

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

Condensed Consolidated Interim
Financial Statements As at and For
The Six-Month Period
Ended 30 June 2020



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the General Assembly of Türk Hava Yolları Anonim Ortaklığı

Introduction

1. We have reviewed the accompanying condensed consolidated interim statement of financial position of Türk Hava Yolları Anonim Ortaklığı and its subsidiaries (the “Group”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.



Other matter

4. The consolidated financial statements of the Group as of 31 December 2019 and for the year then ended were audited and the condensed consolidated interim financial information as of 30 June 2019 and for the six-month period then ended were reviewed by another audit firm whose audit report dated 5 March 2020 expressed an unmodified opinion and whose review report dated 8 August 2019 expressed a conclusion that no material non-compliance with respect to IAS 34 has come to their attention.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Baki Erdal, SMMM
Partner

Istanbul, 13 August 2020

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 June 2020

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

ASSETS	Notes	Reviewed	Audited
		30 June 2020	31 December 2019
Non-Current Assets			
Financial Investments	6	85	90
Other Receivables			
-Third Parties	10	1,042	1,276
Investments Accounted for Using Equity Method	3	255	369
Property and Equipment	12	18,200	17,261
Intangible Assets			
- Other Intangible Assets	13	90	82
- Goodwill		12	12
Prepaid Expenses		883	864
TOTAL NON-CURRENT ASSETS		20,567	19,954
Current Assets			
Cash and Cash Equivalents	5	1,761	2,075
Financial Investments	6	15	400
Trade Receivables			
-Related Parties	9	7	-
-Third Parties		270	540
Other Receivables			
-Related Parties	9	-	28
-Third Parties	10	1,477	1,053
Derivative Financial Instruments	28	50	52
Inventories		330	290
Prepaid Expenses		134	149
Current Income Tax Assets	26	27	43
Other Current Assets		104	140
TOTAL CURRENT ASSETS		4,175	4,770
TOTAL ASSETS		24,742	24,724

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Balance Sheet as at 30 June 2020

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

LIABILITIES	Notes	Reviewed	Audited
		30 June 2020	31 December 2019
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	(45)	(38)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	19	(203)	(184)
-Fair Value Gains on Hedging Instruments	19	(48)	171
Entered into for Cash Flow Hedges	19	(4)	(1)
-Gains on Remeasuring FVOCI	19	72	67
Restricted Profit Reserves	19	5,246	4,463
Previous Years Profit	19	(654)	788
Net (Loss) / Profit for the Period		5,961	6,863
Equity of the Parent			
Non-Controlling Interests		1	1
TOTAL EQUITY		5,962	6,864
Non- Current Liabilities			
Long-Term Borrowings	7 and 14	9,292	8,995
Long Term Lease Liabilities	7 and 14	1,423	1,271
Other Payables			
-Third Parties		24	37
Deferred Income	11	114	120
Long-Term Provisions			
-Provisions for Employee Benefits	17	133	135
-Other Provisions		50	45
Deferred Tax Liability	26	1,266	1,293
TOTAL NON-CURRENT LIABILITIES		12,302	11,896
Current Liabilities			
Short Term Borrowings	7	1,567	1,241
Short-Term Portion of Long-Term Borrowings	7 and 14	1,992	1,609
Short Term Portion of Lease Liabilities	7 and 14	285	256
Other Financial Liabilities	8	1	19
Trade Payables			
-Related Parties	9	240	172
-Third Parties		745	958
Payables Related to Employee Benefits		63	160
Other Payables			
-Third Parties		94	98
Derivative Financial Instruments	28	224	70
Deferred Income	11	918	1,071
Short-Term Provisions			
-Provisions for Employee Benefits	15	45	39
-Other Provisions	15	11	13
Other Current Liabilities		293	258
TOTAL CURRENT LIABILITIES		6,478	5,964
TOTAL LIABILITIES AND EQUITY		24,742	24,724

