

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

Condensed Consolidated Interim
Financial Statements As at and For
The Three-Month Period
Ended 31 March 2019

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Balance Sheet as at 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| ASSETS | Notes | Not Reviewed | Audited |
|--|-------|---------------|------------------|
| | | 31 March 2019 | 31 December 2018 |
| Non-Current Assets | | | |
| Financial Investments | 6 | 80 | 86 |
| Other Receivables | | | |
| -Third Parties | 10 | 856 | 1,004 |
| Investments Accounted by Using Equity Method | 3 | 340 | 358 |
| Property and Equipment | 12 | 14,296 | 13,918 |
| Right of Use Assets | 12 | 1,561 | - |
| Intangible Assets | | | |
| - Other Intangible Assets | 13 | 80 | 82 |
| - Goodwill | | 12 | 12 |
| Prepaid Expenses | | 882 | 767 |
| TOTAL NON-CURRENT ASSETS | | 18,107 | 16,227 |
| Current Assets | | | |
| Cash and Cash Equivalents | 5 | 1,816 | 1,636 |
| Financial Investments | 6 | 293 | 519 |
| Trade Receivables | | | |
| -Related Parties | 9 | 1 | 2 |
| -Third Parties | | 676 | 568 |
| Other Receivables | | | |
| -Related Parties | 9 | 31 | 3 |
| -Third Parties | 10 | 1,367 | 1,178 |
| Derivative Financial Instruments | 28 | 66 | 57 |
| Inventories | | 215 | 190 |
| Prepaid Expenses | | 145 | 192 |
| Current Income Tax Assets | 26 | 43 | 61 |
| Other Current Assets | | 169 | 99 |
| TOTAL CURRENT ASSETS | | 4,822 | 4,505 |
| TOTAL ASSETS | | 22,929 | 20,732 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 31 March 2019

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

| LIABILITIES | Notes | Not Reviewed | Audited |
|--|--------------|----------------------|-------------------------|
| | | 31 March 2019 | 31 December 2018 |
| Equity | | | |
| Share Capital | 19 | 1,597 | 1,597 |
| Items That Will Not Be Reclassified to | | | |
| Profit or Loss | | | |
| -Actuarial (Losses) on Retirement Pay Obligation | 19 | (34) | (35) |
| Items That Are or May Be Reclassified to | | | |
| Profit or Loss | | | |
| -Foreign Currency Translation Differences | 19 | (170) | (160) |
| -Fair Value Gains on Hedging Instruments | 19 | | |
| Entered into for Cash Flow Hedges | | 203 | - |
| -Gains on Remeasuring FVOCI | 19 | (7) | (6) |
| Restricted Profit Reserves | 19 | 36 | 36 |
| Previous Years Profit | 19 | 4,495 | 3,760 |
| Net (Loss) / Profit for the Period | | (229) | 753 |
| Equity of the Parent | | 5,891 | 5,945 |
| Non-Controlling Interests (*) | | - | - |
| TOTAL EQUITY | | 5,891 | 5,945 |
| Non- Current Liabilities | | | |
| Long-Term Borrowings | 7 and 14 | 8,407 | 8,239 |
| Long Term Lease Liabilities | 14 | 1,246 | - |
| Other Payables | | | |
| -Third Parties | | 35 | 36 |
| Deferred Income | 11 | 55 | 60 |
| Long-Term Provisions | | | |
| -Provisions for Employee Benefits | 17 | 124 | 130 |
| Deferred Tax Liability | 26 | 1,144 | 1,138 |
| TOTAL NON-CURRENT LIABILITIES | | 11,011 | 9,603 |
| Current Liabilities | | | |
| Short Term Borrowings | 7 | 1,189 | 1,099 |
| Short-Term Portion of Long-Term Borrowings | 7 and 14 | 1,350 | 1,270 |
| Short Term Portion of Lease Liabilities | 14 | 276 | - |
| Other Financial Liabilities | 8 | 2 | 6 |
| Trade Payables | | | |
| -Related Parties | 9 | 171 | 231 |
| -Third Parties | | 797 | 791 |
| Payables Related to Employee Benefits | | 201 | 199 |
| Other Payables | | | |
| -Third Parties | | 81 | 78 |
| Derivative Financial Instruments | 28 | 106 | 196 |
| Deferred Income | 11 | 1,524 | 1,052 |
| Short-Term Provisions | | | |
| -Provisions for Employee Benefits | 15 | 39 | 39 |
| -Other Provisions | 15 | 13 | 16 |
| Other Current Liabilities | | 278 | 207 |
| TOTAL CURRENT LIABILITIES | | 6,027 | 5,184 |
| TOTAL LIABILITIES AND EQUITY | | 22,929 | 20,732 |

(*) The non-controlling share in the assets and results of subsidiaries for the year are separately classified as “non-controlling interest” in the consolidated statements of financial position and consolidated statements of profit or loss.

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss
For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | | <u>Not Reviewed</u> | <u>Not Reviewed</u> |
|--|--------------|----------------------|----------------------|
| | <u>Notes</u> | <u>31 March 2019</u> | <u>31 March 2018</u> |
| <u>PROFIT OR LOSS</u> | | | |
| Revenue | 20 | 2,768 | 2,763 |
| Cost of Sales (-) | 21 | (2,504) | (2,347) |
| GROSS PROFIT | | 264 | 416 |
| General Administrative Expenses (-) | 22 | (72) | (71) |
| Marketing and Sales Expenses (-) | 22 | (395) | (342) |
| Other Operating Income | 23 | 61 | 48 |
| Other Operating Expenses (-) | 23 | (8) | (10) |
| OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES | | (150) | 41 |
| Income from Investment Activities | 24 | 30 | 21 |
| Expenses from Investment Activities | 24 | (27) | - |
| Share of Investments' Profit Accounted by Using The Equity Method | 3 | (15) | 3 |
| OPERATING (LOSS) / PROFIT | | (162) | 65 |
| Financial Income | 25 | 19 | 11 |
| Financial Expenses (-) | 25 | (140) | (183) |
| LOSS BEFORE TAX | | (283) | (107) |
| Tax Income | | 54 | 21 |
| Current Tax Expense | 26 | (9) | (15) |
| Deferred Tax Income | 26 | 63 | 36 |
| NET LOSS FOR THE PERIOD | | (229) | (86) |
| <u>OTHER COMPREHENSIVE INCOME</u> | | | |
| Items That May Be Reclassified Subsequently To Profit or Loss | | | |
| Currency Translation Adjustment | | 192 | (160) |
| (Losses) / Gains on Remeasuring FVOCI | | (10) | 1 |
| Fair Value Gains / (Losses) on Hedging Instruments Entered into for Cash Flow Hedges | | (1) | - |
| Fair Value Gains / (Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges | | 252 | (200) |
| Related Tax of Other Comprehensive Income | | 5 | (1) |
| | | (54) | 40 |
| Items That Will Not Be Reclassified Subsequently To Profit or Loss | | | |
| Actuarial Gains on Retirement Pay Obligation | | 1 | - |
| Related Tax of Other Comprehensive Income | | 1 | - |
| | | - | - |
| OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD | | 193 | (160) |
| TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD | | (36) | (246) |
| Basic Loss Per Share (Full US Cents) | 27 | (0.17) | (0.06) |
| Diluted Loss Per Share (Full US Cents) | 27 | (0.17) | (0.06) |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | Items That Will Not Be Reclassified Subsequently To Profit or Loss | | Items That May Be Reclassified Subsequently To Profit or Loss | | | | Retained Earnings | | | | Total Equity |
|--|--|--|---|---|---------------------------------------|----------------------------|-----------------------|-------------------------|------------------------------|---------------------------|--------------|
| | Share Capital | Actuarial (Losses) Retirement Pay Obligation | Foreign Currency Translation Differences | Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges | Gains / (Losses) on Remeasuring FVOCI | Restricted Profit Reserves | Previous Years Profit | Net Loss for The Period | Equity Holders of the Parent | Non-controlling Interests | |
| As of 1 January 2019 | 1,597 | (35) | (160) | - | (6) | 36 | 3,760 | 753 | 5,945 | - | 5,945 |
| Adjustment on initial application of IFRS 16 | - | - | - | - | - | - | (18) | - | (18) | - | (18) |
| As of 1 January 2019 | 1,597 | (35) | (160) | - | (6) | 36 | 3,742 | 753 | 5,927 | - | 5,927 |
| Transfers | - | - | - | - | - | - | 753 | (753) | - | - | - |
| Total comprehensive income | - | 1 | (10) | 203 | (1) | - | - | (229) | (36) | - | (36) |
| As of 31 March 2019 | 1,597 | (34) | (170) | 203 | (7) | 36 | 4,495 | (229) | 5,891 | - | 5,891 |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Changes in Equity
For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | Items That Will Not Be Reclassified Subsequently To Profit or Loss | | Items That May Be Reclassified Subsequently To Profit or Loss | | | Retained Earnings | | | | | |
|--|--|--|---|---|---------------------------------------|----------------------------|-----------------------|-------------------------|------------------------------|---------------------------|--------------|
| | Share Capital | Actuarial (Losses) Retirement Pay Obligation | Foreign Currency Translation Differences | Fair Value Gains on Hedging Instruments Entered Into For Cash Flow Hedges | Gains / (Losses) on Remeasuring FVOCI | Restricted Profit Reserves | Previous Years Profit | Net Loss for The Period | Equity Holders of the Parent | Non-controlling Interests | Total Equity |
| As of 1 January 2018 | 1,597 | (15) | (108) | 61 | 1 | 36 | 3,551 | 223 | 5,346 | - | 5,346 |
| Adjustment on initial application of IFRS 15 | - | - | - | - | - | - | (7) | - | (7) | - | (7) |
| Adjustment on initial application of IFRS 9 | - | - | - | - | - | - | (7) | - | (7) | - | (7) |
| Restated As of 1 January 2018 | 1,597 | (15) | (108) | 61 | 1 | 36 | 3,537 | 223 | 5,332 | - | 5,332 |
| Transfers | - | - | - | - | - | - | 223 | (223) | - | - | - |
| Total comprehensive income | - | - | 1 | (161) | - | - | - | (86) | (246) | - | (246) |
| As of 31 March 2018 | 1,597 | (15) | (107) | (100) | 1 | 36 | 3,760 | (86) | 5,086 | - | 5,086 |

