

**TÜRK HAVA YOLLARI ANONİM
ORTAKLIĐI AND ITS SUBSIDIARIES**

Convenience Translation to English of
Condensed Consolidated
Interim Financial Statements
for the Three-Month Period Ended 31 March 2014
(Originally Issued in Turkish)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Balance Sheet as at 31 March 2014

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

| | | <u>Not Reviewed</u> | <u>Audited</u> |
|---|--------------|------------------------------|------------------------------|
| ASSETS | Notes | 31 March 2014 | 31 December 2013 |
| Current Assets | | | |
| Cash and Cash Equivalents | 6 | 1.545.693.089 | 1.338.983.835 |
| Financial Investments | 7 | - | 42.774.034 |
| Trade Receivables | | | |
| -Trade Receivables From Related Parties | 10 | 519.119 | 382.750 |
| -Trade Receivables From Non-Related Parties | | 1.479.508.704 | 1.147.707.413 |
| Other Receivables | | | |
| -Other Receivables from Related Parties | 10 | 4.092.458 | 4.087.847 |
| -Other Receivables from Non-Related Parties | | 1.517.613.745 | 1.376.697.906 |
| Derivative Financial Instruments | 31 | 81.006.896 | 64.279.662 |
| Inventories | | 366.567.842 | 342.324.371 |
| Prepaid Expenses | | 142.274.159 | 89.366.115 |
| Current Income Tax Assets | 29 | 17.156.065 | 16.507.184 |
| Other Current Assets | | 148.004.754 | 112.423.952 |
| TOTAL CURRENT ASSETS | | <u>5.302.436.831</u> | <u>4.535.535.069</u> |
| Non-Current Assets | | | |
| Financial Investments | | 2.516.501 | 2.452.721 |
| Other Receivables | | | |
| -Other Receivables from Non-Related Parties | | 2.558.824.238 | 2.680.608.826 |
| Equity Accounted Investees | 4 | 373.715.450 | 389.674.199 |
| Investment Property | | 78.304.613 | 76.320.000 |
| Property and Equipment | 11 | 18.253.217.363 | 17.162.416.670 |
| Intangible Assets | | | |
| - Other Intangible Assets | 12 | 81.978.190 | 81.851.159 |
| - Goodwill | 13 | 60.159.659 | 58.240.802 |
| Prepaid Expenses | | 464.357.655 | 412.242.181 |
| TOTAL NON-CURRENT ASSETS | | <u>21.873.073.669</u> | <u>20.863.806.558</u> |
| TOTAL ASSETS | | <u>27.175.510.500</u> | <u>25.399.341.627</u> |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Balance Sheet as at 31 March 2014

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

| | | <u>Not Reviewed</u> | <u>Audited</u> |
|--|--------------|------------------------------|------------------------------|
| | <u>Notes</u> | <u>31 March 2014</u> | <u>31 December 2013</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Short-Term Portion of Long-Term Borrowings | 8-14 | 1.273.579.377 | 1.188.220.823 |
| Other Financial Liabilities | 9 | 40.488.733 | 33.808.413 |
| Trade Payables | | | |
| -Trade Payables to Related Parties | 10 | 322.418.488 | 374.606.410 |
| -Trade Payables to Non-Related Parties | | 1.109.521.345 | 1.076.575.170 |
| Payables Related to Employee Benefits | | 277.496.263 | 307.983.476 |
| Other Payables | | | |
| -Other Payables to Non-Related Parties | | 86.949.814 | 114.181.687 |
| Derivative Financial Instruments | 31 | 220.261.235 | 233.949.090 |
| Deferred Income | | 42.801.835 | 46.629.988 |
| Passenger Flight Liabilities | 19 | 3.644.875.415 | 2.562.506.267 |
| Short-term Provisions | | | |
| -Provisions for Employee Benefits | 15 | 87.448.929 | 64.731.115 |
| -Other Provisions | 15 | 33.909.150 | 29.819.212 |
| Other Current Liabilities | | 605.477.744 | 619.744.180 |
| TOTAL CURRENT LIABILITIES | | <u>7.745.228.328</u> | <u>6.652.755.831</u> |
| Non- Current Liabilities | | | |
| Long-Term Borrowings | 8-14 | 11.158.549.389 | 10.364.269.509 |
| Trade Payables | | | |
| - Trade Payables to Non- Related Parties | | 3.523.276 | 3.549.001 |
| Other Payables | | | |
| -Other Payables to Non-Related Parties | | 32.454.101 | 30.917.704 |
| Deferred Income | | 35.203.679 | 31.157.986 |
| Long-term Provisions | | | |
| -Provisions for Employee Benefits | 17 | 251.742.783 | 249.604.088 |
| Deferred Tax Liability | 29 | 1.039.685.326 | 1.104.597.152 |
| TOTAL NON- CURRENT LIABILITIES | | <u>12.521.158.554</u> | <u>11.784.095.440</u> |
| Equity Attributable to Equity Holders of the Parent | | | |
| Share Capital | 20 | 1.380.000.000 | 1.380.000.000 |
| Inflation Adjustment on Share Capital | 20 | 1.123.808.032 | 1.123.808.032 |
| Items That Will Never Be Reclassified to Profit or Loss | | | |
| -Actuarial Losses from Defined Pension Plans | 20 | (14.991.043) | (6.986.903) |
| Items That Are or May Be Reclassified to Profit or Loss | | | |
| -Foreign currency translation differences | 20 | 1.837.588.736 | 1.653.942.588 |
| -Losses from Hedging | 20 | (103.875.349) | (101.206.786) |
| Restricted Profit Reserves | 20 | 59.372.762 | 59.372.762 |
| Retained Earnings | 20 | 2.853.560.663 | 2.170.853.236 |
| Net Profit | 20 | (226.340.183) | 682.707.427 |
| TOTAL EQUITY | | <u>6.909.123.618</u> | <u>6.962.490.356</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>27.175.510.500</u> | <u>25.399.341.627</u> |

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Three-Month Period Ended 31 March 2014
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

| | | <u>Not Reviewed</u> | <u>Not Reviewed</u> |
|--|--------------|--------------------------------------|--------------------------------------|
| | <u>Notes</u> | <u>1 January - 31 March 2014</u> | <u>1 January - 31 March 2013</u> |
| <u>PROFIT OR LOSS</u> | | | |
| Sales Revenue | 21 | 5.127.527.904 | 3.587.987.947 |
| Cost of Sales (-) | 22 | (4.618.070.360) | (3.150.006.211) |
| GROSS PROFIT | | 509.457.544 | 437.981.736 |
| General Administrative Expenses (-) | 23 | (142.895.137) | (101.925.473) |
| Marketing and Sales Expenses (-) | 23 | (592.425.372) | (419.454.821) |
| Other Operating Income | 24 | 59.957.498 | 50.705.891 |
| Other Operating Expenses (-) | 24 | (16.754.454) | (35.614.271) |
| OPERATING LOSS | | (182.659.921) | (68.306.938) |
| Income from Investment Activities | 25 | 27.744.719 | 31.553.019 |
| Share of Investments' Profit / Loss Accounted By Using The Equity method | 4 | (18.348.510) | 5.982.414 |
| OPERATING LOSS BEFORE FINANCIAL INCOME/EXPENSE | | (173.263.712) | (30.771.505) |
| Financial Income | 27 | 17.436.274 | 65.815.134 |
| Financial Expenses (-) | 27 | (147.163.478) | (62.306.390) |
| LOSS BEFORE TAX FROM CONTINUING OPERATIONS | | (302.990.916) | (27.262.761) |
| Tax Expense of Continuing Operations | | 76.650.733 | 4.923.238 |
| Current Tax Expense | 29 | - | - |
| Deferred Tax Expense | 29 | 76.650.733 | 4.923.238 |
| LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS | | (226.340.183) | (22.339.523) |
| <u>OTHER COMPREHENSIVE INCOME</u> | | | |
| To Be Reclassified To Profit or Loss | | 180.977.585 | 96.172.296 |
| Currency Translation Adjustment | | 183.646.148 | 96.187.805 |
| Gains/ (Losses) of Cash Flow Hedge Reserves | | (2.200.486) | (1.931.514) |
| Actuarial Gains/(Losses) from Cash Flow Hedge Reserves of Investment Accounted by Using the Equity Method | | (1.135.218) | 1.912.128 |
| Tax (Expense)/Income of Other Comprehensive Income | | 667.141 | 3.877 |
| Not To Be Reclassified To Profit or Loss | | (8.004.140) | - |
| Actuarial Gains/(Losses) from Defined Pension Plans of Investments Accounted by Using the Equity Method | | (10.005.175) | - |
| Tax Expense/(Income) of Other Comprehensive Income | | 2.001.035 | - |
| OTHER COMPREHENSIVE INCOME | | 172.973.445 | 96.172.296 |
| TOTAL COMPREHENSIVE INCOME | | (53.366.738) | 73.832.773 |
| Loss Per Share (Kır) | 30 | (0,16) | (0,02) |

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

Convenience Translation to English of Condensed Consolidated Interim Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Three-Month Period Ended 31 March 2014
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

| | Paid-in Share Capital | Inflation Adjustment on Share Capital | Accumulated Items That Will Never Be Reclassified To Profit or Loss | Accumulated Items That Are or May Be Reclassified To Profit or Loss | | Restricted Profit Reserves | Accumulated Profit | | Total Equity |
|----------------------------|-----------------------|---------------------------------------|---|---|----------------------------|----------------------------|--------------------|-----------------------------------|---------------|
| | | | Actuarial Losses from Defined Pension Plans | Currency Translation Differences | Gains/ (Losses) of Hedging | | Retained Earnings | Net Profit/ (Loss) for the Period | |
| As of 31 December 2013 | 1.380.000.000 | 1.123.808.032 | (6.986.903) | 1.653.942.588 | (101.206.786) | 59.372.762 | 2.170.853.236 | 682.707.427 | 6.962.490.356 |
| Transfers | - | - | - | - | - | - | 682.707.427 | (682.707.427) | - |
| Total Comprehensive Income | - | - | (8.004.140) | 183.646.148 | (2.668.563) | - | - | (226.340.183) | (53.366.738) |
| As of 31 March 2014 | 1.380.000.000 | 1.123.808.032 | (14.991.043) | 1.837.588.736 | (103.875.349) | 59.372.762 | 2.853.560.663 | (226.340.183) | 6.909.123.618 |