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Six-Month Period Ended 30 June 2020
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

PROFIT OR LOSS	Notes	Reviewed	Not Reviewed	Reviewed	Not Reviewed
		1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	20	3,434	901	5,949	3,181
Cost of Sales (-)	21	(3,474)	(1,000)	(5,257)	(2,753)
GROSS (LOSS) / PROFIT		(40)	(99)	692	428
General Administrative Expenses (-)	22	(116)	(45)	(145)	(73)
Selling and Marketing Expenses (-)	22	(376)	(88)	(740)	(345)
Other Operating Income	23	118	78	100	45
Other Operating Expenses (-)	23	(28)	36	(42)	(40)
OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES		(442)	(118)	(135)	15
Income from Investment Activities	24	91	52	87	57
Expenses from Investment Activities	24	-	-	(79)	(52)
Share of Investments' Loss Accounted by Using The Equity Method	3	(91)	(74)	8	23
OPERATING (LOSS) / PROFIT		(442)	(140)	(119)	43
Financial Income	25	46	28	26	12
Financial Expenses (-)	25	(274)	(136)	(223)	(88)
LOSS BEFORE TAX		(670)	(248)	(316)	(33)
Tax Income		16	(79)	113	59
Current Tax Expense	26	-	-	(4)	5
Deferred Tax Income	26	16	(79)	117	54
NET (LOSS) / PROFIT FOR THE PERIOD		(654)	(327)	(203)	26

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Six-Month Period Ended 30 June 2020
 (All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

<u>OTHER COMPREHENSIVE INCOME</u>	Notes	Reviewed	Not Reviewed	Reviewed	Not Reviewed
		1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Items That May Be Reclassified Subsequently To Profit or Loss					
Currency Translation Adjustment		(241)	(49)	63	(129)
Losses on Remeasuring FVOCI		(19)	(9)	(10)	-
Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges		(4)	9	2	3
Fair Value (Losses) / Gains Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		(265)	(64)	90	(162)
Related Tax of Other Comprehensive Income		(13)	7	1	(4)
Items That Will Not Be Reclassified Subsequently To Profit or Loss					
Actuarial (Losses) / Gains on Retirement Pay Obligation		60	8	(20)	34
Related Tax of Other Comprehensive Income		(7)	(6)	(4)	(5)
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD					
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD					
Basic Loss Per Share (Full US Cents)	27	(248)	(55)	59	(134)
Diluted Loss Per Share (Full US Cents)	27	(902)	(382)	(144)	(108)
		(0.47)	(0.24)	(0.15)	0.02
		(0.47)	(0.24)	(0.15)	0.02

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Statement of Changes in Equity

For the Six-Month Period Ended 30 June 2020

(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			Equity Holders of the Parent	Non-controlling Interests	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 Gain / (Loss) for The Period			
As of 1 January 2020	1,597	(38)	(184)	171	(1)	67	4,463	788	6,863	1	6,864
Transfers	-	-	-	-	-	-	788	(788)	-	-	-
Total comprehensive income	-	(7)	(19)	(219)	(3)	5	(5)	(654)	(902)	-	(902)
As of 30 June 2020	1,597	(45)	(203)	(48)	(4)	72	5,246	(654)	5,961	1	5,962

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Statement of Changes in Equity

For the Six-Month Period Ended 30 June 2020

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

	Share Capital	Actuarial (Losses) Retirement Pay Obligation	Items That Will Not Be Reclassified Subsequently To Profit or Loss			Items That May Be Reclassified Subsequently To Profit or Loss			Retained Earnings		
			Foreign Currency Translation Differences	Entered Into For Cash Flow Hedges	Fair Value Gains on Hedging Instruments	Gains / (Losses) on Remeasuring FVOCI	Restricted Profit Reserves	Previous Years Profit	Net Gain / (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	-	(4)	(10)	71	2	-	-	(203)	(144)	-	(144)
As of 30 June 2019	1,597	(39)	(170)	71	(4)	36	4,495	(203)	5,783	-	5,783