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 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

| | Notes | Not Reviewed 31 March 2019 | Not Reviewed 31 March 2018 |
|--|-----------|-------------------------------|-------------------------------|
| Net Loss for the period | | (229) | (86) |
| Adjustments to Reconcile Profit / (Loss) | | | |
| Adjustments for Depreciation and Amortisation Expense | 12 and 13 | 360 | 269 |
| Adjustments for Provisions Related with Employee Benefits | 15 and 17 | 6 | 11 |
| Adjustments for Provisions for Payables | 15 | (3) | 1 |
| Adjustments for Reversal of Probable Risks | | 1 | (3) |
| Adjustments for Interest Income | 24 and 25 | (30) | (14) |
| Adjustments for Interest Expense | 17 and 25 | 76 | 67 |
| Adjustments For Unrealised Foreign Exchange (Gains) / Losses | | (5) | 24 |
| Adjustments for Fair Value Losses on Derivative | | | |
| Financial Instruments | 25 | 21 | 10 |
| Adjustments for Undistributed Profits of Associates | 3 | 15 | (3) |
| Adjustments for Tax Income | 26 | (54) | (21) |
| Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets | 24 | 26 | (2) |
| Adjustments for Losses Arised from Sale of | | | |
| Other Non-Current Assets | 12 | 10 | 9 |
| Operating Profit Before Changes in Working Capital | | 194 | 262 |
| Increase in Trade Receivables from Non Related Parties | | (108) | (116) |
| Decrease / (Increase) in Other Non-Related Party Receivables | | | |
| Related with Operations | 10 | 84 | (42) |
| Adjustments for Increase in Inventories | | (25) | (14) |
| Adjustments for Increase in Prepaid Expenses | | (81) | (111) |
| Decrease in Trade Payables to Related Parties | 9 | (60) | (4) |
| Increase in Trade Payables to Non-Related Parties | | 6 | 10 |
| Adjustments for Increase / (Decrease) in Payables Due to | | | |
| Employee Benefits | | 2 | (37) |
| Increase in Other Operating Payables to Non-Related Parties | | 2 | 1 |
| Increase in Deferred Income | 11 | 508 | 493 |
| (Increase) / Decrease in Other Assets Related with Operations | | (70) | 18 |
| Cash Flows From Operations | | 452 | 460 |
| Payments for Provisions Related with Employee Benefits | 17 | (4) | (5) |
| Income taxes paid | 26 | (27) | 5 |
| Net Cash From Operating Activities | | 421 | 460 |
| CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES | | | |
| Cash Outflow Arising From Capital Increase in Investments | | (3) | - |
| Cash Receipts Proceed From Sales of Property, Plant and Equipment | | 8 | 12 |
| Cash Payments From Purchasing of Property, Plant and | | | |
| Equipment (*) | 12 and 13 | (353) | (207) |
| Cash Receipts From Purchasing of Other Long-term Assets | 6 | 232 | 121 |
| Other Cash Advances and Loans | | (153) | (276) |
| Interest Received | 24 and 25 | 30 | 14 |
| Net Cash Flows Used In Investing Activities | | (239) | (336) |
| CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES | | | |
| Proceeds From Loans | 7 | 664 | 410 |
| Payments of Loans | | (304) | (233) |
| Payments of Finance Lease Liabilities | 7 | (224) | (234) |
| Payments of Lease Liabilities | | (85) | - |
| Interest Paid | | (49) | (49) |
| Other Outflows of Cash | 8 | (4) | (10) |
| Net Cash Used in Financing Activities | | (2) | (116) |
| Net Change in Cash and Cash Equivalents | | 180 | 8 |
| CASH AND CASH EQUIVALENTS | | | |
| AT THE BEGINNING OF THE PERIOD | | 1,636 | 1,891 |
| CASH AND CASH EQUIVALENTS | | | |
| AT THE END OF THE PERIOD | 5 | 1,816 | 1,899 |

(*) USD 350 portion of property and equipment and intangible assets purchases in total of USD 703 for the period ended 31 March 2019 was financed through finance leases. (31 March 2018: USD 0 portion of property and equipment and intangible assets purchases in total of USD 207 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

As At And For the Three-Month Period Ended 31 March 2019

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

1. GROUP ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 31 March 2019 and 31 December 2018, the shareholders and their respective shareholdings in the Group are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|----------------------|-------------------------|
| Turkey Wealth Fund (*) | 49.12 % | 49.12 % |
| Republic of Turkey Treasury and Finance Ministry Privatization Administration (*) | - | - |
| Other (publicly held) | 50.88 % | 50.88 % |
| Total | <u>100.00 %</u> | <u>100.00 %</u> |

(*) The name of Republic of Turkey Prime Ministry Privatization is amended as Republic of Turkey Treasury and Finance Ministry Privatization Administration in 2017. 49.12% of the share capital of the Company that used to be owned by Republic of Turkey Treasury and Finance Ministry Privatisation Administration has been transferred to Turkey Wealth Fund on 3 February 2017. Turkey Wealth Fund, of which capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatisation Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer has not led to any change on the current management structure, business strategy, policies and commercial decisions of the Company.

The number of employees working for the Group as of 31 March 2019 is 36,800 (31 December 2018: 35,205). The average number of employees working for the Group for the period ended 31 March 2019 and 2018 are 36,314 and 31,712 respectively. The Group is registered in İstanbul, Turkey and its head office address is as follows:

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

The Group’s equity securities have been traded on Borsa İstanbul (BIST) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 March 2019 and 31 December 2018:

| <u>Name of the Company</u> | <u>Principal Activity</u> | <u>Ownership Rate</u> | | <u>Country of Registration</u> |
|--|---|-----------------------|-------------------------|--------------------------------|
| | | <u>31 March 2019</u> | <u>31 December 2018</u> | |
| THY Teknik A.Ş. (THY Teknik) | Aircraft Maintenance Services | 100% | 100% | Turkey |
| THY Uçuş Eğitim ve Havalimanı İşletme A.Ş. | Training & Airport Operations | 100% | 100% | Turkey |
| THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş. | Airport Investment | 100% | 100% | Turkey |
| THY Uluslararası Yatırım ve Taşımacılık A.Ş. (*) | Cargo and Courier Transportation | 100% | 100% | Turkey |
| Cornea Havacılık Sistemleri San. Ve Tic. A.Ş. (**) | Software System Maintenance Services | 80% | 80% | Turkey |

(*) The association was established in September 2018 to operate in the fields of cargo and courier transportation by the Board of Directors.

(**)The association was established in October 2018 to operate in the fields of software system maintenance by the Board of Directors.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Group as of 31 March 2019 and 31 December 2018:

| 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 Services |
| TGS Yer Hizmetleri A.Ş. (TGS) | Turkey | 50% | 50% | Ground Services |
| THY OPET Havacılık Yakıtları A.Ş. (THY Opet) □ | Turkey | 50% | 50% | Aviation Fuel Services |
| Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich) | Turkey | 40% | 40% | Maintenance Services |
| Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk) | Turkey | 50% | 50% | Cabin Interior Products |
| TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) | Turkey | 50% | 50% | Cabin Interior Products |
| Vergi İade Aracılık A.Ş. | Turkey | 30% | 30% | VAT Return and Consultancy |
| Air Albania | Albania | 49% | 49% | Aircraft Transportation |

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

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

The condensed consolidated interim financial statements as at and for the three-month period ended 31 March 2019 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018.

Board of Directors has approved the condensed consolidated interim financial statements as of 31 March 2019 on 9 May 2019. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Basis of Preparation

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

Adjustment of Financial Statements in Hyperinflationary Periods

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

Functional and Reporting Currency

Functional currency

The consolidated financial statements of the Group are presented in US Dollars, which is the functional currency of the Group.

Although the currency of the country in which the Group is domiciled is Turkish Lira (TL), the Group’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 Group and reflects the economic substance of the underlying events and circumstances relevant to the Group. Therefore, the Group uses the US Dollar in measuring items in its financial statements and as the functional currency. All currencies other than the currency selected for measuring items in the consolidated financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in US Dollar have been remeasured in US Dollar in accordance with the relevant provisions of IAS 21 *the Effects of Changes in Foreign Exchange Rates*.

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

Basis of Consolidation

- a. The consolidated financial statements include the accounts of the parent company, THY, its subsidiaries and its joint ventures on the basis set out in sections (b) below. Financial statements of the subsidiaries and affiliates are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.
- b. The Group has nine joint ventures (Note: 1). These joint ventures are economical activities whereby decisions about strategic finance and operating policy are jointly made by the consensus of the Group and other investors. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method. Under the equity method, joint ventures are initially recognized at cost and adjusted to recognize any distributions received impairments in the joint ventures and the Group’s share of the profit or loss after the date of acquisition. Joint ventures’ losses that exceed the Group’s share are not recognized, unless the Group has incurred legal or constructive obligations on behalf of the joint venture.
- c. The non-controlling share in the assets and results of subsidiaries for the year are separately classified as “non-controlling interest” in the consolidated statements of financial position and consolidated statements of profit or loss.

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

2.1 Basis of Presentation (cont'd)

Business Combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

2.2 Changes and Errors in Accounting Estimates

The significant estimates and assumptions used in preparation of these condensed consolidated interim financial statements as at and for the period ended 31 March 2019 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2018.