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

Convenience Translation to English of Condensed Consolidated Interim Financial Statements Originally Issued in Turkish
TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Three-Month Period Ended 31 March 2013
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

| | Paid-in Share Capital | Inflation Adjustment on Share Capital | Accumulated Items That Will Never Be Reclassified To Profit or Loss | Accumulated Items That Are or May Be Reclassified To Profit or Loss | | Restricted Profit Reserves | Accumulated Profit | | Total Equity |
|-------------------------------|-----------------------|---------------------------------------|---|---|----------------------------|----------------------------|----------------------|-----------------------------------|----------------------|
| | | | Actuarial Losses from Defined Pension Plans | Currency Translation Differences | Gains/ (Losses) of Hedging | | Retained Earnings | Net Profit/ (Loss) for the Period | |
| As of 31 December 2012 | 1.200.000.000 | 1.123.808.032 | (26.997.551) | 570.111.018 | (45.384.871) | 39.326.341 | 1.388.463.563 | 1.155.717.057 | 5.405.043.589 |
| Transfers | - | - | - | - | - | - | 1.155.717.057 | (1.155.717.057) | - |
| Dividends paid | - | - | - | - | - | - | (173.280.902) | - | (173.280.902) |
| Total Comprehensive Income | - | - | - | 96.187.805 | (15.509) | - | - | (22.339.523) | 73.832.773 |
| As of 31 March 2013 | 1.200.000.000 | 1.123.808.032 | (26.997.551) | 666.298.823 | (45.400.380) | 39.326.341 | 2.370.899.718 | (22.339.523) | 5.305.595.460 |

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 Three-Month Period Ended 31 March 2014

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

| | | <u>Not Reviewed</u> | <u>Not Reviewed</u> |
|---|--------------|-------------------------------------|-------------------------------------|
| | <u>Notes</u> | <u>1 January- 31 March 2014</u> | <u>1 January- 31 March 2013</u> |
| Loss Before Tax | | (302.990.916) | (27.262.761) |
| Adjustments to reconcile cash flow generated from operating activities: | | | |
| Adjustments for Depreciation and Amortization | 11-12 | 383.010.591 | 291.111.340 |
| Adjustments for Provision for Employee Benefits | 17 | 14.967.905 | 22.900.977 |
| Adjustments for Provisions, Net | 15 | 26.704.063 | 12.580.916 |
| Adjustments for Interest Income | 25-27 | (18.073.741) | (26.954.594) |
| Loss on Sales of Fixed Assets | 24 | 123.860 | 27.680 |
| Share of Investments' (Profit) / Loss Accounted by Using The Equity Method | 4 | 18.348.510 | (5.982.414) |
| Adjustments for Interest Expense | 27 | 88.395.902 | 56.089.616 |
| Change in Manufacturers' Credit | | 7.350.796 | 343.565 |
| Unrealized Foreign Exchange Translation Differences | | (96.904.282) | (62.583.037) |
| Change in Provision for Doubtful Receivables, Net | | 5.390.048 | 43.636 |
| Change in Fair Value of Derivative Instruments | | (58.893.381) | (47.120.814) |
| Operating profit before working capital changes | | 67.429.355 | 213.194.110 |
| Adjustments for Change in Trade Receivables | | (305.505.444) | (391.532.946) |
| Adjustments for Change in Other Short and Long Term Receivables | | 171.575.362 | 218.387.357 |
| Adjustments for Change in Inventories | | (15.515.541) | (29.636.314) |
| Adjustments for Change in Other Non- Current Assets and Prepaid Expenses | | (93.021.888) | (55.912.950) |
| Adjustments for Change in Trade Payables | | (57.742.943) | 38.637.264 |
| Adjustments for Change in Short and Long Term Payables and Liabilities | | (101.286.698) | 16.512.028 |
| Adjustments for Change in Passenger Flight Liabilities | | 1.027.242.206 | 726.356.626 |
| Cash Flows Generated From Operating Activities | | 693.174.409 | 736.005.175 |
| Payment of Retirement Pay Liabilities | 17 | (15.547.754) | (9.457.302) |
| Interest Paid | | (73.223.415) | (53.584.003) |
| Taxes Paid | 29 | (17.156.065) | (16.507.184) |
| Net Cash Generated From Operating Activities | | 587.247.175 | 656.456.686 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds From Sale of Property and Equipment, Intangible Assets and Investment Property | | 1.131.277 | 17.937.153 |
| Interest Received | | 25.500.003 | 21.865.413 |
| Purchase of Property and Equipment and Intangible Assets (*) | 11-12 | (204.568.055) | (286.662.759) |
| Prepayments For The Purchase of Aircrafts | | (8.125.795) | (160.154.486) |
| Change in Financial Investments | | 36.893.505 | 250.081.576 |
| Cash Outflow Arising From Capital Increase in Investments | | - | (1.012.500) |
| Net Cash Used In Investing Activities | | (149.169.065) | (157.945.603) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Repayment of Financial Lease Liabilities | | (237.235.753) | (187.066.432) |
| Change in Other Financial Liabilities and Derivative Instruments | | 5.866.897 | (5.861.837) |
| Net Cash Used In Financing Activities | | (231.368.856) | (192.928.269) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 206.709.254 | 305.582.814 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 1.338.983.835 | 1.355.542.536 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | 1.545.693.089 | 1.661.125.350 |

(*) TL 829,484,750 portion of property and equipment and intangible assets purchases in total of TL 1,034,052,805 for the three-month period ended 31 March 2014 was financed through finance leases. (31 March 2013: TL 505,054,191 portion of property and equipment and intangible assets purchases in total of TL 791,716,950 was financed through finance leases.)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

For the Three-Month Period Ended 31 March 2014

(All amounts are expressed in Turkish Lira (TL) 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 31 March 2014 and 31 December 2013, the shareholders and their respective shareholdings in the Company are as follows:

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|--|----------------------|-------------------------|
| Republic of Turkey Prime Ministry Privatization Administration | % 49,12 | % 49,12 |
| Other (publicly held) | % 50,88 | % 50,88 |
| Total | <u>% 100,00</u> | <u>% 100,00</u> |

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 March 2014 is 23,613. (31 December 2013: 23,160). The average number of employees working for the Group for the three-month period ended 31 March 2014 and 2013 are 23,322 and 19,666 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL.

The Company’s stocks are traded on Borsa İstanbul since 1990.

Group management decisions regarding resources to be allocated to departments and examines the results and the activities on the basis of air transport and aircraft technical maintenance services for the purpose of department’s performance evaluation. Each member of the Group companies prepares its financial statements in accordance with accounting policies are obliged to comply. The Group’s main business of topics can be summarized as follows.

Air Transport (“Aviation”)

The Company’s main activity is domestic and international passenger and cargo air transportation.

Technical Maintenance Services (“Technical”)

The main activity of this business is providing repair and maintenance service on civil aviation sector and giving all kinds of technical and infrastructure support related to airline industry.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries and participation rate of the Group in these joint ventures as of 31 March 2014 and 31 December 2013:

| <u>Name of the Company</u> | <u>Principal Activity</u> | <u>Participation Rate</u> | | <u>Country of Registration</u> |
|---|-------------------------------|---------------------------|-------------------------|--------------------------------|
| | | <u>31 March 2014</u> | <u>31 December 2013</u> | |
| THY Teknik A.Ş. (THY TEKNİK) | Aircraft Maintenance Services | 100% | 100% | Turkey |
| THY Habom A.Ş. (THY HABOM) (*) | Aircraft Maintenance Services | 100% | - | Turkey |
| Habom Havacılık Bakım Onarım ve Modifikasyon A.Ş. (HABOM) (*) | Aircraft Maintenance Services | - | 100% | Turkey |
| THY Aydın Çıldır Havalimanı İşletme A.Ş.(THY Aydın Çıldır) | Training & Airport Operations | 100% | 100% | Turkey |

(*) Refer to Note 3

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

For the Three-Month Period Ended 31 March 2014

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

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

The table below sets out consolidated joint ventures and indicates the proportion of ownership interest of the Company in these joint ventures as of 31 March 2014 and 31 December 2013:

| 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 İkrâm 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 |
| TGS Yer Hizmetleri A.Ş. (TGS) | Turkey | %50 | %50 | Ground Services |
| THY OPET Havacılık Yakıtları A.Ş. (THY Opet) | Turkey | %50 | %50 | Fuel |
| Goodrich Thy Teknik Servis Merkezi Ltd. Sti. (Goodrich) | Turkey | %40 | %40 | Maintenance |
| Uçak Koltuk Sanayi ve Ticaret A.Ş (Uçak Koltuk) | Turkey | %50 | %50 | Cabin Interior |
| TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) | Turkey | %51 | %51 | Cabin Interior |
| Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Türkbine Teknik) | Turkey | %50 | %50 | Maintenance |

(*) Share percentage and voting rights are the same in the year 2014 and 2013.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Preparation of Financial Statements

The consolidated financial statements have been prepared in accordance with the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676. The accompanying consolidated financial statements have been presented in accordance with formats announced by CMB on 7 June 2013. A number of changes made at the Group’s previous condensed consolidated financial statements in order to comply with formats announced by CMB on 7 June 2013. (Refer to Note: 34)

The condensed consolidated interim financial statements for the three-month period ended 31 March 2014 have been prepared in accordance with TAS 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

Adjustment of Financial Statements in Hyperinflationary Periods

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

For the Three-Month Period Ended 31 March 2014

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

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

2.1 Basis of Presentation (cont'd)

Basis of Measurements

All financial statements, except for investment property and derivative financial instruments, have been prepared on cost basis principal.

Functional and Reporting Currency

Functional currency

Although the currency of the country in which the Company is domiciled is Turkish Lira (TL), for the purpose of this report the Company's functional currency is determined as US Dollar. US Dollar is used to a significant extent in, and has a significant impact on, the operations of the Company and reflects the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company uses the US Dollar in measuring items in its financial statements and as the reporting currency. All currencies other than the currency selected for measuring items in the financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in US Dollar have been premeasured in US Dollar in accordance with the relevant provisions of TAS 21 (the Effects of Changes in Foreign Exchange Rates).

Translation to the presentation currency

The Group's presentation currency is TL. The US Dollar financial statements of the Group are translated into TL as the following methods under TAS 21 ("The Effects of Foreign Exchange Rates"):

- a) Assets and liabilities in the balance sheet are translated into TL at the prevailing US Dollar buying exchange rates of the Central Bank of Turkish Republic;
- b) The statement of profit or loss and other comprehensive income is translated into TL by using the monthly average US Dollar exchange rates

2.2 Statement of Compliance with TAS

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

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

Board of Directors has approved the condensed consolidated interim financial statements as of 31 March 2014 and delegated authority for publishing it on 09 March 2014. General assembly and related regulatory bodies have the authority to modify the financial statements.

