	(149)	(440)	440
5- Part hedged from Euro risk (-)	87	(87)	-	-
6- Euro net effect (4+5)	236	(236)	(440)	440
7- JPY net asset / liability	(99)	99	(125)	125
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(99)	99	(125)	125
10- CHF net asset / liability	2	(2)	(19)	19
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	2	(2)	(19)	19
13- Other foreign currency net asset / liability	56	(56)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	56	(56)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	91	(91)	(584)	584

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

	31 December 2017			
	Profit / (Loss)		**Equity**	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(104)	104	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	(104)	104	-	-
4- Euro net asset / liability	(216)	216	-	-
5- Part hedged from Euro risk (-)	-	-	-	-
6- Euro net effect (4+5)	(216)	216	-	-
7- JPY net asset / liability	(231)	231	-	-
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	(231)	231	-	-
10- CHF net asset / liability	(19)	19	-	-
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	(19)	19	-	-
13- Other foreign currency net asset / liability	45	(45)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	45	(45)	-	-
TOTAL (3 + 6 + 9 + 12 + 15)	(525)	525	-	-

30. EVENTS AFTER THE BALANCE SHEET DATE

None.

31. OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE

None.