2.3 Summary of Significant Accounting Policies

The accounting policies adopted in preparation of the interim consolidated financial statements as at 31 March 2019 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Company / the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows:

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

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

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 16 Leases (cont'd)

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16:

The Group adopted IFRS 16 using the modified retrospective approach. The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2019:

| | |
|---|---------------------|
| Assets | |
| Property, plant and equipment (Right-of-use assets) | 1,561 |
| Prepaid expenses | (13) |
| Total assets | <u>1,548</u> |
| Liabilities | |
| Lease liabilities | 1,522 |
| Redelivery maintenance liabilities | 30 |
| Deferred tax liabilities | 8 |
| Total liabilities | <u>1,560</u> |
| Net impact on equity | <u>(12)</u> |

The standard is applied for annual periods beginning on or after 1 January 2019.

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

2.3 Summary of Significant Accounting Policies (cont'd)

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Group applies the depreciation policy mentioned in IAS 16 for the depreciation of the right of use assets. If the lessor transfers the ownership of the leased asset to the Group at the end of the lease term or the right of use asset cost indicates that the Group will use a purchase option, the recognized right-of-use assets are depreciated from the commencement of the lease until the end of underlying asset's useful life. In other cases, the right-of-use asset is depreciated on a straight-line basis beginning from the commencement date over the shorter of its estimated useful life or the lease term.

Right-of-use assets are subject to impairment.

Aircraft;

For the aircraft operating lease agreements, the lease term corresponds to the non-cancellable duration of the agreements signed except in cases where the Group is reasonably certain of exercising either an extension option or an early termination option which is included in the agreement. For each currency, Group's incremental borrowing rate is used to determine the lease liability. IFRS 16 requires including maintenance costs in the right of use asset. According to that, the Group decides whether the maintenance cost is capitalized to the right of use asset by analyzing whether the maintenance cost is avoidable or unavoidable. The Group is obliged to return leased aircraft and their engines according to the redelivery condition which is set in the lease agreement. The Group needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor if the condition of the aircraft and its engines differs from the agreed redelivery condition. Maintenance costs can be divided into two groups; costs that incur independent of the usage of the aircraft / leasing period and costs that incur dependent on the usage of the aircraft / leasing period. Costs depending on the usage of the aircraft are not included as part of the right of use asset cost.

Real estate and other leases;

For lease agreements, the lease term corresponds to the non-cancellable duration of the agreements signed except in cases where the Group is reasonably certain of exercising either an extension option or an early termination option which is included in the agreement. For each currency Group's incremental borrowing rate is used to determine the lease liability. Service agreements which relate to the usage of airports and terminals do not qualify as lease arrangements under IFRS 16. In the agreements, the lessor has the right to substitute the leased area with another area, meaning that these agreements do not qualify as leasing contract under IFRS 16. As an exception to this, there are specific lounge areas which are dedicated for the use of the Group and therefore, these are included in the lease agreements.

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

2.3 Summary of Significant Accounting Policies (cont'd)

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The following table summarizes the impact, deferred tax, of transition to IFRS 16 on retained earnings at 1 January 2019:

Redelivery maintenance prior year affect

| | |
|------------------------------------|------------------|
| Redelivery maintenance liabilities | 23 |
| Deferred tax liabilities | (5) |
| Retained earnings | <u><u>18</u></u> |

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

2.4 New and Revised Standards and Interpretations

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows:

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before January 1, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 4.

The revised Conceptual Framework

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

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

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

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

2.5 Determination of Fair Values

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

Evaluation methods in terms of levels are described as follows:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.
- Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.
- Level 3: Variables, which are not related to observable market variable for assets and liabilities (unobservable variables).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

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

| | 31 March 2019 | 31 December 2018 |
|-------------------------|----------------------|-------------------------|
| Sun Express | 119 | 136 |
| THY Opet | 60 | 58 |
| TEC | 59 | 62 |
| Turkish DO&CO | 52 | 53 |
| TGS | 37 | 39 |
| TCI | 6 | 3 |
| Uçak Koltuk | 5 | 5 |
| Goodrich | 2 | 2 |
| Vergi İade Aracılık (*) | - | - |
| | <u>340</u> | <u>358</u> |

(*) The Group's share in the shareholders' equity of Vergi İade Aracılık is less than USD 1.

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

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---------------|--------------------------------------|--------------------------------------|
| THY Opet | 6 | 6 |
| Turkish DO&CO | 3 | 3 |
| TGS | 2 | 1 |
| Uçak Koltuk | - | - |
| TCI | - | - |
| Goodrich | - | - |
| Vergi İade | - | - |
| TEC | (6) | 6 |
| Sun Express | (20) | (13) |
| | <u>(15)</u> | <u>3</u> |

Financial information for Sun Express as of 31 March 2019 and 2018 are as follows:

| | 31 March 2019 | 31 December 2018 |
|--|--------------------------------------|--------------------------------------|
| Total assets | 1,691 | 1,350 |
| Total liabilities | 1,452 | 1,079 |
| Shareholders'equity | 239 | 271 |
| Group's share in joint venture's shareholders' equity | 119 | 136 |
| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
| Revenue | 195 | 232 |
| Loss for the period | (39) | (25) |
| Group's share in joint venture's loss for the period | (20) | (13) |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Financial information for TEC as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|--------------------------------------|--------------------------------------|
| Total assets | 249 | 189 |
| Total liabilities | 125 | 62 |
| Shareholders'equity | 124 | 127 |
| Group's share in joint venture's shareholders' equity | 59 | 62 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 89 | 149 |
| Profit for the period | (13) | 12 |
| Group's share in joint venture's (loss) / profit for the period | (6) | 6 |

Financial information for THY Opet as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|--------------------------------------|--------------------------------------|
| Total assets | 409 | 621 |
| Total liabilities | 290 | 504 |
| Shareholders'equity | 119 | 117 |
| Group's share in joint venture's shareholders' equity | 60 | 58 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 468 | 478 |
| Profit for the period | 11 | 12 |
| Group's share in joint venture's profit for the period | 6 | 6 |

Financial information for Turkish DO&CO as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|--------------------------------------|--------------------------------------|
| Total assets | 181 | 168 |
| Total liabilities | 77 | 62 |
| Shareholders'equity | 104 | 106 |
| Group's share in joint venture's shareholders' equity | 52 | 53 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 72 | 71 |
| Profit for the period | 5 | 6 |
| Group's share in joint venture's profit for the period | 3 | 3 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Financial information for TGS as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|--------------------------------------|--------------------------------------|
| Total assets | 155 | 130 |
| Total liabilities | 81 | 52 |
| Shareholders'equity | 74 | 78 |
| Group's share in joint venture's shareholders' equity | 37 | 39 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 70 | 66 |
| Profit for the period | 3 | 2 |
| Group's share in joint venture's profit for the period | 2 | 1 |

Financial information for Uçak Koltuk as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|--------------------------------------|--------------------------------------|
| Total assets | 35 | 25 |
| Total liabilities | 25 | 15 |
| Shareholders'equity | 10 | 10 |
| Group's share in joint venture's shareholders' equity | 5 | 5 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 10 | 1 |
| Profit / (Loss) for the period | - | (1) |
| Group's share in joint venture's profit / (loss) for the period | - | - |

Financial information for TCI as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|--------------------------------------|--------------------------------------|
| Total assets | 20 | 17 |
| Total liabilities | 9 | 11 |
| Shareholders'equity | 11 | 6 |
| Group's share in joint venture's shareholders' equity | 6 | 3 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 4 | 1 |
| Loss for the period | 1 | (1) |
| Group's share in joint venture's profit / (loss) for the period | - | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Financial information for Goodrich as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|--------------------------------------|--------------------------------------|
| Total assets | 12 | 10 |
| Total liabilities | 6 | 5 |
| Shareholders'equity | 6 | 5 |
| Group's share in joint venture's shareholders' equity | 2 | 2 |
| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
| Revenue | 7 | 5 |
| Profit for the period | 1 | - |
| Group's share in joint venture's profit / (loss) for the period | - | - |

4. SEGMENTAL REPORTING

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

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

4.1 Total Assets and Liabilities

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|----------------------|-------------------------|
| Total Assets | | |
| Aviation | 22,900 | 20,638 |
| Technical | 1,401 | 1,326 |
| Total | 24,301 | 21,964 |
| Less: Eliminations due to consolidation | (1,372) | (1,232) |
| Total assets in consolidated financial statements | <u>22,929</u> | <u>20,732</u> |
| | | |
| Total Liabilities | | |
| Aviation | 17,101 | 14,883 |
| Technical | 326 | 291 |
| Total | 17,427 | 15,174 |
| Less: Eliminations due to consolidation | (389) | (387) |
| Total liabilities in consolidated financial statements | <u>17,038</u> | <u>14,787</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

| 1 January - 31 March 2019 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|--------------|
| Sales to External Customers | 2,698 | 70 | - | 2,768 |
| Inter-Segment Sales | 11 | 265 | (276) | - |
| Revenue | 2,709 | 335 | (276) | 2,768 |
| Cost of Sales (-) | (2,546) | (234) | 276 | (2,504) |
| Gross Profit | 163 | 101 | - | 264 |
| Administrative Expenses (-) | (50) | (22) | - | (72) |
| Marketing and Sales Expenses (-) | (394) | (1) | - | (395) |
| Other Operating Income | 61 | 3 | (3) | 61 |
| Other Operating Expenses (-) | (10) | (1) | 3 | (8) |
| Operating (Loss) / Profit Before Investment Activities | (230) | 80 | - | (150) |
| Income from Investment Activities | 30 | - | - | 30 |
| Expenses from Investment Activities Share of Investments' Loss | (27) | - | - | (27) |
| Accounted by Using The Equity Method | (9) | (6) | - | (15) |
| Operating (Loss) / Profit | (236) | 74 | - | (162) |
| Financial Income | 12 | 13 | (6) | 19 |
| Financial Expense (-) | (145) | (1) | 6 | (140) |
| (Loss) / Profit Before Tax | (369) | 86 | - | (283) |

| 1 January - 31 March 2018 | Aviation | Technic | Inter-segment elimination | Total |
|---|-----------------|----------------|--------------------------------------|--------------|
| Sales to External Customers | 2,702 | 61 | - | 2,763 |
| Inter-Segment Sales | 6 | 228 | (234) | - |
| Revenue | 2,708 | 289 | (234) | 2,763 |
| Cost of Sales (-) | (2,362) | (219) | 234 | (2,347) |
| Gross Profit | 346 | 70 | - | 416 |
| Administrative Expenses (-) | (50) | (22) | 1 | (71) |
| Marketing and Sales Expenses (-) | (340) | (2) | - | (342) |
| Other Operating Income | 47 | 6 | (5) | 48 |
| Other Operating Expenses (-) | (8) | (6) | 4 | (10) |
| Operating (Loss) / Profit Before Investment Activities | (5) | 46 | - | 41 |
| Income from Investment Activities Share of Investments' Loss | 21 | - | - | 21 |
| Accounted by Using The Equity Method | (3) | 6 | - | 3 |
| Operating Profit | 13 | 52 | - | 65 |
| Financial Income | 12 | - | (1) | 11 |
| Financial Expense (-) | (187) | 3 | 1 | (183) |
| (Loss) / Profit Before Tax | (162) | 55 | - | (107) |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont'd)