2.3 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these condensed consolidated interim financial statements as at 31 March 2014 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2013.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

For the Three-Month Period Ended 31 March 2014

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

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

2.4 Summary of Significant Accounting Policies

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

2.5 New and Revised Standards and Interpretations

In accounting policies considered in preparation of condensed consolidated interim financial statements as at and for the three-month period ended 31 March 2014, the Group applied all Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations that are effective as of 1 January 2014.

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.

TFRS 9 Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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

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

IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 - IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. The new standard removes the 1 January 2015 effective date of IFRS 9. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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

2.5 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)

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

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

IFRS 14 Regulatory Deferral Accounts

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

The Group does not plan to adopt these standards early and the extent of the impact has not been determined yet.

2.6 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

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

3. BUSINESS COMBINATIONS

Acquisition of 100% shares of MNG Teknik Uçak Bakım Hizmetler Anonim Şirketi and merger with Habom

The share purchase agreement for the acquisition of all shares of MNG Teknik Uçak Bakım Hizmetleri Anonim Şirketi ("MNG Teknik") by Türk Hava Yolları Anonim Ortaklığı was signed between parties on 22 May 2013 having obtained the approval of the Competition Authority.

In the Extraordinary General Assembly Meeting of MNG Teknik dated 29 August 2013, it was decided to merge with Habom which are under common control. This merger was carried out under legal structure of MNG Teknik via transfer of all assets, liabilities, rights and obligations of Habom to MNG Teknik. As a result of the merger, the company's title was registered as THY HABOM A.Ş. on 13 September 2013.

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3. BUSINESS COMBINATIONS (cont'd)

Acquisition of 100% shares of MNG Teknik Uçak Bakım Hizmetler Anonim Şirketi and merger with Habom (cont'd)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

| | Note | Pre- acquisition value | Fair value adjustment | Acquisition value |
|--|------|---------------------------|--------------------------|----------------------|
| Property and equipment | | 101.436.163 | - | 101.436.163 |
| Trade and other receivables | | 4.476.172 | - | 4.476.172 |
| Other assets | | 7.131.521 | - | 7.131.521 |
| Cash and cash equivalents | | 486.236 | - | 486.236 |
| Financial debts | | (78.827.091) | - | (78.827.091) |
| Trade and other payables | | (27.549.448) | - | (27.549.448) |
| Other payables | | (13.261.473) | - | (13.261.473) |
| Identifiable assets and liabilities | | (6.107.920) | - | (6.107.920) |
| Goodwill arising from acquisition | 13 | | | 52.523.964 |
| Cash consideration paid | | | | 46.416.044 |
| Cash and cash equivalents acquired | | | | (486.236) |
| Net cash outflow arising from acquisition | | | | 45.929.808 |

Pre-acquisition values are calculated in accordance with Turkish Financial Reporting Standards (TFRS) just before the acquisition date.

Fair values of recognized assets and liabilities as well as the cost of the combination at the date of acquisition are provisionally accounted by the Group. The time period for recognition of additional items or adjustments to the fair values of assigned recognized assets, liabilities and contingent liabilities is limited to 12 months from the date of acquisition.

4. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|-----------------|----------------------|-------------------------|
| Turkish DO&CO | 97.652.505 | 90.923.583 |
| THY Opet | 85.274.882 | 74.931.561 |
| TGS | 86.843.491 | 83.543.135 |
| Sun Express | 39.932.609 | 76.197.771 |
| TEC | 45.745.576 | 46.355.553 |
| Türkbine Teknik | 8.653.883 | 8.632.676 |
| Uçak Koltuk | 4.450.168 | 4.142.150 |
| TCI | 4.298.320 | 4.189.363 |
| Goodrich | 864.016 | 758.407 |
| | <u>373.715.450</u> | <u>389.674.199</u> |

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

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

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|-----------------|--------------------------------------|--------------------------------------|
| Sun Express | (37.514.711) | (8.388.295) |
| Turkish DO&CO | 7.135.909 | 13.136.163 |
| THY Opet | 10.310.114 | 5.093.530 |
| TGS | 3.367.700 | 1.349.633 |
| Türkbine Teknik | (205.588) | (311.426) |
| Goodrich | 86.824 | (717.958) |
| Uçak Koltuk | 307.194 | (51.542) |
| TCI | - | 361.154 |
| TEC | (1.835.952) | (4.488.845) |
| Total | <u>(18.348.510)</u> | <u>5.982.414</u> |

5. SEGMENTAL REPORTING

The management of the Group investigates the results and operations based on air transportation and aircraft technical maintenance services in order to determine in which resources to be allocated to segments and to evaluate the performances of segments. The detailed information on the sales data of the Group is given in Note 21.

5.1 Total Assets and Liabilities

| | 31 March 2014 | 31 December 2013 |
|--|------------------------|-------------------------|
| Total Assets | <u>26.942.927.012</u> | <u>25.229.616.381</u> |
| Aviation | 2.073.719.963 | 1.883.103.317 |
| Technic | 29.016.646.975 | 27.112.719.698 |
| Total | <u>(1.841.136.475)</u> | <u>(1.713.378.071)</u> |
| Less: Eliminations due to consolidation | <u>27.175.510.500</u> | <u>25.399.341.627</u> |
| Total assets in consolidated financial statements | <u>20.043.068.899</u> | <u>18.226.396.169</u> |
| Total Liabilities | <u>780.426.587</u> | <u>614.730.235</u> |
| Aviation | 20.823.495.486 | 18.841.126.404 |
| Technic | (557.108.604) | (404.275.133) |
| Total | <u>20.266.386.882</u> | <u>18.436.851.271</u> |
| Less: Eliminations due to consolidation | <u>20.266.386.882</u> | <u>18.436.851.271</u> |
| Total liabilities in consolidated financial statements | <u>20.266.386.882</u> | <u>18.436.851.271</u> |

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5. SEGMENTAL REPORTING (cont'd)

5.2 Profit / (Loss) before Tax

Segment Results:

| 1 January - 31 March 2014 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|-----------------|
| Sales to External Customers | 5.008.318.965 | 119.208.939 | - | 5.127.527.904 |
| Inter-Segment Sales | 8.227.346 | 271.019.386 | (279.246.732) | - |
| Segment Revenue | 5.016.546.311 | 390.228.325 | (279.246.732) | 5.127.527.904 |
| Cost of Sales (-) | (4.586.262.087) | (300.426.210) | 268.617.937 | (4.618.070.360) |
| Gross Profit | 430.284.224 | 89.802.115 | (10.628.795) | 509.457.544 |
| Administrative Expenses (-) | (96.023.563) | (59.844.942) | 12.973.368 | (142.895.137) |
| Marketing and Sales Expenses (-) | (589.557.595) | (3.382.231) | 514.454 | (592.425.372) |
| Other Operating Income | 55.556.597 | 8.865.655 | (4.464.754) | 59.957.498 |
| Other Operating Expenses (-) | (9.006.221) | (8.495.066) | 746.833 | (16.754.454) |
| Operating Profit/ (Loss) | (208.746.558) | 26.945.531 | (858.894) | (182.659.921) |
| Income from Investment Activities | 27.744.719 | - | - | 27.744.719 |
| Share of Investments' Profit/Loss Accounted by Using The Equity Method | (16.393.454) | (1.955.056) | - | (18.348.510) |
| Operating Profit/Loss before Financial Income/(Expense) | (197.395.293) | 24.990.475 | (858.894) | (173.263.712) |
| Financial Income | 19.362.891 | 2.472.890 | (4.399.507) | 17.436.274 |
| Financial Expense (-) | (145.968.437) | (5.594.548) | 4.399.507 | (147.163.478) |
| Profit / (Loss) Before Tax From Continuing Operations | (324.000.839) | 21.868.817 | (858.894) | (302.990.916) |

| 1 January - 31 March 2013 | Aviation | Technic | Inter-segment elimination | Total |
|--|-----------------|----------------|--------------------------------------|-----------------|
| Sales to External Customers | 3.526.198.505 | 61.789.442 | - | 3.587.987.947 |
| Inter-Segment Sales | 3.538.138 | 145.337.790 | (148.875.928) | - |
| Segment Revenue | 3.529.736.643 | 207.127.232 | (148.875.928) | 3.587.987.947 |
| Cost of Sales (-) | (3.121.809.874) | (174.587.704) | 146.391.367 | (3.150.006.211) |
| Gross Profit/ (Loss) | 407.926.769 | 32.539.528 | (2.484.561) | 437.981.736 |
| Administrative Expenses (-) | (72.875.811) | (37.740.932) | 8.691.270 | (101.925.473) |
| Marketing and Sales Expenses (-) | (417.664.379) | (2.058.882) | 268.440 | (419.454.821) |
| Other Operating Income | 44.001.135 | 11.081.086 | (4.376.330) | 50.705.891 |
| Other Operating Expense (-) | (34.365.827) | (2.547.507) | 1.299.063 | (35.614.271) |
| Operating Profit/ (Loss) | (72.978.113) | 1.273.293 | 3.397.882 | (68.306.938) |
| Income from Investment Activities | 31.553.019 | - | - | 31.553.019 |
| Share of Investment Profit/ (Loss) Accounted by Using the Equity Method | 9.730.935 | (3.748.521) | - | 5.982.414 |
| Operating Profit/Loss before Financial Income/Expense | (31.694.159) | (2.475.228) | 3.397.882 | (30.771.505) |
| Financial Income | 61.862.715 | 4.712.669 | (760.250) | 65.815.134 |
| Financial Expense (-) | (57.780.932) | (5.403.760) | 878.302 | (62.306.390) |
| Profit / Loss Before Tax From Continuing Operations | (27.612.376) | (3.166.319) | 3.515.934 | (27.262.761) |

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5. SEGMENTAL REPORTING (cont'd)

5.2 Profit / (Loss) before Tax (cont'd)

Income statement items related to equity accounted investees:

| 1 January-31 March 2014 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|--------------|
| Share of Investments' Profit/Loss Accounted by Using The Equity Method | (16.393.454) | (1.955.056) | - | (18.348.510) |

| 1 January-31 March 2013 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|--------------|
| Share of Investments' Profit/Loss Accounted by Using The Equity Method | 9.730.935 | (3.748.521) | - | 5.982.414 |