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Condensed Consolidated Interim Statement of Cash Flows

For the Six-Month Period Ended 30 June 2020

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

	Notes	Reviewed 30 June 2020	Reviewed 30 June 2019
Net Loss for the period		(654)	(203)
Adjustments to Reconcile Loss			
Adjustments for Depreciation and Amortisation Expense	12 and 13	813	736
Adjustments for Provisions Related with Employee Benefits	15 and 17	19	24
Adjustments for Provisions for Payables		(1)	(2)
Adjustments for Reversal of Probable Risks		10	8
Adjustments for Interest Income	24 and 25	(15)	(51)
Adjustments for Interest Expense	17 and 25	153	133
Adjustments For Unrealised Foreign Exchange Gains		(2)	(142)
Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments	25	(13)	16
Adjustments for Undistributed Losses / (Gains) of Associates	3	91	(8)
Adjustments for Tax Income	26	(16)	(113)
Adjustments for (Gains) / Losses Arised From Sale of Tangible Assets	24	(2)	76
Adjustments for Losses Arised from Sale of Other Non-Current Assets	12	17	24
Operating Profit Before Changes in Working Capital		400	498
(Increase) / Decrease in Trade Receivables from Related Parties		(7)	1
Decrease / (Increase) in Trade Receivables from Non Related Parties		264	(116)
Decrease in Other Related Party Receivables Related with Operations	9	28	-
(Increase) / Decrease in Other Non-Related Party Receivables			
Related with Operations	10	(220)	18
Adjustments for Increase in Inventories		(40)	(64)
Adjustments for Increase in Prepaid Expenses		(4)	(118)
Increase / (Decrease) in Trade Payables to Related Parties	9	68	(125)
(Decrease) / Increase in Trade Payables to Non-Related Parties		(213)	105
Adjustments for Decrease in Payables Due to Employee Benefits		(97)	(18)
Increase in Other Operating Payables to Non-Related Parties		36	160
(Decrease) / Increase in Deferred Income	11	(129)	818
Decrease / (Increase) in Other Assets Related with Operations		36	(24)
Cash Flows From Operations		122	1,135
Payments for Provisions Related with Employee Benefits	17	(6)	(5)
Income taxes (paid)	26	(16)	(37)
		100	1,093
Net Cash From Operating Activities			
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed From Sales of Property, Plant and Equipment		3	20
Cash Payments From Purchasing of Property, Plant and Equipment (*)	12 and 13	(625)	(685)
Cash Receipts From Sales of Other Long-term Assets	6	390	10
Other Cash Advances and Loans	12	30	(302)
Dividends Received		3	-
Interest Received	24 and 25	15	51
		(184)	(906)
Net Cash Flows Used In Investing Activities			
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds From Loans	7	1,185	1,040
Payments of Loans		(556)	(754)
Payments of Finance Lease Liabilities		(564)	(469)
Payments of Lease Liabilities		(160)	(166)
Interest Paid		(117)	(115)
Other Cash (Outflows) / Inflows	8	(18)	13
		(230)	(451)
Net Cash Used in Financing Activities			
Net Change in Cash and Cash Equivalents		(314)	(264)
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD		2,075	1,636
CASH AND CASH EQUIVALENTS			
AT THE END OF THE PERIOD	5	1,761	1,372

(*) USD 1,153 portion of property and equipment and intangible assets purchases in total of USD 1,778 for the period ended 30 June 2020 was acquired through leases. (30 June 2019: USD 590 portion of property and equipment and intangible assets purchases in total of USD 1,275 was acquired through leases.)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 30 June 2020 and 31 December 2019, the shareholders and their respective shareholdings in the Company are as follows:

	30 June 2020	31 December 2019
Turkey Wealth Fund	49.12 %	49.12 %
Republic of Turkey Treasury and Finance	-	-
Ministry Privatization Administration	-	-
Other (publicly held)	50.88 %	50.88 %
Total	100.00 %	100.00 %

The number of employees working for the Group as of 30 June 2020 is 39,020 (31 December 2019: 38,849). The average number of employees working for the Group for the periods ended 30 June 2020 and 2019 are 39,021 and 36,964 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 Company’s shares have been traded on Borsa İstanbul (“BIST”) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 30 June 2020 and 31 December 2019:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Ownership Rate</u>		<u>Country of Registration</u>
		<u>30 June 2020</u>	<u>31 December 2019</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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 30 June 2020 and 31 December 2019:

Company Name	Country of Registration and Operations	Ownership Share and Voting Power			Principal Activity
		30 June 2020	31 December 2019		
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%		Aircraft Transportation
THY DO&CO İkram Hizmetleri A.Ş. (Turkish DO&CO)	Turkey	50%	50%		Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)	Turkey	49%	49%		Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Turkey	50%	50%		Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet) [□]	Turkey	50%	50%		Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (TNC) (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
We World Express Ltd.	Hong Kong	45%	45%		Cargo and Courier
TFS Akaryakıt Hizmetleri A.Ş. (*)	Turkey	25%	-		Aviation Fuel Services

(*) TFS Akaryakıt Aviation Fuels is a joint venture of Turkish Airlines, Taya Liman İşletmesi A.Ş., Zirve Holding A.Ş. and Demirören Akaryakıt Sanayi ve Ticaret A.Ş. which each holds an equal stake. The company provides jet fuel storage and supply services at Istanbul Grand Airport in Turkey.

The Group owns 49%, 49%, 45%, 40%, 30% and 25% equity shares of TEC, Air Albania, We World Express Ltd., Goodrich, Vergi İade Aracılık A.Ş. and TFS Akaryakıt Hizmetleri 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, Air Albania, We World Express, Goodrich, Vergi İade Aracılık A.Ş. and TFS Akaryakıt Hizmetleri A.Ş..

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2020 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 2019.

Board of Directors has approved the consolidated financial statements as of 30 June 2020 on 13 August 2020. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

Basis of Preparation

The consolidated 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 joint ventures 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 Consolidation (cont'd)

b. The Group has twelve 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 joint ventures are controlled by the Group jointly, and are accounted for 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.

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 Policies Estimates

The significant estimates and assumptions used in preparation of these condensed consolidated interim financial statements as at and for the period ended 30 June 2020 are consistent with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2019.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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

2.3 Summary of Significant Accounting Policies

The accounting policies used in preparation of condensed consolidated interim financial statements as at 30 June 2020 are consistent with those used in the preparation of consolidated statements for the year ended 31 December 2019.

2.4 New and Revised Standards and Interpretations

a) Standards, amendments and interpretations applicable as at 30 June 2020:

Amendments to IAS 1 and IAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

Amendments to IFRS 3 - definition of a business; effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform; effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions; effective from Annual periods beginning on or after 1 June 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2020:

IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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

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

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2020 (cont'd):

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities; effective from 1 January 2022. These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16; effective from Annual periods beginning on or after 1 January 2022.

- **Amendments to IFRS 3**, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **Amendments to IAS 16**, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **Amendments to IAS 37**, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

The new standards, amendments and improvements have no material impacts on the financial position and performance of the Group.

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 Six-Month Period Ended 30 June 2020

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

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

2.6 Impact of Covid-19 Pandemic on Group Activities

Due to the impact of COVID-19 in the first half of 2020, global air traffic has significantly declined and stringent measures have been taken to slow the expansion of the pandemic. Several constraints were imposed and restrictions continue to have a major impact on global aviation industry.