4.3 Investment Operations

| | Aviation | Technic | Inter-segment elimination | Total |
|--|-----------------|----------------|--------------------------------------|--------------|
| 1 January - 31 March 2019 | | | | |
| Purchase of property and equipment and intangible assets | 619 | 84 | - | 703 |
| Current period depreciation and amortization charge | 248 | 35 | - | 283 |
| Investments accounted by using equity method | 277 | 63 | - | 340 |
| 1 January - 31 March 2018 | | | | |
| Purchase of property and equipment and intangible assets | 160 | 47 | - | 207 |
| Current period depreciation and amortization charge | 232 | 37 | - | 269 |
| Investments accounted by using equity method | 253 | 67 | - | 320 |

5. CASH AND CASH EQUIVALENTS

| | 31 March 2019 | 31 December 2018 |
|-------------------------|----------------------|-------------------------|
| Cash | 2 | 2 |
| Banks – Time deposits | 1,734 | 1,570 |
| Banks – Demand deposits | 58 | 64 |
| Other liquid assets | 22 | - |
| | <u>1,816</u> | <u>1,636</u> |

Details of the time deposits as of 31 March 2019 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 March 2019</u> |
|----------------------|------------------------|---------------------------------------|------------------------|-----------------------------|
| 1,741 | TL | 17.43% - 23.99% | April 2019 | 318 |
| 66 | USD | 2.72% - 2.80% | April 2019 | 66 |
| 1,198 | EUR | 0.08% - 3.28% | June 2019 | 1,350 |
| | | | | <u>1,734</u> |

Details of the time deposits as of 31 December 2018 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 December 2018</u> |
|----------------------|------------------------|---------------------------------------|------------------------|--------------------------------|
| 1,718 | TL | 19.98% - 24.70% | March 2019 | 335 |
| 232 | USD | 3.57% - 5.92% | January 2019 | 233 |
| 871 | EUR | 2.54% - 3.60% | March 2019 | 1,002 |
| | | | | <u>1,570</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|----------------------|-------------------------|
| FVOCI | | |
| - Government debt securities | 84 | 90 |
| - Corporate debt securities | 33 | 26 |
| FVTPL | | |
| - Equity securities | 16 | 17 |
| Time deposits with maturity more than 3 months | 160 | 386 |
| | <u>293</u> | <u>519</u> |

Time deposit with maturity more than 3 months as of 31 March 2019 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 March 2019</u> |
|---------------|-----------------|--------------------------------|-----------------|----------------------|
| 143 | EUR | 1.12% - 1.52% | August 2019 | <u>160</u> |

Time deposit with maturity more than 3 months as of 31 December 2018 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 December 2018</u> |
|---------------|-----------------|--------------------------------|-----------------|-------------------------|
| 500 | TRY | 23.28% - 23.99% | April 2019 | 98 |
| 251 | EUR | 3.28% - 3.08% | April 2019 | <u>288</u> |
| | | | | <u>386</u> |

Long-term financial investments are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|------------------------------|----------------------|-------------------------|
| FVOCI | | |
| - Government debt securities | 43 | 45 |
| - Corporate debt securities | 36 | 40 |
| Other | 1 | 1 |
| | <u>80</u> | <u>86</u> |

Period remaining to contractual maturity dates for FVOCI as of 31 March 2019 and 2018 is as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|------------------|----------------------|-------------------------|
| Less than 1 year | 117 | 116 |
| 1 to 5 years | 3 | 8 |
| Over 5 years | 76 | 77 |
| | <u>196</u> | <u>201</u> |

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---------------------|----------------------|-------------------------|
| FVTPL | | |
| - Equity securities | 16 | 17 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS

Short-term borrowings are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|-----------------|----------------------|-------------------------|
| Bank borrowings | 1,189 | 1,099 |

Short-term borrowings as of 31 March 2019 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 March 2019</u> |
|---------------|-----------------|--------------------------------|-----------------|----------------------|
| 1,059 | EUR | 0.40% - 0.75% | February 2020 | 1,189 |

Short-term borrowings as of 31 December 2018 is as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 December 2018</u> |
|---------------|-----------------|--------------------------------|-----------------|-------------------------|
| 959 | EUR | 0.40% - 0.75% | December 2019 | 1,099 |

Short-term portions of long-term borrowings are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--------------------------------------|----------------------|-------------------------|
| Finance lease obligations (Note: 14) | 1,016 | 980 |
| Bank borrowings | 334 | 290 |
| | <u>1,350</u> | <u>1,270</u> |

Long-term borrowings are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--------------------------------------|----------------------|-------------------------|
| Finance lease obligations (Note: 14) | 6,994 | 7,006 |
| Bank borrowings | 1,413 | 1,233 |
| | <u>8,407</u> | <u>8,239</u> |

Details of bank borrowings as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---------------------|----------------------|-------------------------|
| Less than 1 year | 334 | 290 |
| Between 1 – 5 years | 1,413 | 1,233 |
| | <u>1,747</u> | <u>1,523</u> |

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | | <u>Effective Interest Rate</u> | <u>Payment Period</u> | <u>31 March 2019</u> |
|---------------|-----------------|----------------------|-----------------|--------------------------------|-----------------------|----------------------|
| 678 | EUR | Fixed | | 4.00% - 4.60% | May'19 - June'23 | 761 |
| 817 | EUR | Floating | Euribor + 2.45% | - Euribor + 3.50% | Jan'19 - July'23 | 986 |
| | | | | | | <u>1,747</u> |

| <u>Amount</u> | <u>Currency</u> | <u>Interest Rate</u> | | <u>Effective Interest Rate</u> | <u>Payment Period</u> | <u>31 December 2018</u> |
|---------------|-----------------|----------------------|-----------------|--------------------------------|-----------------------|-------------------------|
| 623 | EUR | Fixed | | 4.00% - 4.60% | May'19 - June'23 | 714 |
| 706 | EUR | Floating | Euribor + 2.45% | - Euribor + 3.50% | Jan'19 - July'23 | 809 |
| | | | | | | <u>1,523</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS (cont'd)

Reconciliation of liabilities arising from financing activities:

| | <u>2018</u> | <u>Payment</u> | <u>Non-cash Changes</u> | <u>Proceeds From</u> | <u>2019</u> |
|-------------------|---------------|----------------|-----------------------------|----------------------|---------------|
| Lease Liabilities | 7,986 | (268) | (60) | 352 | 8,010 |
| Bank Borrowings | 2,622 | (308) | (43) | 665 | 2,936 |
| | <u>10,608</u> | <u>(576)</u> | <u>(103)</u> | <u>1,017</u> | <u>10,946</u> |

Reconciliation of lease liabilities:

| | <u>2018</u> | <u>Payment</u> | <u>Non-cash Changes</u> | <u>Proceeds From</u> | <u>2019</u> |
|----------|-------------|----------------|-----------------------------|----------------------|--------------|
| Aircraft | - | (81) | 13 | 1,534 | 1,466 |
| Property | - | (4) | (1) | 56 | 51 |
| Other | - | (1) | - | 6 | 5 |
| | <u>-</u> | <u>(86)</u> | <u>12</u> | <u>1,596</u> | <u>1,522</u> |

8. OTHER FINANCIAL LIABILITIES

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

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|-----------------------------|----------------------|-------------------------|
| Other financial liabilities | <u>2</u> | <u>6</u> |

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

9. RELATED PARTIES

Short-term trade receivables from related parties are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--------------------------------------|----------------------|-------------------------|
| Posta ve Telgraf Teşkilatı A.Ş (PTT) | <u>1</u> | <u>1</u> |
| Other (*) | <u>-</u> | <u>1</u> |
| | <u>1</u> | <u>2</u> |

(*) Related parties of which amounts are less than USD 1 are classified as other.