5.3 Investment Operations

| 1 January - 31 March 2014 | Aviation | Technic | Inter-segment elimination | Total |
|--|-----------------|----------------|--------------------------------------|---------------|
| Purchase of property and equipment and intangible fixed assets | 965.986.018 | 68.066.787 | - | 1.034.052.805 |
| Current period amortization and depreciation | 347.552.887 | 35.457.704 | - | 383.010.591 |
| Investmensts accounted by using the equity method | 316.682.079 | 57.033.371 | - | 373.715.450 |

| 1 January - 31 March 2013 | Aviation | Technic | Inter-segment elimination | Total |
|--|-----------------|----------------|--------------------------------------|--------------|
| equipment and intangible fixed assets | 705.429.259 | 86.287.691 | - | 791.716.950 |
| Current period amortization and depreciation | 261.783.363 | 29.327.977 | - | 291.111.340 |
| Investmensts accounted by using the equity method | 221.836.829 | 59.064.528 | - | 280.901.357 |

6. CASH AND CASH EQUIVALENTS

| | 31 March 2014 | 31 December 2013 |
|-------------------------|----------------------|-------------------------|
| Cash | 2.422.036 | 2.231.785 |
| Banks – Time deposits | 1.066.553.114 | 782.265.403 |
| Banks – Demand deposits | 408.370.532 | 521.069.942 |
| Other liquid assets | 68.347.407 | 33.416.705 |
| | 1.545.693.089 | 1.338.983.835 |

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6. CASH AND CASH EQUIVALENTS (cont'd)

Details of the time deposits as of 31 March 2014 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>31 March 2014</u> |
|---------------|-----------------|----------------------|-----------------|----------------------|
| 20.032.000 | TL | %9,48 - %11,80 | April 2014 | 20.032.000 |
| 30.877.000 | EUR | % 2,13 - %2,6 | April 2014 | 92.853.314 |
| 434.426.312 | USD | %1 - %2,92 | June 2014 | 953.667.800 |
| | | | | <u>1.066.553.114</u> |

Details of the time deposits as of 31 December 2013 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>31 December 2013</u> |
|---------------|-----------------|----------------------|-----------------|-------------------------|
| 106.265.000 | TL | %6,41 - %9 | January 2014 | 106.268.154 |
| 36.984.472 | EUR | %0,82 - %2,54 | January 2014 | 108.762.210 |
| 265.442.777 | USD | %2,14 - %2,91 | March 2014 | 567.235.039 |
| | | | | <u>782.265.403</u> |

7. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|--|----------------------|-------------------------|
| Time deposits with maturity more than 3 months | - | 42.774.034 |

Time deposits with maturity of more than 3 months:

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>31 December 2013</u> |
|---------------|-----------------|----------------------|-----------------|-------------------------|
| 20.000.000 | USD | 2,79% | April 2014 | 42.774.034 |

8. BORROWINGS

Short term portions of long term borrowings are as follows:

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|--------------------------------------|----------------------|-------------------------|
| Finance lease obligations (Note: 14) | 1.273.579.377 | 1.188.220.823 |

Long term borrowings are as follows:

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|--------------------------------------|----------------------|-------------------------|
| Finance lease obligations (Note: 14) | 11.158.549.389 | 10.364.269.509 |

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9. OTHER FINANCIAL LIABILITIES

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

| | 31 March 2014 | 31 December 2013 |
|-----------------------------|----------------------|-------------------------|
| Other financial liabilities | <u>40.488.733</u> | <u>33.808.413</u> |

Borrowings to banks account consists of overnight interest-free borrowings obtained for settlement of monthly tax and social security premium payments.

10. RELATED PARTY TRANSACTIONS

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

| | 31 March 2014 | 31 December 2013 |
|-----|----------------------|-------------------------|
| TCI | <u>519.119</u> | <u>382.750</u> |

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

| | 31 March 2014 | 31 December 2013 |
|-----|----------------------|-------------------------|
| TCI | <u>4.092.458</u> | <u>4.087.847</u> |

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

| | 31 March 2014 | 31 December 2013 |
|---------------|----------------------|-------------------------|
| THY Opet | 203.087.502 | 184.980.253 |
| Turkish DO&CO | 75.987.050 | 67.793.993 |
| TGS | 26.556.799 | 33.853.908 |
| TEC | 15.002.150 | 31.294.411 |
| Goodrich | 1.227.027 | 2.361.168 |
| Sun Express | 557.960 | 54.322.677 |
| | <u>322.418.488</u> | <u>374.606.410</u> |

Transactions with related parties for the year ended as of 31 March 2014 are as follows:

Sales

| | 31 March 2014 | 31 March 2013 |
|--------------------|----------------------|----------------------|
| Sun Express | 29.557.465 | 10.423.813 |
| TEC | 5.860.869 | 1.477.381 |
| TGS | 8.719.646 | 7.738.974 |
| THY Opet | 692.251 | 140.173 |
| Turkish DO&CO | 610.864 | 677.312 |
| TCI | 215.041 | 16.573 |
| Goodrich | 89.407 | 23.968 |
| Star Alliance GMBH | 40.709 | - |
| Sun Express Deut. | 8.416 | 9.152 |
| Uçak Koltuk | 200 | 185 |
| | <u>45.794.868</u> | <u>20.507.531</u> |

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10. RELATED PARTY TRANSACTIONS (cont'd)

Purchases

| | 31 March 2014 | 31 March 2013 |
|--------------------|----------------------|----------------------|
| THY Opet | 1.187.991.504 | 845.715.455 |
| Sun Express | 165.954.259 | 43.987.811 |
| Turkish DO&CO | 171.195.608 | 100.737.652 |
| TGS | 99.121.534 | 78.771.427 |
| TEC | 93.234.734 | 23.919.845 |
| Star Alliance GMBH | 208.120 | - |
| | <u>1.717.705.759</u> | <u>1.093.132.190</u> |

Transactions between the Group related to Sun Express and related to seat and aircraft rental operations; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and TGS are related to ground services, transactions between the Group and TEC are engine maintenance services and the transactions between the Group and THY Opet is related to the supply of aircraft fuel. 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 Chairman and the Members of Board of Directors, General Manager, General Coordinator and Deputy General Managers are TL 2,516,803 (31 March 2013; TL 1,538,769)

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11. PROPERTY AND EQUIPMENT

| | 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 |
|--|---------------------------------------|---|--------------------------------------|----------------|---------------|---|---------------------------|-----------------------------|----------------|
| <u>Cost</u> | | | | | | | | | |
| Opening balance at 1 January 2014 | 354.745.858 | 490.597.895 | 338.119.351 | 21.093.843.889 | 780.463.442 | 560.821.194 | 103.352.627 | 1.193.497.453 | 24.915.441.709 |
| Foreign currency translation differences | 5.598.014 | 12.572.310 | 8.624.292 | 539.177.865 | 20.025.148 | 14.388.019 | 2.682.439 | 33.577.329 | 636.645.416 |
| Additions | 319.440 | 28.183.399 | 8.149.508 | 840.581.379 | 29.346.103 | 26.681.719 | 457.902 | 96.563.233 | 1.030.282.683 |
| Transfers from Investment | 323.542.893 | - | - | - | - | - | - | (323.542.893) | - |
| Transfers | - | (10.312.513) | 10.312.513 | - | - | - | - | - | - |
| Disposals | - | (1.339.966) | (3.450.074) | (6.256.013) | (5.244.407) | (9.224.995) | - | - | (25.515.455) |
| Closing balance at 31 March 2014 | 684.206.205 | 519.701.125 | 361.755.590 | 22.467.347.120 | 824.590.286 | 592.665.937 | 106.492.968 | 1.000.095.122 | 26.556.854.353 |
| <u>Accumulated Depreciation</u> | | | | | | | | | |
| Opening balance at 1 January 2014 | 106.713.782 | 233.311.744 | 247.873.088 | 6.622.694.220 | 246.509.985 | 220.355.668 | 75.566.552 | - | 7.753.025.039 |
| Foreign currency translation differences | 2.682.399 | 5.977.140 | 6.350.707 | 168.889.606 | 6.243.244 | 5.577.960 | 1.934.828 | - | 197.655.884 |
| Depreciation charge for the period | 8.266.201 | 11.335.934 | 9.639.131 | 303.252.490 | 20.153.959 | 21.872.476 | 2.696.194 | - | 377.216.385 |
| Transfers | - | (2.273.340) | 2.273.340 | - | - | - | - | - | - |
| Disposals | - | (1.038.212) | (3.434.504) | (6.256.013) | (5.244.407) | (8.287.182) | - | - | (24.260.318) |
| Closing balance at 31 March 2014 | 117.662.382 | 247.313.266 | 262.701.762 | 7.088.580.303 | 267.662.781 | 239.518.922 | 80.197.574 | - | 8.303.636.990 |
| Net book value 31 March 2014 | 566.543.823 | 272.387.859 | 99.053.828 | 15.378.766.817 | 556.927.505 | 353.147.015 | 26.295.394 | 1.000.095.122 | 18.253.217.363 |
| Net book value 31 December 2013 | 248.032.076 | 257.286.151 | 90.246.263 | 14.471.149.669 | 533.953.457 | 340.465.526 | 27.786.075 | 1.193.497.453 | 17.162.416.670 |