To mitigate the effect of the pandemic, THY has taken several measures and assesses further developments. The actions taken are listed below:

Capacity

After the travel restrictions experienced for a two-month period due to the coronavirus pandemic, THY brings its domestic and international passenger flights back in June. As a result of the work with the health authorities and the normalization process for Turkey, domestic flights started on 4th of June. THY is planning to open many of the closed international destinations depending on the situation in the corresponding routes. THY may open routes again with lower frequencies and recovery, capacity supply will be increased with the demand. On June 11, THY restarted international flights and is increasing flights gradually. Flight plan is being continuously updated according to developments and 60% decline in passenger number and around 55% decline in ASK are expected in 2020 full year in comparison to 2019. In the second half of 2020, THY expects to reach 45% of ASK in the same period of 2019. Thanks to lower cost base of THY compared to other airlines, the Group expect a faster recovery than its competitors in financial and operational results; especially due to faster recovery in ethnic and opportunistic leisure passenger segments.

Cargo business

Cargo operations are continuing at full capacity with freighters and in addition, more than 30 wide body passenger aircraft are being utilized for cargo operations. Turkish Cargo has started to provide cargo-only flight services with wide body passenger aircraft in addition to the operation with freighters. As a result, 52% increase was recorded in cargo revenues compared to the same period of last year (cargo revenue increase only in 2Q is 90%). It is expected that cargo operations will add significantly to total revenue and profits compared to those of the previous year, thanks to increasing unit revenues and declining operational costs led by the drop in fuel prices.

Government support

THY is continually communicating with government authorities for alternative scenarios to alleviate the effects arising from the unfavorable environment. In this respect, the Ministry of Finance and Treasury of Turkey gradually introduces economic packages to prevent the impact of the novel coronavirus on Turkish Economy and includes measures for groups and companies.

On 17 April 2020, with the related law entered into force, THY has been put into place the new Short Term Employment status starting from April 1st of 2020, where the employees work on part-time basis without harming ongoing operations and get paid accordingly. As the government provided a reduced-time work law to support Turkish companies, some part of the Group's personnel cost (USD 33 as of 30 June 2020) was covered by government depending on the number of working days. On the other hand, this enforcement might be extended until the end of the year by presidential executive order.

In addition, Turkish Government introduced a support package for the pandemic. The value-added tax rate is dropped from 18% to 1% for three months with regard to domestic air transportation to support demand via reduced ticket price. Payments of withholding tax and social security premiums of April, May and June 2020 are deferred for six months to the first quarter of 2021. THY deferred a portion of principal and interest payments related to commercial loans at least for three months. Government support package resulted in decrease of cash outflows and led in cash savings.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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

2.6 Impact of Covid-19 Pandemic on Group Activities (cont'd)

Cost reductions

THY is taking actions to decrease the operational expenses and secure the financial liquidity of the Group. These include reducing or postponing uncommitted capital expenditures, cutting non-urgent and non-operational expenses and discussing with the authorities for possible deferral of fees and tax payments. THY postponed Eurocontrol payments to 2021 and some long-term contracts, such as fuel expenses and lease agreements, for three to six months to reduce short-term outflow. THY is renegotiating with service providers to lower fees due to weaker demand environment. Original aircraft delivery plan for 2020- 2021 and related pre-delivery payments are being reevaluated together with OEMs.

Asset valuation

Related to the COVID-19 pandemic, THY paid attention to the recoverability of fleet, right of use assets and deferred tax assets and conducted impairment tests under different scenarios. As a result, no impairment related to fleet and right of use assets was recognized. However, the recoverability on deferred tax was revised and a write-off of USD 130 has been recognized.

Accounting estimates and assumptions

Due to COVID-19 pandemic, THY reviewed accounting estimates and assumptions.

According to IFRS 9, ECL estimations, especially historical loss rates, for trade receivables was reviewed to include forward-looking information with regard to COVID-19. In addition, estimates used in the calculation of provisions for receivables from pilots for flight training were reviewed to reflect current environment.

Discount rates and inflation rates used in calculations of provisions for employee benefits were revised to incorporate related COVID-19 impact.