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

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---------------|----------------------|-------------------------|
| TGS | <u>28</u> | <u>-</u> |
| Turkish DO&CO | <u>2</u> | <u>2</u> |
| TCI | <u>1</u> | <u>1</u> |
| | <u>31</u> | <u>3</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTIES (cont'd)

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

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---------------|----------------------|-------------------------|
| THY Opet | 97 | 95 |
| TEC | 30 | 60 |
| Turkish DO&CO | 22 | 35 |
| TGS | 19 | 19 |
| Goodrich | 2 | 2 |
| TCI | 1 | 1 |
| Sun Express | - | 19 |
| | <u>171</u> | <u>231</u> |

Transactions with related parties for the period ended 31 March 2019 and 2018 are as follows:

a) Sales to related parties:

| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
|-------------|--------------------------------------|--------------------------------------|
| Sun Express | 11 | 13 |
| TEC | 3 | 7 |
| PTT | 2 | 1 |
| TGS | 1 | 1 |
| Goodrich | 1 | - |
| | <u>18</u> | <u>22</u> |

b) Purchases from related parties:

| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
|---------------|--------------------------------------|--------------------------------------|
| THY Opet | 406 | 408 |
| Turkish DO&CO | 70 | 67 |
| TGS | 67 | 60 |
| TEC | 55 | 90 |
| Sun Express | 33 | 46 |
| Goodrich | 6 | 4 |
| Uçak Koltuk | 1 | - |
| | <u>638</u> | <u>675</u> |

Details of the financial assets for related parties as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|-------------------------|----------------------|-------------------------|
| Financial investments | 1,283 | 1,529 |
| Letter of credit | 967 | 862 |
| Bank credit | 135 | 115 |
| Debt securities | 25 | 25 |
| Equity share | 4 | 4 |
| Banks – Demand deposits | 2 | 2 |
| | <u>2,416</u> | <u>2,537</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTIES (cont'd)

Details of the time deposits deposited at related parties as of 31 March 2019 and 2018 are as follows:

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 March 2019</u> |
|---------------|-----------------|--------------------------------|-----------------|----------------------|
| 930 | TL | 24.50% - 20.50% | April 2019 | 167 |
| 934 | EUR | 2.00% - 4.00% | June 2019 | 1,053 |
| 63 | USD | 3.40% | April 2019 | 63 |
| | | | | <u>1,283</u> |

| <u>Amount</u> | <u>Currency</u> | <u>Effective Interest Rate</u> | <u>Maturity</u> | <u>31 December 2018</u> |
|---------------|-----------------|--------------------------------|-----------------|-------------------------|
| 1,310 | TL | 23.28% - 24.70% | April 2019 | 297 |
| 1,072 | EUR | 2.54% - 3.62% | May 2019 | 1,232 |
| | | | | <u>1,529</u> |

Interest income from related parties:

| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
|---------------------------|--------------------------------------|--------------------------------------|
| Türkiye Halk Bankası A.Ş. | 6 | 1 |
| Ziraat Bankası A.Ş. | - | 1 |
| | <u>6</u> | <u>2</u> |

Interest expense from related parties:

| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
|---------------------|--------------------------------------|--------------------------------------|
| Ziraat Bankası A.Ş. | 1 | - |
| | <u>1</u> | <u>-</u> |

Transactions between the Group and THY Opet are related to the supply of aircraft fuel; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and Sun Express are related to wet lease, seat sales operations and maintenance services; transactions between the Group and TGS are related to ground services; transactions between the Group and TEC are related to engine maintenance services; transactions between the Group and PTT are related to cargo transportation; transactions between the Group and Halk Bankası and Ziraat Bankası are related to banking services and transactions between the Group and Türk Telekom are related to advertising and telecommunication services. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short-term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 1 (1 January- 31 March 2018: USD 1).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

10. OTHER RECEIVABLES

Other short-term receivables from third parties as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|----------------------|-------------------------|
| Predelivery payments made for aircrafts | 1,045 | 809 |
| Receivables from technical purchases | 146 | 118 |
| Bank deposits with transfer limitations (*) | 89 | 90 |
| Value added tax receivables | 64 | 134 |
| Receivables from pilots for flight training | 19 | 19 |
| Others | 4 | 8 |
| | <u>1,367</u> | <u>1,178</u> |

(*)As of 31 March 2019, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Angola, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Benin, Republic of Kenya, Republic of Zimbabwe and Iran. (As of 31 December 2018, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Republic of Kenya, Republic of Zimbabwe, Iran and Benin.)

Other long-term receivables from third parties as of 31 March 2019 and 2018 are as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|----------------------|-------------------------|
| Predelivery payments made for aircrafts | 422 | 505 |
| Receivables related to investment certificates | 234 | 238 |
| Receivables from pilots for flight training | 120 | 114 |
| Deposits and guarentees given | 48 | 47 |
| Interest and commodity swap agreement deposits | 26 | 94 |
| Bank deposits with transfer limitations (**) | 6 | 6 |
| | <u>856</u> | <u>1,004</u> |

(**) As of 31 March 2019, the balance of this account includes bank deposits in Syria.

11. DEFERRED INCOME

Deferred income is as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|----------------------------------|----------------------|-------------------------|
| Passenger flight liabilities | 1,474 | 1,002 |
| Other short-term deferred income | 50 | 50 |
| | <u>1,524</u> | <u>1,052</u> |

Passenger flight liability is as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|----------------------|-------------------------|
| Flight liability generating from ticket sales | 1,241 | 741 |
| Flight liability generating from frequent flyer program | 233 | 261 |
| | <u>1,474</u> | <u>1,002</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

11. DEFERRED INCOME (cont'd)

Other short-term deferred income is as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|---|----------------------|-------------------------|
| Advances received | 29 | 29 |
| Deferred finance income | 11 | 11 |
| Unearned bank protocol revenue accruals | 10 | 10 |
| | <u>50</u> | <u>50</u> |

Long-term deferred income is as follows:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|----------------------|-------------------------|
| Deferred finance income | 45 | 47 |
| Gross manufacturer's credits | 31 | 31 |
| Accumulated depreciation of manufacturer's credit | (31) | (30) |
| Unearned bank protocol revenue accruals | 10 | 12 |
| | <u>55</u> | <u>60</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. PROPERTY AND EQUIPMENT

| | Land, Land improvements and buildings | Technical equipments simulators and vehicles | Other equipments, and fixtures | Aircrafts | Spare engines | Components and repairable spare parts | Leasehold improvements | Construction in progress | Total |
|--|---|---|--------------------------------------|-----------|------------------|--|---------------------------|-----------------------------|--------|
| <u>Cost</u> | | | | | | | | | |
| Opening balance at 1 January 2019 | 303 | 429 | 214 | 17,491 | 738 | 583 | 531 | 718 | 21,007 |
| Additions | - | 4 | 12 | 474 | 25 | 60 | 1 | 125 | 701 |
| Transfer (*) | - | 2 | 1 | 27 | - | - | - | (30) | - |
| Disposals | - | (2) | (1) | (341) | - | (32) | - | - | (376) |
| Closing balance at 31 March 2019 | 303 | 433 | 226 | 17,651 | 763 | 611 | 532 | 813 | 21,332 |
| <u>Accumulated Depreciation</u> | | | | | | | | | |
| Opening balance at 1 January 2019 | 89 | 235 | 151 | 5,835 | 267 | 310 | 202 | - | 7,089 |
| Depreciation charge | 3 | 10 | 7 | 216 | 12 | 21 | 10 | - | 279 |
| Disposals | - | (2) | (1) | (307) | - | (22) | - | - | (332) |
| Closing balance at 31 March 2019 | 92 | 243 | 157 | 5,744 | 279 | 309 | 212 | - | 7,036 |
| Net book value at 31 March 2019 | 211 | 190 | 69 | 11,907 | 484 | 302 | 320 | 813 | 14,296 |
| Net book value at 31 December 2018 | 214 | 194 | 63 | 11,656 | 471 | 273 | 329 | 718 | 13,918 |

As of 31 March 2019, carrying value of the aircrafts and spare engines acquired through finance leases is USD 11,149 (31 December 2018: USD 10,892)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 345 (31 March 2018: USD 257), general administrative expenses is amounting to USD 13 (31 March 2018: USD 10) and marketing and sales expenses is amounting to USD 2 (31 March 2018: USD 2).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Three-Month Period Ended 31 March 2019

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

12. PROPERTY AND EQUIPMENT (cont'd)

| | Land improvements and buildings | Technical equipments simulators and vehicles | Other equipments, and fixtures | Aircrafts | Spare engines | Components and repairable spare parts | Leasehold improvements | Construction in progress | Total |
|--|---------------------------------------|---|--------------------------------------|-----------|------------------|--|---------------------------|-----------------------------|--------|
| <u>Cost</u> | | | | | | | | | |
| Opening balance at 1 January 2018 | 222 | 376 | 187 | 16,398 | 648 | 551 | 520 | 334 | 19,236 |
| Additions | - | 17 | 3 | 86 | - | 33 | 7 | 60 | 206 |
| Transfer | - | - | - | - | - | - | 14 | (15) | (1) |
| Disposals | - | (13) | (1) | (43) | - | (22) | (1) | - | (80) |
| Closing balance at 31 March 2018 | 222 | 380 | 189 | 16,441 | 648 | 562 | 540 | 379 | 19,361 |
| <u>Accumulated Depreciation</u> | | | | | | | | | |
| Opening balance at 1 January 2018 | 78 | 204 | 132 | 5,138 | 225 | 285 | 172 | - | 6,234 |
| Depreciation charge | 3 | 8 | 5 | 203 | 11 | 25 | 11 | - | 266 |
| Disposals | - | (3) | (1) | (43) | - | (13) | (1) | - | (61) |
| Closing balance at 31 March 2018 | 81 | 209 | 136 | 5,298 | 236 | 297 | 182 | - | 6,439 |
| Net book value at 31 March 2018 | 141 | 171 | 53 | 11,143 | 412 | 265 | 358 | 379 | 12,922 |
| Net book value at 31 December 2017 | 144 | 172 | 55 | 11,260 | 423 | 266 | 348 | 334 | 13,002 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. PROPERTY AND EQUIPMENT (cont'd)

Right of Use

| | <u>Aircraft</u> | <u>Real Estate</u> | <u>Other</u> | <u>Total</u> |
|--|-----------------|--------------------|--------------|--------------|
| <u>Cost</u> | | | | |
| Opening balance at 1 January 2019 | - | - | - | - |
| Additions | 1,576 | 56 | 6 | 1,638 |
| Closing balance at 31 March 2019 | <u>1,576</u> | <u>56</u> | <u>6</u> | <u>1,638</u> |
| <u>Accumulated Depreciation</u> | | | | |
| Opening balance at 1 January 2019 | - | - | - | - |
| Depreciation charge | 74 | 2 | 1 | 77 |
| Closing balance at 31 March 2019 | <u>74</u> | <u>2</u> | <u>1</u> | <u>77</u> |
| Net book value at 31 March 2019 | <u>1,502</u> | <u>54</u> | <u>5</u> | <u>1,561</u> |