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11. 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 |
|--|---------------------------------------|---|--------------------------------------|----------------|---------------|---|---------------------------|-----------------------------|----------------|
| <u>Cost</u> | | | | | | | | | |
| Opening balance at 1 January 2013 | 198.408.933 | 376.616.472 | 240.693.235 | 15.623.706.346 | 617.668.430 | 373.795.361 | 79.440.618 | 679.208.519 | 18.189.537.914 |
| Foreign currency translation differences | 2.905.011 | 5.559.001 | 3.539.728 | 236.358.458 | 9.031.807 | 5.639.174 | 1.169.279 | 11.198.698 | 275.401.156 |
| Additions | - | 3.822.544 | 3.793.275 | 621.145.642 | 5.242.246 | 56.536.743 | 488.444 | 99.653.995 | 790.682.889 |
| Disposals | - | (265.843) | (1.053.306) | (16.931.446) | (6.180.505) | (43.326.368) | - | - | (67.757.468) |
| Closing balance at 31 March 2013 | 201.313.944 | 385.732.174 | 246.972.932 | 16.464.279.000 | 625.761.978 | 392.644.910 | 81.098.341 | 790.061.212 | 19.187.864.491 |
| <u>Accumulated Depreciation</u> | | | | | | | | | |
| Opening balance at 1 January 2013 | 73.594.821 | 202.883.246 | 175.979.342 | 4.659.039.951 | 187.327.416 | 145.803.610 | 51.569.939 | - | 5.496.198.325 |
| Foreign currency translation differences | 1.088.715 | 3.047.873 | 2.640.339 | 70.894.599 | 2.880.588 | 2.133.768 | 791.116 | - | 83.476.998 |
| Depreciation charge for the period | 887.982 | 6.409.265 | 6.271.177 | 229.829.473 | 17.133.089 | 25.307.792 | 2.865.013 | - | 288.703.791 |
| Disposals | - | (262.527) | (1.029.256) | (16.931.446) | (6.180.505) | (25.388.901) | - | - | (49.792.635) |
| Closing balance at 31 March 2013 | 75.571.518 | 212.077.857 | 183.861.602 | 4.942.832.577 | 201.160.588 | 147.856.269 | 55.226.068 | - | 5.818.586.479 |
| Net book value 31 March 2013 | 125.742.426 | 173.654.317 | 63.111.330 | 11.521.446.423 | 424.601.390 | 244.788.641 | 25.872.273 | 790.061.212 | 13.369.278.012 |

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12. OTHER INTANGIBLE ASSETS

| | <u>Slot Rights</u> | <u>Other Rights</u> | <u>Total</u> |
|--|--------------------|---------------------|--------------------|
| <u>Cost</u> | | | |
| Opening balance at 1 January 2014 | 27.620.894 | 191.627.582 | 219.248.476 |
| Foreign currency translation differences | 718.248 | 4.940.840 | 5.659.088 |
| Additions | - | 3.770.122 | 3.770.122 |
| Closing balance at 31 March 2014 | <u>28.339.142</u> | <u>200.338.544</u> | <u>228.677.686</u> |
| <u>Accumulated Depreciation</u> | | | |
| Opening balance at 1 January 2014 | - | 137.397.317 | 137.397.317 |
| Foreign currency translation differences | - | 3.507.973 | 3.507.973 |
| Amortization charge for the period | - | 5.794.206 | 5.794.206 |
| Closing balance at 31 March 2014 | <u>-</u> | <u>146.699.496</u> | <u>146.699.496</u> |
| Net book value at 31 March 2014 | <u>28.339.142</u> | <u>53.639.048</u> | <u>81.978.190</u> |
| Net book value at 31 December 2013 | <u>27.620.894</u> | <u>54.230.265</u> | <u>81.851.159</u> |
| | <u>Slot Rights</u> | <u>Other Rights</u> | <u>Total</u> |
| <u>Cost</u> | | | |
| Opening balance at 1 January 2013 | 23.069.393 | 128.876.837 | 151.946.230 |
| Foreign currency translation differences | 337.770 | 1.899.969 | 2.237.739 |
| Additions | - | 1.034.061 | 1.034.061 |
| Closing balance at 31 March 2013 | <u>23.407.163</u> | <u>131.810.867</u> | <u>155.218.030</u> |
| <u>Accumulated Depreciation</u> | | | |
| Opening balance at 1 January 2013 | - | 100.762.463 | 100.762.463 |
| Foreign currency translation differences | - | 1.505.614 | 1.505.614 |
| Amortization charge for the period | - | 2.407.549 | 2.407.549 |
| Closing balance at 31 March 2013 | <u>-</u> | <u>104.675.626</u> | <u>104.675.626</u> |
| Net book value at 31 March 2013 | <u>23.407.163</u> | <u>27.135.241</u> | <u>50.542.404</u> |

The Group considers the slot rights as intangible assets having indefinite useful life.

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13. GOODWILL

| | 31 March 2014 | 31 December 2013 |
|--|----------------------|-------------------------|
| Cost | | |
| Opening balance | 58.240.802 | - |
| Additions (Note: 3) | - | 52.523.964 |
| Foreign currency translation differences | 1.918.857 | 5.716.838 |
| Closing balance | <u>60.159.659</u> | <u>58.240.802</u> |

14. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

| | 31 March 2014 | 31 December 2013 |
|--|-----------------------|-------------------------|
| Less than 1 year | 1.559.140.119 | 1.464.764.110 |
| Between 1 – 5 years | 6.149.968.903 | 5.809.555.437 |
| Over 5 years | 6.475.862.448 | 5.970.519.946 |
| | <u>14.184.971.470</u> | <u>13.244.839.493</u> |
| Less: Future interest expenses | (1.752.842.704) | (1.692.349.161) |
| Principal value of future rentals stated in financial statements | <u>12.432.128.766</u> | <u>11.552.490.332</u> |
| | 31 March 2014 | 31 December 2013 |
| Interest Range: | | |
| Floating rate obligations | 5.912.719.599 | 5.073.110.037 |
| Fixed rate obligations | 6.519.409.167 | 6.479.380.295 |
| | <u>12.432.128.766</u> | <u>11.552.490.332</u> |

As of 31 March 2014, the US Dollars, Euro and JPY denominated lease obligations' weighted average interest rates are 3.15% (31 December 2013: 3.80%) for the fixed rate obligations and 0.90% (31 December 2013: 0.88%) for the floating rate obligations.

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions are as follows:

(a) Short-term provisions for employee benefits

| | 31 March 2014 | 31 December 2013 |
|--------------------------------|----------------------|-------------------------|
| Provisions for unused vacation | <u>87.448.929</u> | <u>64.731.115</u> |

Changes in the provisions during 1 January - 31 March 2014 and 2013 periods are set out below:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|--|--------------------------------------|--------------------------------------|
| Provision at the beginning of the period | 64.731.115 | 41.066.116 |
| Foreign currency translation differences | 150.009 | 100.920 |
| Provision for the current period | <u>22.567.805</u> | <u>11.737.023</u> |
| Provision at the end of the period | <u>87.448.929</u> | <u>52.904.059</u> |

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

(b) Other short-term provisions:

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|-----------------------------|----------------------|-------------------------|
| Provisions for legal claims | 33.909.150 | 29.819.212 |

Changes in the provisions for legal claims during 1 January - 31 March 2014 and 2013 periods are set out below:

| | <u>1 January - 31 March 2014</u> | <u>1 January - 31 March 2013</u> |
|--|--------------------------------------|--------------------------------------|
| Provision at the beginning of the period | 29.819.212 | 35.516.181 |
| Foreign currency translation differences | (46.320) | 443.610 |
| Provision for the current period | 4.136.258 | 843.893 |
| Provisions released | - | (287.256) |
| Provision at the end of the period | <u>33.909.150</u> | <u>36.516.428</u> |

The Group recognizes provisions for lawsuits against it due to its operations. The law suits against the Group are usually reemployment law suits by former employees or related to damaged luggage or cargo.

16. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the group: Amount of letter of guarantees given as of 31 March 2014 is TL 166,111,891 (31 December 2013: TL 168,237,282).

| | <u>31 March 2014</u> | | <u>31 December 2013</u> | |
|---|--|--------------------------|--|--------------------------|
| | <u>Foreign currency amount</u> | <u>TL equivalent</u> | <u>Foreign currency amount</u> | <u>TL equivalent</u> |
| A. Total amounts of GPM given on the behalf of its own legal entity | | 166.111.891 | | 168.237.282 |
| -Collaterals | | | | |
| TL | - | 21.721.381 | - | 19.793.631 |
| EUR | 9.539.903 | 28.688.395 | 10.289.903 | 30.216.299 |
| USD | 50.621.163 | 110.850.222 | 53.499.485 | 114.183.950 |
| Other | - | 4.851.893 | - | 4.043.402 |
| 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 | - | - | - | - |
| | | <u>166.111.891</u> | | <u>168.237.282</u> |

The other CPMs given by the Company constitute 0% of the Group’s equity as of 31 March 2014 (31 December 2013: 0%).

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16. COMMITMENTS (cont'd)

b) Operational leasing debts: The detail of the Group's not accrued operational leasing debts related to aircrafts is as follows:

| | 31 March 2014 | 31 December 2013 |
|---------------------|----------------------|-------------------------|
| Less than 1 year | 305.149.643 | 306.818.229 |
| Between 1 – 5 years | 690.701.604 | 731.414.914 |
| More than 5 years | 34.001.032 | 37.873.466 |
| | <u>1.029.852.279</u> | <u>1.076.106.609</u> |

To be delivered between the years 2010-2015, the Group signed a contract for 92 aircrafts with a total value of 11.8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 10 of these aircrafts were delivered in 2010, 29 of these aircrafts were delivered in 2011, 20 of these aircrafts were delivered in 2012, 18 of these aircrafts were delivered in 2013 and 4 of these aircrafts were delivered in the first three-month period of 2014. To be delivered between the years 2013-2021, the Group signed a contract for 252 aircrafts with a total value of 37.5 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 2 of these aircrafts were delivered in 2013 and 2 of these aircrafts were delivered in the first three-month period of 2014. The Group has made an advance payment of 1.518 million US Dollars relevant to these purchases as of 31 March 2014.

b) Other operational leasing debts:

The Group also has operational lease agreements for 15 years related to the land for the aircraft maintenance hangar which is in use and for 23 years related to the land for the aircraft maintenance hangar which is still under construction. The liabilities of the Group related with these lease agreements are as follows:

| | 31 March 2014 | 31 December 2013 |
|---------------------|----------------------|-------------------------|
| Less than 1 year | 10.644.096 | 10.291.602 |
| Between 1 – 5 years | 51.966.806 | 50.256.243 |
| More than 5 years | 118.230.070 | 118.021.858 |
| | <u>180.840.972</u> | <u>178.569.703</u> |

17. EMPLOYEE BENEFITS

Provision for long-term retirement pay liability as of 31 March 2014 and 31 December 2013 is comprised of the following:

| | 31 March 2014 | 31 December 2013 |
|---|----------------------|-------------------------|
| Provisions for retirement pay liability | <u>251.742.783</u> | <u>249.604.088</u> |

Provision for retirement pay liability is recorded according to following explanations:

Under labor laws effective in Turkey, it is a liability to make legal retirement pay to employees whose employment is terminated in such way to receive retirement pay. In addition, according to Article 60 of Social Security Law numbered 506 which was changed by the laws numbered 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is also a liability to make legal retirement pay to those who entitled to leave their work by receiving retirement pay. Some transfer provisions related to service conditions prior to retirement are removed from the Law by the changed made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly TL 3,438 as of 1 January 2014 (1 January 2013: TL 3,129).