13. OTHER INTANGIBLE ASSETS

| | <u>Slot Rights and Acquired Technical Licenses</u> | <u>Other Rights</u> | <u>Other Intangible Assets</u> | <u>Total</u> |
|--|--|-------------------------|--|--------------|
| <u>Cost</u> | | | | |
| Opening balance at 1 January 2019 | 44 | 175 | 5 | 224 |
| Additions | - | 2 | - | 2 |
| Transfers | - | - | - | - |
| Closing balance at 31 March 2019 | <u>44</u> | <u>177</u> | <u>5</u> | <u>226</u> |
| <u>Accumulated Amortization</u> | | | | |
| Opening balance at 1 January 2019 | - | 141 | 1 | 142 |
| Amortization charge | - | 4 | - | 4 |
| Closing balance at 31 March 2019 | <u>-</u> | <u>145</u> | <u>1</u> | <u>146</u> |
| Net book value at 31 March 2019 | <u>44</u> | <u>32</u> | <u>4</u> | <u>80</u> |
| Net book value at 31 December 2018 | <u>44</u> | <u>34</u> | <u>4</u> | <u>82</u> |
| | <u>Slot Rights and Acquired Technical Licenses</u> | <u>Other Rights</u> | <u>Other Intangible Assets</u> | <u>Total</u> |
| <u>Cost</u> | | | | |
| Opening balance at 1 January 2018 | 44 | 148 | 5 | 197 |
| Additions | - | 1 | - | 1 |
| Transfers | - | 1 | - | 1 |
| Closing balance at 31 March 2018 | <u>44</u> | <u>150</u> | <u>5</u> | <u>199</u> |
| <u>Accumulated Amortization</u> | | | | |
| Opening balance at 1 January 2018 | - | 130 | 1 | 131 |
| Amortization charge | - | 3 | - | 3 |
| Closing balance at 31 March 2018 | <u>-</u> | <u>133</u> | <u>1</u> | <u>134</u> |
| Net book value at 31 March 2018 | <u>44</u> | <u>17</u> | <u>4</u> | <u>65</u> |
| Net book value at 31 December 2017 | <u>44</u> | <u>18</u> | <u>4</u> | <u>66</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

13. OTHER INTANGIBLE ASSETS (cont'd)

The Group considers slot rights and licenses received through the acquisition of MNG Teknik and accounted such assets as intangible assets at an amount of USD 10 with indefinite useful lives as these assets do not have any expiry date and are usable in the foreseeable future.

14. LEASING TRANSACTIONS

Maturities of lease obligations are as follows:

| | Future Minimum Lease Payments | Interest | Present Values of Minimum Lease Payments |
|---------------------|--|----------------------|---|
| | 31 March 2019 | 31 March 2019 | 31 March 2019 |
| Less than 1 year | 329 | (53) | 276 |
| Between 1 – 5 years | 899 | (172) | 727 |
| Over 5 years | 577 | (58) | 519 |
| | 1,805 | (283) | 1,522 |

Maturities of finance lease obligations are as follows:

| | Future Minimum Lease Payments | | Interest | | Present Values of Minimum Lease Payments | |
|---------------------------|--|-----------------------------|--------------------------|-----------------------------|---|-----------------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| Less than 1 year | 1,176 | 1,127 | (147) | (147) | 1,029 | 980 |
| Between 1 – 5 years | 3,672 | 3,741 | (354) | (359) | 3,318 | 3,382 |
| Over 5 years | 3,788 | 3,733 | (125) | (109) | 3,663 | 3,624 |
| | 8,636 | 8,601 | (626) | (615) | 8,010 | 7,986 |
| | | | | | 31 March 2019 | 31 December 2018 |
| Interest Range: | | | | | | |
| Floating rate obligations | | | | | 4,888 | 5,020 |
| Fixed rate obligations | | | | | 3,122 | 2,966 |
| | | | | | 8,010 | 7,986 |

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

As of 31 March 2019, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.59% (31 December 2018: 2.66%) for the fixed rate obligations and 1.52% (31 December 2018: 1.56%) for the floating rate obligations.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 March 2019 and 2018 are as follows:

Short-term provision for employee benefits is as follows:

| | 31 March 2019 | 31 December 2018 |
|--------------------------------|----------------------|-------------------------|
| Provisions for unused vacation | <u>39</u> | <u>39</u> |

Changes in the provisions for the period ended 31 March 2019 and 2018 are set out below:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---|--------------------------------------|--------------------------------------|
| Provisions at the beginning of the period | 39 | 41 |
| Provisions for the current period | 68 | 5 |
| Provisions released | (65) | - |
| Foreign currency translation differences | (3) | (2) |
| Provisions at the end of the period | <u>39</u> | <u>44</u> |

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

Other short-term provision is as follows:

| | 31 March 2019 | 31 December 2018 |
|-----------------------------|----------------------|-------------------------|
| Provisions for legal claims | <u>13</u> | <u>16</u> |

Changes in the provisions for legal claims for the period ended 31 March 2019 and 2018 are set out below:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---|--------------------------------------|--------------------------------------|
| Provisions at the beginning of the period | 16 | 22 |
| Provisions for the current period | - | 2 |
| Provisions released | (3) | (1) |
| Foreign currency translation differences | - | (1) |
| Provisions at the end of the period | <u>13</u> | <u>22</u> |

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

16. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group: Amount of letters of guarantees given as of 31 March 2019 is USD 1,246 (31 December 2018: USD 1,179).

| | 31 March 2019 | | 31 December 2018 | |
|---|---|---------------------------|---|---------------------------|
| | Original currency amount | USD equivalent | Original currency amount | USD equivalent |
| A. Total amounts of GPM given on the behalf of its own legal entity | - | 1,246 | - | 1,179 |
| -Collaterals | | | | |
| TL | 48 | 8 | 38 | 7 |
| EUR | 1,055 | 1,184 | 976 | 1,118 |
| USD | 45 | 45 | 45 | 45 |
| Other | - | 9 | - | 9 |
| 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>1,246</u> | | <u>1,179</u> |

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 31 March 2019 (31 December 2018: 0%)

b) Aircraft purchase commitments:

To be delivered between the years 2018-2023, the Group signed an agreement for 230 aircrafts, (220 of aircrafts are contractual and 10 of them are optional) with a list price value of 37,400 US Dollars. The Group has made an advance payment of 1,499 US Dollars relevant to these purchases as of 31 March 2019.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

17. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 March 2019 and 2018 is comprised of the following:

| | <u>31 March 2019</u> | <u>31 December 2018</u> |
|--|----------------------|-------------------------|
| Provision for retirement pay liability | <u>124</u> | <u>130</u> |

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

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,069 (full) (equivalent of TL 6,018 (full)) as of 31 March 2019. (31 December 2018: US Dollar 1,144 (full) equivalent of TL 6,018 (full)).

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

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

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 March 2019 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 10.00% annual inflation rate (31 December 2018: 10.00%) and 14.00% interest rate (31 December 2018: 14.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.42% (31 December 2018: 2.63%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,069 (full) which is in effect since 31 March 2019 is used in the calculation of Group’s provision for retirement pay liability.

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

| | <u>1 January - 31 March 2019</u> | <u>1 January - 31 March 2018</u> |
|--|--------------------------------------|--------------------------------------|
| Provision at the beginning of the period | 130 | 128 |
| Service charge for the period | 3 | 6 |
| Interest charges | 3 | 3 |
| Actuarial loss | - | - |
| Payments | (4) | (5) |
| Foreign currency translation difference | (8) | (10) |
| Provision at the end of the period | <u>124</u> | <u>122</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

18. EXPENSES BY NATURE

Expenses by nature for the period ended 31 March 2019 and 2018 are as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|--|--------------------------------------|--------------------------------------|
| Fuel expenses | 855 | 804 |
| Personnel expenses | 517 | 452 |
| Depreciation and amortisation charges | 360 | 269 |
| Aircraft maintenance expenses | 192 | 170 |
| Ground services expenses | 189 | 175 |
| Commissions and incentives | 142 | 104 |
| Passenger services and catering expenses | 141 | 145 |
| Air traffic control expenses | 123 | 130 |
| Airport expenses | 122 | 118 |
| Reservation systems expenses | 73 | 68 |
| Wet lease expenses | 64 | 65 |
| Advertisement and promotion expenses | 47 | 52 |
| Taxes and duties | 25 | 19 |
| Rents | 22 | 14 |
| Service expenses | 19 | 21 |
| Insurance expenses | 13 | 12 |
| IT & communication expenses | 11 | 12 |
| Operating lease expenses | 10 | 85 |
| Transportation expenses | 10 | 8 |
| Consultancy expenses | 5 | 4 |
| Systems use and associateship expenses | 2 | 3 |
| Other expenses | 29 | 30 |
| | 2,971 | 2,760 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

19. SHAREHOLDERS' EQUITY

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

| (Millions of TL) | Class | % | 31 March | | 31 December | |
|---|--------------|----------|-----------------|----------|--------------------|----------|
| | | | 2019 | % | 2018 | % |
| Turkey Wealth Fund (*) | A | 49.12 | 678 | 49.12 | 678 | |
| Republic of Turkey Treasury and Finance Ministry Privatization Administration (*) | C | - | - | - | - | |
| Other (publicly held) | A | 50.88 | 702 | 50.88 | 702 | |
| Paid-in capital (Turkish Lira) | | | 1,380 | | 1,380 | |
| Inflation adjustment on share capital (Turkish Lira) (**) | | | 1,124 | | 1,124 | |
| Share capital (Turkish Lira) | | | <u>2,504</u> | | <u>2,504</u> | |
| Share capital (USD Equivalent) | | | <u>1,597</u> | | <u>1,597</u> | |

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

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

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

As of 31 March 2019, Registered paid-in share capital of the Company comprised 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. The Class C share belongs to the Republic of Turkey Treasury and Finance Ministry Privatization Administration and has the following privileges:

- Articles of Association 7: Positive vote of the board member representing class C share with Board's approval is necessary for transfer of shares issued to the name.
- Articles of Association 10: The Board of Directors consists of nine members of which one member has to be nominated by the class C shareholder and the rest eight members has to be elected by class A shareholders.
- Articles of Association 14: The following decisions of the Board of Directors are subject to the positive vote of the class C Shareholder:
 - a) Decisions that will negatively affect the Group's mission Defined in Article 3.1. of the Articles of Association,
 - b) Suggesting change in the Articles of Association at General Assembly,

19. SHAREHOLDERS' EQUITY (cont'd)

- Articles of Association 14: The following decisions of the Board of Directors are subject to the positive vote of the class C Shareholder (cont'd):
 - c) Increasing share capital,
 - d) Approval of transfer of the shares issued to the name and their registration to the “Share Registry”,
 - e) Every decision or action which directly or indirectly put the Group under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Group’s shares held by Turkish State decrease under 20%.)
 - f) Decisions relating to merges and liquidation,
 - g) Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

Restricted Profit Reserves

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

Foreign Currency Translation Differences

Currency translation differences under equity arise from Group’s joint ventures, provisions for unused vacation, legal claims and retirement pay liability accounted under equity method which have functional currencies other than USD.

Distribution of Dividends

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

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

Actuarial Differences on Defined Benefit Plans

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

19. SHAREHOLDERS' EQUITY (cont'd)

Gains/Losses from Cash Flow Hedges

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

As of 2019, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %51 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

20. REVENUE

Breakdown of gross profit is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Passenger revenue | | |
| Scheduled | 2,271 | 2,298 |
| Unscheduled | 4 | 5 |
| Total passenger revenue | 2,275 | 2,303 |
| Cargo revenue | | |
| Carried by passenger aircraft | 181 | 191 |
| Carried by cargo aircraft | 225 | 195 |
| Total cargo revenue | 406 | 386 |
| Total passenger and cargo revenue | 2,681 | 2,689 |
| Technical revenue | 70 | 61 |
| Other revenue | 17 | 13 |
| Net sales | 2,768 | 2,763 |
| Cost of sales (-) | (2,504) | (2,347) |
| Gross profit | 264 | 416 |

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

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|-----------------------------------|--------------------------------------|--------------------------------------|
| International flights | | |
| - Europe | 714 | 750 |
| - Far East | 706 | 694 |
| - Middle East | 314 | 298 |
| - America | 403 | 365 |
| - Africa | 285 | 282 |
| Total | 2,422 | 2,389 |
| Domestic flights | 259 | 300 |
| Total passenger and cargo revenue | 2,681 | 2,689 |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

21. COST OF SALES

Breakdown of the cost of sales is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|--|--------------------------------------|--------------------------------------|
| Fuel expenses | 855 | 804 |
| Personnel expenses | 401 | 346 |
| Depreciation and amortisation charges | 345 | 257 |
| Aircraft maintenance expenses | 192 | 170 |
| Ground services expenses | 189 | 175 |
| Passenger services and catering expenses | 141 | 145 |
| Air traffic control expenses | 123 | 130 |
| Airport expenses | 122 | 118 |
| Wet lease expenses | 64 | 65 |
| Rents | 18 | 9 |
| Insurance expenses | 12 | 11 |
| Operating lease expenses | 10 | 85 |
| Transportation expenses | 10 | 8 |
| Service expenses | 8 | 9 |
| Taxes and duties | 4 | 4 |
| IT & communication expenses | 1 | 1 |
| Other expenses | 9 | 10 |
| | <u>2,504</u> | <u>2,347</u> |

22. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|--|--------------------------------------|--------------------------------------|
| Personnel expenses | 33 | 31 |
| Depreciation and amortisation charges | 13 | 10 |
| IT & communication expenses | 8 | 9 |
| Service expenses | 8 | 8 |
| Consultancy expenses | 3 | 2 |
| Systems use and associateship expenses | 2 | 3 |
| Insurance expenses | 1 | 1 |
| Other general administrative expenses | 4 | 7 |
| | <u>72</u> | <u>71</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Breakdown of marketing and sales expenses is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Commissions and incentives | 142 | 104 |
| Personnel expenses | 83 | 75 |
| Reservation systems expenses | 73 | 68 |
| Advertisement and promotion expenses | 47 | 52 |
| Taxes and duties | 21 | 15 |
| Rents | 4 | 5 |
| Service expenses | 3 | 4 |
| Consultancy expenses | 2 | 2 |
| IT & communication expenses | 2 | 2 |
| Depreciation and amortisation charges | 2 | 2 |
| Other marketing and sales expenses | 16 | 13 |
| | <u>395</u> | <u>342</u> |

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---|--------------------------------------|--------------------------------------|
| Manufacturers' credits | 34 | 8 |
| Foreign exchange gains from operational activities, net | 6 | 22 |
| Insurance, indemnities, penalties income | 5 | 7 |
| Provisions released | 5 | 4 |
| Non- interest income from banks | 3 | 3 |
| Rediscount interest income | 3 | - |
| Turnover premium from suppliers | 2 | 1 |
| Rent income | 1 | 1 |
| Other operating income | 2 | 2 |
| | <u>61</u> | <u>48</u> |

Breakdown of other operating expenses is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|--------------------------------|--------------------------------------|--------------------------------------|
| Provisions | 3 | 3 |
| Indemnity and penalty expenses | 1 | 1 |
| Rediscount interest expenses | - | 1 |
| Other operating expenses | 4 | 5 |
| | <u>8</u> | <u>10</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---|--------------------------------------|--------------------------------------|
| Interest income from financial investment | 14 | 3 |
| Income from investment incentives | 13 | 16 |
| Gain on sale of financial investments | 2 | - |
| Gain on sale of fixed assets | 1 | 2 |
| | <u>30</u> | <u>21</u> |

Breakdown of expense from investment activities is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|------------------------------|--------------------------------------|--------------------------------------|
| Loss on sale of fixed assets | <u>27</u> | <u>-</u> |

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|-------------------------|--------------------------------------|--------------------------------------|
| Interest income | 16 | 11 |
| Other financial incomes | 3 | - |
| | <u>19</u> | <u>11</u> |

Breakdown of financial expenses is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|--|--------------------------------------|--------------------------------------|
| Interest expense from financial activities | 49 | 54 |
| Foreign exchange losses on financial activities, net | 37 | 101 |
| Fair value losses on derivative financial instruments, net | 21 | 10 |
| Interest expense from leasing liabilities | 15 | - |
| Aircraft financing expenses | 13 | 3 |
| Interest expenses on employee benefits | 3 | 3 |
| Rediscount interest expense from repayments of aircrafts | - | 10 |
| Other financial expenses | 2 | 2 |
| | <u>140</u> | <u>183</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

| | 31 March 2019 | 31 December 2018 |
|---------------|----------------------|-------------------------|
| Prepaid taxes | 43 | 61 |

Tax expense is as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|----------------------------|--------------------------------------|--------------------------------------|
| Current period tax expense | 9 | 15 |
| Deferred tax income | (63) | (36) |
| Tax income | (54) | (21) |

Tax effect related to other comprehensive income is as follows:

| | 1 January - 31 March 2019 | | | 1 January - 31 March 2018 | | |
|---|----------------------------------|----------------|---------------------|----------------------------------|----------------|---------------------|
| | Amount before tax | Tax expense | Amount after tax | Amount before tax | Tax expense | Amount after tax |
| Changes in foreign currency translation difference | (10) | - | (10) | 1 | - | 1 |
| Change in cash flow hedge reserve | 257 | (54) | 203 | (201) | 40 | (161) |
| Gains on Remeasuring FVOCI | (1) | - | (1) | - | - | - |
| Change in actuarial losses from retirement pay obligation | 1 | - | 1 | - | - | - |
| Other comprehensive income | 247 | (54) | 193 | (200) | 40 | (160) |

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

Corporate Tax

The effective tax rate is 22%. In accordance with the Article 91 of regulation numbered 7061, published in Official Gazette on 5 December 2017, "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 March 2019 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The tax legislation provides for a temporary tax of 22% (2018: 22%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 March 2019. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, tax rate for temporary tax is set to 22% for the years 2018, 2019 and 2020.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Three-Month Period Ended 31 March 2019

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

26. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. However, losses cannot be carried back for offset against profits from previous periods. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

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

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for dividend receiving companies who are Turkish residents and Turkish branches of foreign companies. Income withholding tax rate is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below. For calculation of deferred tax asset and liabilities, the corporate tax rate of 22% is used.

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

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

| | 31 March 2019 | 31 December 2018 |
|--|----------------------|-------------------------|
| Fixed assets | (2,263) | (1,910) |
| Adjustments for passenger flight liabilities | (133) | (150) |
| Tax loss carried forward | 696 | 674 |
| Lease obligations | 305 | - |
| Income and expense for future years | 99 | 92 |
| Accruals for expenses | 64 | 48 |
| Miles accruals | 30 | 35 |
| Provisions for employee benefits | 25 | 27 |
| Change in fair value of derivative instruments | 9 | 31 |
| Provisions for unused vacation | 8 | 8 |
| Other | 16 | 7 |
| Deferred tax liabilities | <u>(1,144)</u> | <u>(1,138)</u> |

The changes of deferred tax liability for the period ended 1 January – 31 March 2019 and 2018 are as follows:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---|--------------------------------------|--------------------------------------|
| Opening balance at 1 January | 1,138 | 962 |
| Adjustments for changes in accounting policies | (5) | (4) |
| Restated deferred tax liability at the beginning of the year | 1,133 | 958 |
| Foreign currency translation difference | 21 | 7 |
| Tax expense / (income) from hedging reserves | 53 | (39) |
| Deferred tax income | (63) | (36) |
| Deferred tax liability at the end of the year | <u>1,144</u> | <u>890</u> |

Reconciliation with current tax charge for the period 1 January – 31 March 2019 and 2018 are as follows:

| <u>Reconciliation of effective tax charge</u> | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|---|--------------------------------------|--------------------------------------|
| Loss from operations before tax | (283) | (107) |
| Domestic expense tax rate of 22% | 62 | 21 |
| Taxation effects on: | | |
| - foreign currency translation difference | 5 | (6) |
| - investment incentive | 6 | - |
| - expense from investment certificates | 3 | 3 |
| - effect of the change in the deferred tax rate | - | 5 |
| - investments accounted by using the equity method | (3) | 1 |
| - non deductible expenses | (4) | - |
| - adjustment for prior year loss | (15) | (3) |
| Tax charge in statement of loss | <u>54</u> | <u>21</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

27. EARNINGS PER SHARE

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

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.