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17. EMPLOYEE BENEFITS (cont'd)

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees.

IAS 19 (“Employee Benefits”) stipulates the development of company’s liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying condensed interim financial statements as of 31 March 2014 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 6.00% annual inflation rate (31 December 2013: 6.00%) and 10.20% discount rate. (31 December 2013:10.20%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 2.23% (31 December 2013: 2.37%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 3,438 which is in effect since 1 January 2014 is used in the calculation of Group’s provision for retirement pay liability.

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

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|---|--------------------------------------|--------------------------------------|
| Provisions at the beginning of the period | 249.604.088 | 234.019.405 |
| Service charge for the period | 14.967.905 | 22.900.977 |
| Interest charges | 2.560.342 | 1.521.712 |
| Payments | (15.547.754) | (9.457.302) |
| Foreign currency translation effect | 158.202 | 64.720 |
| Provisions at the end of the period | <u>251.742.783</u> | <u>249.049.512</u> |

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18. EXPENSES BY NATURE

Expenses by nature for the three-month period ended 1 January - 31 March 2014 and 2013 are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|--|--------------------------------------|--------------------------------------|
| Fuel expenses | 1.965.404.571 | 1.370.023.423 |
| Personnel expenses | 882.238.723 | 684.637.298 |
| Depreciation expenses | 383.010.591 | 291.111.340 |
| Ground services expenses | 321.926.421 | 224.195.205 |
| Passenger service catering expenses | 278.010.032 | 173.138.091 |
| Air traffic control expenses | 274.251.723 | 167.708.642 |
| Landing and navigation expenses | 210.218.540 | 132.566.999 |
| Short term leasing expenses | 202.548.112 | 62.891.980 |
| Maintenance expenses | 189.267.049 | 99.213.697 |
| Commission and incentives Income | 172.081.380 | 135.045.714 |
| Reservation systems expense | 124.113.967 | 90.075.483 |
| Advertising and promotion expenses | 84.703.441 | 36.614.495 |
| Operating lease expenses | 79.772.820 | 73.216.643 |
| Service expenses | 42.633.255 | 21.404.123 |
| Other rent expenses | 23.868.138 | 25.266.338 |
| Communication and information expenses | 20.113.774 | 15.164.744 |
| Insurance expenses | 18.161.643 | 16.275.998 |
| Transportation expenses | 12.574.869 | 8.039.133 |
| Tax expenses | 11.676.551 | 7.494.774 |
| Consultancy expenses | 6.461.436 | 6.361.848 |
| Utility expenses | 4.642.119 | 3.939.355 |
| Membership fees | 3.054.010 | 2.322.147 |
| System use and membership expenses | 2.281.296 | 1.737.509 |
| Other expenses | 40.376.408 | 22.941.526 |
| | 5.353.390.869 | 3.671.386.505 |

19. PASSENGER FLIGHT LIABILITIES

Passenger flight liability is as follows;

| | 31 March 2014 | 31 December 2013 |
|--|----------------------|-------------------------|
| Flight liability generating from ticket sales | 3.211.053.508 | 2.109.459.830 |
| Flight liability generating from sales of mileage and frequent flyer programme | 433.821.907 | 453.046.437 |
| | 3.644.875.415 | 2.562.506.267 |

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20. SHAREHOLDERS' EQUITY

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

| | Class | % | 31 March 2014 | % | 31 December 2013 |
|--|--------------|----------|----------------------|----------|-------------------------|
| Republic of Turkey Prime Ministry Privatization Administration (*) | A, C | 49,12 | 677.884.849 | 49,12 | 677.884.849 |
| Other (publicly held) | A | 50,88 | 702.115.151 | 50,88 | 702.115.151 |
| Paid-in capital | | | 1.380.000.000 | | 1.380.000.000 |
| Restatement difference | | | 1.123.808.032 | | 1.123.808.032 |
| Restated capital | | | 2.503.808.032 | | 2.503.808.032 |

(*) 1,644 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.

As of 31 March 2014, 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 issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

Articles of Association 7: Positive vote of the board member representing class C share and approval of the Board of Directors are 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 chosen by an election between class A shareholder's top rated.

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

- As defined in Article 3.1. of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),
- Making decisions relating to merges and liquidation,
- Making decisions to cancel flight routes or significantly decrease number of flights except for the ones that cannot recover even its operational expenses subject to the market conditions.

Restricted Profit Reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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20. SHAREHOLDERS' EQUITY (cont'd)

Foreign Currency Translation Differences

Method for consolidation purpose is, according to TAS 21, monetary items in statutory financial statements is translated to USD using year-end exchange rates, non-monetary items in balance sheet, income/expenses and cash flow are translated to USD by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under equity. Translation profit/loss from foreign currency transactions is presented under foreign currency exchange losses item under financial expenses in profit or loss and translation profit/loss from trading operations is presented under foreign exchange losses item in operating expenses. Also, currency translation differences in equities of the Group's joint venture; Güneş Ekspres Havacılık A.Ş. (Sun Express) which is consolidated by using equity method, is presented under currency translation item. Foreign currency translation differences are the changes due to the foreign exchange rate changes in the shareholders' equity Sun Express which is subsidiary accounted for equity method.

Distribution of Dividends

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in 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 interim financial statements of the company.

The items of shareholders' equity of the Company in the statutory accounts as of 31 March 2014 are as follows:

| | |
|----------------------------|----------------------|
| Paid-in capital | 1.380.000.000 |
| Share premium | 181.185 |
| Legal reserves | 75.739.047 |
| Extraordinary reserves (*) | - |
| Other profit reserves | 9 |
| Special funds | 9.770.867 |
| Retained earnings (*) | (1.023.653.930) |
| Net loss for the period | (931.834.527) |
| Total shareholders' equity | <u>(489.797.349)</u> |

(*) Per legal records, there are some amounts of balances subject to dividend distributions, but total of these amounts are negative.

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 effect of the hedged item has effect on profit or loss.

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21. REVENUE

Details of gross profit are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|-------------------------|--------------------------------------|--------------------------------------|
| Scheduled flights | | |
| Passenger | 4.449.475.008 | 3.149.505.658 |
| Cargo | 513.523.356 | 338.386.855 |
| Total scheduled flights | 4.962.998.364 | 3.487.892.513 |
| Unscheduled flights | 23.815.033 | 15.129.135 |
| Technical Revenue | 119.208.939 | 61.655.738 |
| Other revenue | 21.505.568 | 23.310.561 |
| Net sales | 5.127.527.904 | 3.587.987.947 |
| Cost of sales (-) | (4.618.070.360) | (3.150.006.211) |
| Gross profit | 509.457.544 | 437.981.736 |

Geographical details of revenue from the scheduled flights are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|-----------------------------|--------------------------------------|--------------------------------------|
| - Europe | 1.504.373.888 | 1.063.865.963 |
| - Far East | 1.173.087.343 | 791.795.323 |
| - Middle East | 733.904.299 | 505.772.343 |
| - America | 479.875.104 | 327.880.002 |
| - Africa | 462.491.227 | 306.951.490 |
| Total international flights | 4.353.731.861 | 2.996.265.121 |
| Domestic flights | 609.266.503 | 491.627.392 |
| Total scheduled flights | 4.962.998.364 | 3.487.892.513 |

Details of cargo revenue from scheduled flights are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|------------------------------------|--------------------------------------|--------------------------------------|
| Transported by passenger aircrafts | 273.507.525 | 191.392.480 |
| Transported by cargo aircrafts | 240.015.831 | 146.994.375 |
| | 513.523.356 | 338.386.855 |

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22. COST OF SALES

The details of the cost of sales are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Fuel expenses | 1.965.056.102 | 1.369.680.686 |
| Personnel expenses | 640.712.037 | 502.214.882 |
| Depreciation expenses | 360.296.064 | 274.877.832 |
| Ground services expenses | 321.926.421 | 224.195.205 |
| Passenger service catering expenses | 278.010.032 | 173.138.091 |
| Air traffic control expenses | 274.251.723 | 167.708.642 |
| Landing and navigation expenses | 210.218.540 | 132.566.999 |
| Short term aircraft leasing expenses | 202.548.112 | 62.891.980 |
| Maintenance expenses | 187.936.884 | 97.818.646 |
| Operating lease expenses | 79.772.820 | 73.216.643 |
| Service expenses | 31.080.471 | 15.271.032 |
| Insurance expenses | 17.470.542 | 16.054.934 |
| Transportation expenses | 12.574.869 | 8.039.133 |
| Other rent expenses | 11.700.724 | 15.018.515 |
| Tax expenses | 5.484.570 | 4.113.039 |
| Utility expenses | 2.673.245 | 2.813.343 |
| Other expenses | 16.357.204 | 10.386.609 |
| | <u>4.618.070.360</u> | <u>3.150.006.211</u> |

23. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

General administrative expenses are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|--|--------------------------------------|--------------------------------------|
| Personnel expenses | 82.632.046 | 58.834.407 |
| Depreciation expenses | 18.872.787 | 13.514.789 |
| Communication and information expenses | 15.601.046 | 11.914.296 |
| Service expenses | 7.764.357 | 4.239.367 |
| Consultancy expenses | 3.071.297 | 4.136.529 |
| Rent expenses | 2.443.144 | 1.308.831 |
| System usage and membership expenses | 2.281.296 | 1.737.509 |
| Utility expenses | 1.968.874 | 1.126.012 |
| Maintenance expenses | 1.330.165 | 1.395.051 |
| Tax expenses | 745.411 | 1.398.938 |
| Insurance expenses | 691.101 | 221.064 |
| Other general administrative expenses | 5.493.613 | 2.098.680 |
| | <u>142.895.137</u> | <u>101.925.473</u> |

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

Marketing and sales expenses are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|--|--------------------------------------|--------------------------------------|
| Commissions and incentive expenses | 172.081.380 | 135.045.714 |
| Personnel expenses | 158.894.640 | 123.588.009 |
| Reservation systems expense | 124.113.967 | 90.075.483 |
| Advertising and promotion expenses | 84.703.441 | 36.614.495 |
| Rent expenses | 9.724.270 | 8.938.992 |
| Tax expenses | 5.446.570 | 1.982.797 |
| Communication and information expenses | 4.512.728 | 3.250.448 |
| Depreciation expenses | 3.841.740 | 2.718.719 |
| Service expenses | 3.788.427 | 1.893.724 |
| Consultancy expenses | 3.390.139 | 2.225.319 |
| Membership fees | 3.054.010 | 2.322.147 |
| Fuel expenses | 348.469 | 342.737 |
| Other sales and marketing expenses | 18.525.591 | 10.456.237 |
| | 592.425.372 | 419.454.821 |

24. OTHER OPERATING INCOME / EXPENSES

Other operating income consists of the following:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|--|--------------------------------------|--------------------------------------|
| Foreign exchange gains on trade operations, net | 15.662.258 | - |
| Insurance, indemnities, penalties income | 10.812.772 | 15.166.036 |
| Provisions released | 4.155.971 | 6.356.506 |
| TGS share premium | 3.734.145 | 2.820.686 |
| Grant credit income related to aircraft, engines and other purchases | 2.778.123 | 1.840.522 |
| Non- interest income from banks | 2.738.406 | 2.218.254 |
| Rent income | 2.427.171 | 1.591.706 |
| Late payment interest income | 282.228 | 130.712 |
| Other operating income | 17.366.424 | 20.581.469 |
| | 59.957.498 | 50.705.891 |

Other operating expenses consist of the following:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|---|--------------------------------------|--------------------------------------|
| Provision expenses | 11.049.010 | 899.198 |
| Discount interest expense arising from trade operations | 1.564.242 | 353.305 |
| Indemnity and penalty expense | 1.512.358 | 1.171.596 |
| Losses on Sales of Fixed Assets | 123.860 | 27.680 |
| Foreign exchange losses on trade operations, net | - | 24.515.493 |
| Other operating expenses | 2.504.984 | 8.646.999 |
| | 16.754.454 | 35.614.271 |

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25. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Incomes from investment activities are as follows:

| | 31 March 2014 | 31 March 2013 |
|--------------------------------------|----------------------|----------------------|
| Income from investment assistance | 27.107.252 | 21.039.274 |
| Financial investment interest income | 637.467 | 10.513.745 |
| | <u>27.744.719</u> | <u>31.553.019</u> |

26. EXPENSES CLASSIFIED BY PRINCIPLE OF TYPE

Expenses for interim periods ended as of 31 March 2014 and 2013 are presented in Note 22 and Note 23 according to their functions.

27. FINANCIAL INCOME/EXPENSES

Financial income consists of the following:

| | 31 March 2014 | 31 March 2013 |
|---|----------------------|----------------------|
| Interest income | 14.986.152 | 15.010.169 |
| Discount interest income related to prepayments for the aircrafts purchases | 2.450.122 | 1.430.680 |
| Foreign exchange gains | - | 35.591.187 |
| Earning from derivative financial instruments | - | 13.783.098 |
| | <u>17.436.274</u> | <u>65.815.134</u> |

Finance expenses are as follows:

| | 31 March 2014 | 31 March 2013 |
|--|----------------------|----------------------|
| Finance lease interest expense | 84.271.352 | 54.234.599 |
| Foreign exchange losses | 53.484.009 | - |
| Administrative expenses for aircraft financing | 3.903.857 | 5.884.294 |
| Cost of employee termination benefits interest | 2.560.342 | 1.501.712 |
| Losses on derivative financial instruments | 1.377.460 | - |
| Other financial expense | 1.566.458 | 685.785 |
| | <u>147.163.478</u> | <u>62.306.390</u> |

28. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

For the interim period ended 31 March 2014, the Company's other comprehensive income which is not to be reclassified to profit or loss is TL 8,004,140 as expense (31 March 2013: None), other comprehensive income to be reclassified to profit or loss is TL 180,977,585 as income (31 March 2013: TL 96,172,296 as income).

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29. TAX ASSETS AND LIABILITIES

Assets related to current tax consists of the following items:

| | | |
|-------------------------|----------------------|-------------------------|
| | 31 March 2014 | 31 December 2013 |
| Prepaid taxes and funds | <u>17.156.065</u> | <u>16.507.184</u> |

Tax expense consists of the following items:

| | | |
|----------------------------|--------------------------------------|--------------------------------------|
| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
| Current period tax expense | - | - |
| Deferred tax income | (76.650.733) | (4.923.238) |
| Tax income | <u>(76.650.733)</u> | <u>(4.923.238)</u> |

Tax effect related to other comprehensive income is as follows:

| | 1 January - 31 March 2014 | | | 1 January - 31 March 2013 | | |
|---|----------------------------------|--------------------------|---------------------|----------------------------------|--------------------------|---------------------|
| | Amount before tax | Tax (expense) /income | Amount after tax | Amount before tax | Tax (expense) /income | Amount after tax |
| Changes in Foreign currency translation difference | 183.646.148 | - | 183.646.148 | 96.187.805 | - | 96.187.805 |
| Change in cash flow hedge reserve | (3.335.704) | 667.141 | (2.668.563) | (19.386) | 3.877 | (15.509) |
| Change in actuarial losses from defined pension plans | (10.005.175) | 2.001.035 | (8.004.140) | - | - | - |
| Other comprehensive income | <u>170.305.269</u> | <u>2.668.176</u> | <u>172.973.445</u> | <u>96.168.419</u> | <u>3.877</u> | <u>96.172.296</u> |

There is no taxation effect related to the change in foreign currency translation adjustment that is included in other comprehensive income for the period.

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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

The effective tax rate in 2014 and 2013 is 20%.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2013 is 20%. Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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29. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

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

Income Withholding Tax

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

Deferred Tax

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

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

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 disclosed separately.

The deferred tax assets / (liabilities) are as follows:

| | 31 March 2014 | 31 December 2013 |
|---|------------------------|-------------------------|
| Fixed assets | (1.630.622.696) | (1.531.002.251) |
| Provisions for ticket sales advance | (68.390.319) | (44.871.518) |
| Accruals for expenses | 164.680.714 | 176.105.504 |
| Provisions for employee benefits | 49.722.711 | 49.289.273 |
| Income and expense for future periods | 20.217.151 | 26.572.442 |
| Long-term lease obligations | 10.594.483 | 10.394.612 |
| Allowance for doubtful receivables | 11.904.332 | 10.750.057 |
| Provisions for unused vacation | 16.809.935 | 12.462.435 |
| Provision for impairment of inventories | (216.698) | 2.866.078 |
| Accumulated loss | 395.735.305 | 184.051.336 |
| Other | (10.120.244) | (1.215.120) |
| Deferred tax liabilities | <u>(1.039.685.326)</u> | <u>(1.104.597.152)</u> |

Deferred tax asset/liability balances are as follows:

| | 31 March 2014 | 31 December 2013 |
|--------------------------|------------------------|-------------------------|
| Deferred tax liabilities | <u>(1.039.685.326)</u> | <u>(1.104.597.152)</u> |

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29. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The changes of deferred tax liability for interim periods 1 January - 31 March 2014 and 2013 are as follows:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|---|--------------------------------------|--------------------------------------|
| Opening balance at 1 January | 1.104.597.152 | 744.083.660 |
| Deferred tax expense | (76.650.733) | (4.923.238) |
| Tax income from hedge reserve gains/losses | (440.097) | (386.303) |
| Foreign currency translation adjustment | 12.179.004 | 5.034.240 |
| Deferred tax liability at the end of the period | <u>1.039.685.326</u> | <u>743.808.359</u> |

30. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are 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.

Number of total shares and calculation of earnings per share at 1 January - 31 March 2014 and 2013:

| | 1 January - 31 March 2014 | 1 January - 31 March 2013 |
|---|--------------------------------------|--------------------------------------|
| Number of shares outstanding at 1 January (in full) | 138.000.000.000 | 138.000.000.000 |
| Number of shares outstanding at 31 March (in full) | 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 |
| Net loss for the period | (226.340.183) | (22.339.523) |
| Loss per share (Kr) | (0,16) | (0,02) |

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31. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments and liabilities of the Group as of 31 March 2014 and 2013 are as follows:

Derivative Financial Assets

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|--|----------------------|-------------------------|
| Derivative instruments for interest rate cash flow hedge | 46.047.013 | 41.282.298 |
| Cross exchange rate swap agreements | 30.900.976 | 12.920.386 |
| Derivative instruments for fuel prices cash flow hedge | 4.058.907 | 10.076.978 |
| | <u>81.006.896</u> | <u>64.279.662</u> |

Derivative Financial Liabilities:

| | <u>31 March 2014</u> | <u>31 December 2013</u> |
|--|----------------------|-------------------------|
| Derivative instruments for interest rate cash flow hedge | 118.155.173 | 101.487.620 |
| Cross exchange rate swap agreements | 86.726.991 | 113.727.977 |
| Derivative instruments for fuel prices cash flow hedge | 15.379.071 | 18.733.493 |
| | <u>220.261.235</u> | <u>233.949.090</u> |

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32. 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 of monetary and non-monetary items are as follows:

| | 31 March 2014 | | | | | |
|---|------------------------|----------------------|------------------------|--------------------|------------------------|----------------------|
| | TL EQUIVALENT | TL | EURO | GBP | JPY | OTHER |
| 1.Trade Receivables | 1.267.043.424 | 197.693.713 | 353.233.116 | 82.243.199 | 35.009.513 | 598.863.884 |
| 2a.Monetary Financial Assets | 575.207.200 | 57.073.253 | 150.150.368 | 3.430.811 | 2.802.194 | 361.750.576 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 503.619.126 | 314.988.978 | 100.519.715 | 17.303.413 | 1.659.919 | 69.147.100 |
| 4.Current Assets (1+2+3) | 2.345.869.750 | 569.755.943 | 603.903.199 | 102.977.422 | 39.471.626 | 1.029.761.560 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | - | - | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 155.915.605 | 3.644.825 | 68.857.933 | 49.185 | 386.463 | 82.977.198 |
| 8.Non Current Assets (5+6+7) | 155.915.605 | 3.644.825 | 68.857.933 | 49.185 | 386.463 | 82.977.198 |
| 9.Total Assets (4+8) | 2.501.785.355 | 573.400.768 | 672.761.132 | 103.026.607 | 39.858.090 | 1.112.738.758 |
| 10.Trade Payables | 1.085.488.622 | 507.531.736 | 353.687.870 | 16.419.343 | 5.795.414 | 202.054.258 |
| 11.Financial Liabilities | 827.403.054 | 40.488.733 | 639.640.071 | - | 147.274.250 | - |
| 12a.Other Liabilities, Monetary | 74.853.376 | 8.310.750 | 66.542.626 | - | - | - |
| 12b.Other Liabilities, Non Monetary | 45.387.031 | 45.307.594 | 79.437 | - | - | - |
| 13.Current Liabilities (10+11+12) | 2.033.132.083 | 601.638.813 | 1.059.950.004 | 16.419.343 | 153.069.664 | 202.054.258 |
| 14.Trade Payables | 244.088 | 244.088 | - | - | - | - |
| 15.Financial Liabilities | 7.270.749.818 | - | 5.101.305.751 | - | 2.169.444.067 | - |
| 16a.Other Liabilities, Monetary | - | - | - | - | - | - |
| 16b.Other Liabilities, Non Monetary | 232.949.461 | 232.949.461 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 7.503.943.367 | 233.193.549 | 5.101.305.751 | - | 2.169.444.067 | - |
| 18.Total Liabilities (13+17) | 9.537.075.450 | 834.832.362 | 6.161.255.755 | 16.419.343 | 2.322.513.731 | 202.054.258 |
| 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) | (7.035.290.095) | (261.431.593) | (5.488.494.623) | 86.607.264 | (2.282.655.642) | 910.684.499 |
| 21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (7.416.488.333) | (301.808.341) | (5.657.792.835) | 69.254.666 | (2.284.702.024) | 758.560.201 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | - | - | - | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