Number of total shares and calculation of earnings per share at 1 January – 31 March 2019 and 2018:

| | 1 January - 31 March 2019 | 1 January - 31 March 2018 |
|--|--------------------------------------|--------------------------------------|
| 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 | (229) | (86) |
| Basic loss per share (Full US Cents) (*) | (0.17) | (0.06) |
| Diluted loss per share (Full US Cents) (*) | (0.17) | (0.06) |

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 March 2019 and 2018 are as follows:

| <u>Derivative financial assets</u> | 31 March 2019 | 31 December 2018 |
|---|----------------------|-------------------------|
| Derivative instruments for fuel prices cash flow hedge | 37 | 34 |
| Derivative instruments not subject to hedge accounting | 23 | 17 |
| Derivative instruments for cross currency rate cash flow hedge | 6 | 6 |
| | <u>66</u> | <u>57</u> |
| <u>Derivative financial liabilities</u> | 31 March 2019 | 31 December 2018 |
| Derivative instruments for interest rate cash flow hedge | 40 | 34 |
| Derivative instruments for cross currency rate cash flow hedge | 31 | 36 |
| Derivative instruments for fuel prices cash flow hedge | 21 | 118 |
| Derivative instruments not subject to hedge accounting | 14 | 8 |
| | <u>106</u> | <u>196</u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

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

| | 31 March 2019 | | | | | |
|---|-------------------|--------------|----------------|----------------|--------------|------------|
| | USD EQUIVALENT | TL | EUR | JPY | CHF | OTHER |
| 1.Trade Receivables | 561 | 96 | 114 | 7 | 9 | 335 |
| 2a.Monetary Financial Assets | 2,018 | 443 | 1,536 | 2 | 1 | 36 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 568 | 193 | 202 | 11 | 6 | 156 |
| 4.Current Assets (1+2+3) | 3,147 | 732 | 1,852 | 20 | 16 | 527 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | 384 | 384 | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 405 | 234 | 159 | - | - | 12 |
| 8.Non Current Assets (5+6+7) | 789 | 618 | 159 | - | - | 12 |
| 9.Total Assets (4+8) | 3,936 | 1,350 | 2,011 | 20 | 16 | 539 |
| 10.Trade Payables | 620 | 422 | 146 | 1 | 2 | 49 |
| 11.Financial Liabilities (*) | 2,372 | 2 | 2,118 | 232 | 20 | - |
| 12a.Other Liabilities, Monetary | 116 | 62 | 49 | 1 | - | 4 |
| 12b.Other Liabilities, Non Monetary | 90 | 90 | - | - | - | - |
| 13.Current Liabilities (10+11+12) | 3,198 | 576 | 2,313 | 234 | 22 | 53 |
| 14.Trade Payables | - | - | - | - | - | - |
| 15.Financial Liabilities (*) | 7,211 | - | 5,196 | 1,864 | 151 | - |
| 16a.Other Liabilities, Monetary | 33 | 23 | 6 | - | - | 4 |
| 16b.Other Liabilities, Non Monetary | 124 | 124 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 7,368 | 147 | 5,202 | 1,864 | 151 | 4 |
| 18.Total Liabilities (13+17) | 10,566 | 723 | 7,515 | 2,098 | 173 | 57 |
| 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) | (6,630) | 627 | (5,504) | (2,078) | (157) | 482 |
| 21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (7,389) | 414 | (5,865) | (2,089) | (163) | 314 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | 259 | - | 259 | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

(*) Net foreign exchange position of Group is mainly due to long term foreign currency borrowings denominated in Euro, Japanese Yen, Swiss Frank to funds its investments. Group uses these long term foreign currency borrowings to manage the risk of exchange differences with highly probable future foreign currency revenues. The USD equivalent of these borrowings amount to 7,205 USD as of 31 March 2019 (31 December 2018: USD 6,853).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Foreign currency risk management (cont'd)

| | 31 December 2018 | | | | | |
|---|-------------------|--------------|----------------|----------------|--------------|------------|
| | USD EQUIVALENT | TL | EUR | JPY | CHF | OTHER |
| 1.Trade Receivables | 485 | 70 | 122 | 4 | 9 | 280 |
| 2a.Monetary Financial Assets | 1,903 | 540 | 1,313 | 2 | 2 | 46 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 567 | 225 | 158 | 10 | 6 | 168 |
| 4.Current Assets (1+2+3) | 2,955 | 835 | 1,593 | 16 | 17 | 494 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | 302 | 302 | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 461 | 238 | 212 | - | - | 11 |
| 8.Non Current Assets (5+6+7) | 763 | 540 | 212 | - | - | 11 |
| 9.Total Assets (4+8) | 3,718 | 1,375 | 1,805 | 16 | 17 | 505 |
| 10.Trade Payables | 678 | 458 | 164 | - | 2 | 54 |
| 11.Financial Liabilities | 2,209 | 1 | 1,956 | 232 | 20 | - |
| 12a.Other Liabilities, Monetary | 109 | 67 | 39 | 1 | - | 2 |
| 12b.Other Liabilities, Non Monetary | 89 | 89 | - | - | - | - |
| 13.Current Liabilities (10+11+12) | 3,085 | 615 | 2,159 | 233 | 22 | 56 |
| 14.Trade Payables | - | - | - | - | - | - |
| 15.Financial Liabilities | 6,966 | - | 4,882 | 1,926 | 158 | - |
| 16a.Other Liabilities, Monetary | 12 | 6 | 4 | - | - | 2 |
| 16b.Other Liabilities, Non Monetary | 130 | 130 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 7,108 | 136 | 4,886 | 1,926 | 158 | 2 |
| 18.Total Liabilities (13+17) | 10,193 | 751 | 7,045 | 2,159 | 180 | 58 |
| 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) | (6,475) | 624 | (5,240) | (2,143) | (163) | 447 |
| 21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (7,284) | 380 | (5,610) | (2,153) | (169) | 268 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | 168 | - | 168 | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
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29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency risk management (cont'd)

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

| | 31 March 2019 | | | |
|--|---|---|---|---|
| | Profit / (Loss) | | Equity | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| | <u>10 %</u> | <u>10 %</u> | <u>10 %</u> | <u>10 %</u> |
| 1- TL net asset / liability | 63 | (63) | - | - |
| 2- Part hedged from TL risk (-) | - | - | - | - |
| 3- TL net effect (1+2) | <u>63</u> | <u>(63)</u> | <u>-</u> | <u>-</u> |
| 4- Euro net asset / liability | 55 | (55) | (605) | 605 |
| 5- Part hedged from Euro risk (-) | (26) | 26 | - | - |
| 6- Euro net effect (4+5) | <u>29</u> | <u>(29)</u> | <u>(605)</u> | <u>605</u> |
| 7- JPY net asset / liability | (111) | 111 | (97) | 97 |
| 8- Part hedged from JPY risk (-) | - | - | - | - |
| 9- JPY net effect (7+8) | <u>(111)</u> | <u>111</u> | <u>(97)</u> | <u>97</u> |
| 10- CHF net asset / liability | 1 | (1) | (17) | 17 |
| 11- Part hedged from CHF risk (-) | - | - | - | - |
| 12- CHF net effect (10+11) | <u>1</u> | <u>(1)</u> | <u>(17)</u> | <u>17</u> |
| 13- Other foreign currency net asset / liability | 48 | (48) | - | - |
| 14- Part hedged other foreign currency risk (-) | - | - | - | - |
| 15- Other foreign currency net effect (13+14) | <u>48</u> | <u>(48)</u> | <u>-</u> | <u>-</u> |
| TOTAL (3 + 6 + 9 + 12 + 15) | <u><u>30</u></u> | <u><u>(30)</u></u> | <u><u>(719)</u></u> | <u><u>719</u></u> |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
As At And For the Three-Month Period Ended 31 March 2019
(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

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

Foreign currency risk management (cont'd)

| | 31 December 2018 | | | |
|--|---|---|---|---|
| | Profit / (Loss) | | Equity | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| | <u>10 %</u> | <u>10 %</u> | <u>10 %</u> | <u>10 %</u> |
| 1- TL net asset / liability | 62 | (62) | - | - |
| 2- Part hedged from TL risk (-) | - | - | - | - |
| 3- TL net effect (1+2) | <u>62</u> | <u>(62)</u> | <u>-</u> | <u>-</u> |
| 4- Euro net asset / liability | 44 | (44) | (568) | 568 |
| 5- Part hedged from Euro risk (-) | (17) | 17 | - | - |
| 6- Euro net effect (4+5) | <u>27</u> | <u>(27)</u> | <u>(568)</u> | <u>568</u> |
| 7- JPY net asset / liability | (114) | 114 | (100) | 100 |
| 8- Part hedged from JPY risk (-) | - | - | - | - |
| 9- JPY net effect (7+8) | <u>(114)</u> | <u>114</u> | <u>(100)</u> | <u>100</u> |
| 10- CHF net asset / liability | 2 | (2) | (18) | 18 |
| 11- Part hedged from CHF risk (-) | - | - | - | - |
| 12- CHF net effect (10+11) | <u>2</u> | <u>(2)</u> | <u>(18)</u> | <u>18</u> |
| 13- Other foreign currency net asset / liability | 45 | (45) | - | - |
| 14- Part hedged other foreign currency risk (-) | - | - | - | - |
| 15- Other foreign currency net effect (13+14) | <u>45</u> | <u>(45)</u> | <u>-</u> | <u>-</u> |
| TOTAL (3 + 6 + 9 + 12 + 15) | <u><u>22</u></u> | <u><u>(22)</u></u> | <u><u>(686)</u></u> | <u><u>686</u></u> |

30. EVENTS AFTER THE BALANCE SHEET DATE

None.

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

None.