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

Foreign currency risk management (cont'd)

| | 31 December 2013 | | | | | |
|---|------------------------|----------------------|------------------------|-------------------|------------------------|--------------------|
| | TL EQUIVALENT | TL | EURO | GBP | JPY | OTHER |
| 1.Trade Receivables | 947.327.631 | 31.353.397 | 338.112.213 | 75.143.932 | 29.314.914 | 473.403.175 |
| 2a.Monetary Financial Assets | 543.803.453 | 155.675.333 | 152.223.433 | 3.096.083 | 23.452.000 | 209.356.604 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 387.659.539 | 184.802.343 | 84.962.534 | 11.514.608 | 1.076.183 | 105.303.871 |
| 4.Current Assets (1+2+3) | 1.878.790.623 | 371.831.073 | 575.298.180 | 89.754.623 | 53.843.097 | 788.063.650 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | - | - | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 264.206.329 | 15.020.362 | 87.482.099 | 501.032 | 386.463 | 160.816.372 |
| 8.Non Current Assets (5+6+7) | 264.206.329 | 15.020.362 | 87.482.099 | 501.032 | 386.463 | 160.816.372 |
| 9.Total Assets (4+8) | 2.142.996.952 | 386.851.435 | 662.780.279 | 90.255.655 | 54.229.560 | 948.880.023 |
| 10.Trade Payables | 969.871.904 | 452.325.406 | 317.042.284 | 21.783.396 | 4.044.025 | 174.676.793 |
| 11.Financial Liabilities | 752.698.394 | 33.807.762 | 625.806.345 | - | 93.084.287 | - |
| 12a.Other Liabilities, Monetary | 68.266.019 | 6.150.112 | 62.115.743 | 164 | - | - |
| 12b.Other Liabilities, Non Monetary | 12.453.925 | 11.178.585 | 1.275.340 | - | - | - |
| 13.Current Liabilities (10+11+12) | 1.803.290.242 | 503.461.865 | 1.006.239.712 | 21.783.560 | 97.128.312 | 174.676.793 |
| 14.Trade Payables | 352.923 | 352.923 | - | - | - | - |
| 15.Financial Liabilities | 6.461.648.607 | - | 5.107.964.213 | - | 1.353.684.394 | - |
| 16a.Other Liabilities, Monetary | 224.355 | 224.355 | - | - | - | - |
| 16b.Other Liabilities, Non Monetary | 202.053.957 | 202.053.957 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 6.664.279.842 | 202.631.235 | 5.107.964.213 | - | 1.353.684.394 | - |
| 18.Total Liabilities (13+17) | 8.467.570.084 | 706.093.100 | 6.114.203.925 | 21.783.560 | 1.450.812.706 | 174.676.793 |
| 19.Net asset / liability position of off-balance sheet derivatives (19a-19b) | 249.685.351 | - | 249.685.351 | - | - | - |
| 19a.Off-balance sheet foreign currency derivative assets | 249.685.351 | - | 249.685.351 | - | - | - |
| 19b.Off-balance sheet foreigncurrency derivative liabilities | - | - | - | - | - | - |
| 20.Net foreign currency asset/(liability) position (9-18+19) | (6.074.887.781) | (319.241.665) | (5.201.738.295) | 68.472.095 | (1.396.583.146) | 774.203.230 |
| 21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (6.761.931.118) | (305.831.828) | (5.622.592.939) | 56.456.455 | (1.398.045.792) | 508.082.986 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | - | - | - | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

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32. 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 EURO, JPY, TL and GBP. The following table details the Group's sensitivity to a 10% increase and decrease in EURO, JPY, TL and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity items.

| | 31 March 2014 | |
|--|--|--|
| | Profit / (Loss) Before Tax | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| 1- TL net asset / liability | (26.143.159) | 26.143.159 |
| 2- Part of hedged from TL risk (-) | - | - |
| 3- TL net effect (1+2) | <u>(26.143.159)</u> | <u>26.143.159</u> |
| 4- Euro net asset / liability | (548.849.462) | 548.849.462 |
| 5- Part of hedged from Euro risk (-) | - | - |
| 6- Euro net effect (4+5) | <u>(548.849.462)</u> | <u>548.849.462</u> |
| 7- GBP net asset / liability | 8.660.726 | (8.660.726) |
| 8- Part of hedged from GBP risk (-) | - | - |
| 9- GBP net effect (7+8) | <u>8.660.726</u> | <u>(8.660.726)</u> |
| 10- JPY net asset / liability | (228.265.564) | 228.265.564 |
| 11- Part of hedged from JPY risk (-) | - | - |
| 12- JPY net effect (10+11) | <u>(228.265.564)</u> | <u>228.265.564</u> |
| 13- Other foreign currency net asset / liability | 91.068.450 | (91.068.450) |
| 14- Part of hedged other foreign currency risk (-) | - | - |
| 15- Other foreign currency net effect (13+14) | <u>91.068.450</u> | <u>(91.068.450)</u> |
| TOTAL (3 + 6 + 9 + 12+15) | <u><u>(703.529.009)</u></u> | <u><u>703.529.009</u></u> |

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

Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

| | 31 December 2013 | |
|--|--|--|
| | Profit / (Loss) Before Tax | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| 1- TL net asset / liability | (31.924.167) | 31.924.167 |
| 2- Part of hedged from TL risk (-) | - | - |
| 3- TL net effect (1+2) | (31.924.167) | 31.924.167 |
| 4- Euro net asset / liability | (520.173.830) | 520.173.830 |
| 5- Part of hedged from Euro risk (-) | - | - |
| 6- Euro net effect (4+5) | (520.173.830) | 520.173.830 |
| 7- GBP net asset / liability | 6.847.210 | (6.847.210) |
| 8- Part of hedged from GBP risk (-) | - | - |
| 9- GBP net effect (7+8) | 6.847.210 | (6.847.210) |
| 10- JPY net asset / liability | (139.658.315) | 139.658.315 |
| 11- Part of hedged from JPY risk (-) | - | - |
| 12- JPY net effect (10+11) | (139.658.315) | 139.658.315 |
| 13- Other foreign currency net asset / liability | 77.420.323 | (77.420.323) |
| 14- Part of hedged other foreign currency risk (-) | - | - |
| 15- Other foreign currency net effect (13+14) | 77.420.323 | (77.420.323) |
| TOTAL (3 + 6 + 9 + 12+15) | (607.488.778) | 607.488.778 |

33. EVENTS AFTER THE BALANCE SHEET DATE

None.

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

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current year, the Group has made several reclassifications in the prior year consolidated financial statements in order to maintain consistency, with current year consolidated financial statements.

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34. OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE (cont'd)

Based on the decision taken on 7 June 2013 by the CMB at its meeting numbered 20/670, a new illustrative financial statement and guidance to it has been issued effective from the interim periods ended after 31 March 2013, which is applicable for the companies that are subject to Communiqué on the Principles of Financial Reporting in Capital Markets. Based on these new illustrative financial statements, a number of changes made at the Group's consolidated financial statements.

As a result of preparation of the condensed interim consolidated financial statements in accordance with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") on 13 June 2013 which is published on Official Gazette numbered 28676, significant classifications in the prior year consolidated financial statements have been indicated in following paragraphs as a summary on the basis of consolidated financial statements and items.

- Other airlines' seat rent expenses, amounting to TL 40,788,203 which was disclosed under "Cost of Sales" in the interim period 1 January- 31 March 2013 is net-off with "Sales Revenue".
- Transportation expense, amounting to TL 762,110 which was disclosed under "Cost of Sales" in the interim period 1 January- 31 March 2013 is reclassified to "General Administrative Expenses".
- Depreciation expenses, amounting TL 3,425,658 which was disclosed in other expenses under "Marketing, Sales and Distributions Expenses" in the interim period 1 January- 31 March 2013 is reclassified to "Cost of Sales".
- Income from government grants and incentives, amounting to TL 21,039,274 which was disclosed under "Other Operating Income" and interest income, amounting to TL 10,513,745 that was earned from long-term financial investments which was disclosed under "Financial Income" in the interim period 1 January- 31 March 2013 are reclassified to "Income from Investment Activities".
- The amount of TL 7,892,317 which was disclosed in other expenses under "Other Operating Expenses" as an income item in the interim period 1 January- 31 March 2013 is reclassified to "Other Operating Income".
- Late payment interest income, amounting to TL 130,712 which was disclosed under "Financial Income" in the interim period 1 January- 31 March 2013 is reclassified to "Other Operating Income".
- Foreign exchange loss related to trade receivables and payables, amounting to TL 24,515,493 which was disclosed under "Financial Expenses" in the interim period 1 January-31 March 2013 are reclassified to "Other Operating Expenses".
- Foreign exchange loss, amounting to TL 21,281,126 which was disclosed under "Financial Expenses" as an income item in the interim period 1 January- 31 March 2013 is net-off with "Financial Income".
- Discount interest expense, amounting to TL 353,305 which was disclosed under "Financial Expenses" in the interim period 1 January- 31 March 2013 is reclassified to "Other Operating Expenses".