Discontinuation of Sun Express Deutschland operations

Operations of Sun Express Deutschland which is a subsidiary of Sun Express has been discontinued and according to BoD resolution of Sun Express dated 17/06/2020, it is decided Sun Express Deutschland has been solvently liquidated starting from 23rd of June and controlled liquidation process of the company will be prepared. In pursuant of the BoD resolution, effects of the liquidation is being discussed and necessary actions are being taken.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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:

	30 June 2020	31 December 2019
Sun Express	67	166
TEC	61	59
Turkish DO&CO	50	55
TGS	34	40
THY Opet	22	33
Uçak Koltuk	7	6
TCI	5	6
TFS Akaryakıt	4	-
Goodrich	4	3
We World Express	1	1
Vergi İade Aracılık (*)	-	-
Air Albania	-	-
	255	369

(*) 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 -	1 April -	1 January -	1 April -
	30 June 2020	30 June 2020	30 June 2019	30 June 2019
Turkish DO&CO	4	1	6	3
TEC	1	(2)	(6)	-
Uçak Koltuk	1	-	2	2
Goodrich	1	1	1	1
TGS	-	(2)	8	6
TCI	(1)	(1)	-	-
TFS Akaryakıt	(4)	(4)	-	0
THY Opet	(4)	(2)	11	5
Sun Express	<u>(89)</u>	<u>(65)</u>	<u>(14)</u>	<u>6</u>
	<u>(91)</u>	<u>(74)</u>	<u>8</u>	<u>23</u>

Financial information for Sun Express as of 30 June 2020 and 2019 are as follows:

	30 June	31 December
	2020	2019
Total assets	1,803	1,865
Total liabilities	1,669	1,533
Shareholders' equity	134	332
Group's share in joint venture's shareholders' equity	67	166

	1 January -	1 April -	1 January -	1 April -
	30 June 2020	30 June 2020	30 June 2019	30 June 2019
Revenue	254	75	555	360
Loss for the period	(177)	(128)	(28)	11
Group's share in joint venture's loss for the period	(89)	(65)	(14)	6

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 30 June 2020 and 2019 are as follows:

	30 June	31 December
	2020	2019
Total assets	203	219
Total liabilities	78	99
Shareholders' equity	125	120
Group's share in joint venture's shareholders' equity	61	59
	1 January -	1 April -
	30 June 2020	30 June 2020
Revenue	227	98
Profit / (Loss) for the period	1	(5)
Group's share in joint venture's profit / (loss) for the period	1	(2)
	1 January -	1 April -
	30 June 2019	30 June 2019
Revenue	218	129
Profit / (Loss) for the period	(13)	-
Group's share in joint venture's profit / (loss) for the period	(6)	-

Financial information for Turkish DO&CO as of 30 June 2020 and 2019 are as follows:

	30 June	31 December
	2020	2019
Total assets	159	190
Total liabilities	60	80
Shareholders' equity	99	110
Group's share in joint venture's shareholders' equity	50	55
	1 January -	1 April -
	30 June 2020	30 June 2020
Revenue	81	10
Profit for the period	7	1
Group's share in joint venture's profit for the period	4	1
	1 January -	1 April -
	30 June 2019	30 June 2019
Revenue	163	91
Profit for the period	12	7
Group's share in joint venture's profit for the period	6	3

Financial information for TGS as of 30 June 2020 and 2019 are as follows:

	30 June	31 December
	2020	2019
Total assets	191	172
Total liabilities	124	93
Shareholders' equity	67	79
Group's share in joint venture's shareholders' equity	34	40

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 30 June 2020 and 2019 are as follows (cont'd):

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	82	8	166	96
(Loss) / Profit for the period	(1)	(5)	17	14
Group's share in joint venture's (loss) / profit for the period	-	(2)	8	6

Financial information for THY Opet as of 30 June 2020 and 2019 are as follows:

		30 June 2020	31 December 2019
Total assets		246	315
Total liabilities		202	248
Shareholders' equity		44	67
Group's share in joint venture's shareholders' equity		22	33

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	141	30	635	167
(Loss) / Profit for the period	(8)	(5)	21	10
Group's share in joint venture's (loss) / profit for the period	(4)	(2)	11	5

Financial information for TFS Akaryakıt Hizmetleri as of 30 June 2020 and 2019 are as follows:

		30 June 2020	31 December 2019
Total assets		160	-
Total liabilities		143	-
Shareholders' equity		17	-
Group's share in joint venture's shareholders' equity		4	-

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	338	(3)	-	-
Loss for the period	(14)	(12)	-	-
Group's share in joint venture's loss for the period	(4)	(4)	-	-

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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

Financial information for Uçak Koltuk as of 30 June 2020 and 2019 are as follows:

	30 June 2020	31 December 2019
Total assets	33	29
Total liabilities	20	18
Shareholders' equity	13	11
Group's share in joint venture's shareholders' equity	7	6
	1 January - 30 June 2020	1 April - 30 June 2020
Revenue	15	4
Profit for the period	2	-
Group's share in joint venture's profit for the period	1	-
	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	17	7
Profit for the period	3	3

Financial information for TCI as of 30 June 2020 and 2019 are as follows:

	30 June 2020	31 December 2019
Total assets	17	19
Total liabilities	7	8
Shareholders' equity	10	11
Group's share in joint venture's shareholders' equity	5	6
	1 January - 30 June 2020	1 April - 30 June 2020
Revenue	2	1
Loss for the period	(1)	-
Group's share in joint venture's loss for the period	(1)	(1)
	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	7	3
Loss for the period	-	(1)
Group's share in joint venture's loss for the period	-	-

Financial information for Goodrich as of 30 June 2020 and 2019 are as follows:

	30 June 2020	31 December 2019
Total assets	13	12
Total liabilities	4	4
Shareholders' equity	9	8
Group's share in joint venture's shareholders' equity	4	3

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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

Financial information for Goodrich as of 30 June 2020 and 2019 are as follows (cont'd):

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	9	4	13	6
Profit for the period	1	-	2	1
Group's share in joint venture's profit for the period	1	1	1	1

Financial information for We World Express as of 30 June 2020 and 2019 are as follows:

	30 June 2020	31 December 2019		
Total assets	4	4		
Total liabilities	1	1		
Shareholders' equity	3	3		
Group's share in joint venture's shareholders' equity	1	1		
	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Revenue	1	(2)	-	-
Loss for the period	-	-	-	-
Group's share in joint venture's loss for the period	-	-	-	-

4. SEGMENT 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 revenue of the Group is given in Note 20.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

4. SEGMENT REPORTING (cont'd)

4.1 Total Assets and Liabilities

	30 June 2020	31 December 2019
Total Assets		
Aviation	24,601	24,490
Technical	1,504	1,568
Total	26,105	26,058
Less: Eliminations due to consolidation	(1,363)	(1,334)
Total assets in consolidated financial statements	<u>24,742</u>	<u>24,724</u>
Total Liabilities		
Aviation	18,673	17,825
Technical	348	386
Total	19,021	18,211
Less: Eliminations due to consolidation	(241)	(351)
Total liabilities in consolidated financial statements	<u>18,780</u>	<u>17,860</u>

4.2 Profit / (Loss) before Tax

Segment Results:

1 January - 30 June 2020	Inter-segment elimination			Total
	Aviation	Technic	-	
Sales to External Customers	3,349	86	-	3,435
Inter-Segment Sales	16	331	(348)	(1)
Revenue	3,365	417	(348)	3,434
Cost of Sales (-)	(3,440)	(383)	349	(3,474)
Gross Profit	(75)	34	1	(40)
Administrative Expenses (-)	(76)	(42)	2	(116)
Selling and Marketing Expenses (-)	(372)	(4)	-	(376)
Other Operating Income	121	3	(6)	118
Other Operating Expenses (-)	(30)	(1)	3	(28)
Operating Loss Before				
Investment Activities	(432)	(10)	-	(442)
Income from Investment Activities	91	-	-	91
Expenses from Investment Activities	-	-	-	-
Share of Investments' Loss				
Accounted by Using				
The Equity Method	(92)	1	-	(91)
Operating Loss	(433)	(9)	-	(442)
Financial Income	50	-	(4)	46
Financial Expense (-)	(279)	1	4	(274)
Loss Before Tax	<u>(662)</u>	<u>(8)</u>	<u>-</u>	<u>(670)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

4. SEGMENT REPORTING (cont'd)

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

Segment Results (cont'd):

1 January - 30 June 2019	Aviation	Technic	Inter-segment	Total
			elimination	
Sales to External Customers	5,799	150	-	5,949
Inter-Segment Sales	23	511	(534)	-
Revenue	5,822	661	(534)	5,949
Cost of Sales (-)	(5,300)	(491)	534	(5,257)
Gross Profit	522	170	-	692
Administrative Expenses (-)	(101)	(46)	2	(145)
Selling and Marketing Expenses (-)	(738)	(3)	1	(740)
Other Operating Income	99	9	(8)	100
Other Operating Expenses (-)	(39)	(8)	5	(42)
Operating Loss Before				
Investment Activities	(257)	122	-	(135)
Income from Investment Activities	86	1	-	87
Expenses from Investment Activities	(78)	(1)	-	(79)
Share of Investments' Loss				
Accounted by Using				
The Equity Method	14	-	6	8
Operating Loss	(235)	116	-	(119)
Financial Income	36	-	(10)	26
Financial Expense (-)	(239)	6	10	(223)
Loss Before Tax	(438)	122	-	(316)

4.3 Investment Operations

1 January - 30 June 2020	Aviation	Technic	Inter-segment	Total
			elimination	
Purchase of property and equipment and intangible assets	1,656	122	-	1,778
Current period depreciation and amortization charge	742	71	-	813
Investments accounted by using equity method	183	72	-	255

1 January - 30 June 2019	Aviation	Technic	Inter-segment	Total
			elimination	
Purchase of property and equipment and intangible assets	1,108	181	-	1,289
Current period depreciation and amortization charge	663	73	-	736
Investments accounted by using equity method	292	61	-	353

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

5. CASH AND CASH EQUIVALENTS

	30 June 2020	31 December 2019
Cash	2	1
Banks – Time deposits	1,705	2,000
Banks – Demand deposits	54	74
	1,761	2,075

Details of the time deposits as of 30 June 2020 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2020
359	TL	7.04% - 8.28%	July 2020	52
259	USD	0.20% - 1.75%	August 2020	259
1,224	EUR	0.28% - 1.08%	September 2020	1,380
1,770	DZD	1.98%	July 2020	14
				1,705

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

Amount	Currency	Effective Interest Rate	Maturity	31 December 2019
2,387	TL	9.35% - 11.60%	January 2020	402
223	USD	1.50% - 1.60%	January 2020	223
1,196	EUR	0.36% - 0.80%	March 2020	1,340
4,185	DZD	1.98% - 3.15%	March 2020	35
				2,000

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	30 June 2020	31 December 2019
Fair value through profit and loss (FVTPL)		
- Equity securities	15	15
Fair value through other comprehensive income (FVOCI)		
- Corporate debt securities	-	9
Time deposits with maturity more than 3 months	-	376
	15	400

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

6. FINANCIAL INVESTMENTS (cont'd)

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

Amount	Currency	Effective Interest Rate	Maturity	31 December 2019
336	EUR	0.24% - 0.40%	April 2020	<u>376</u>

Long-term financial investments are as follows:

	30 June 2020	31 December 2019
FVOCI		
- Governmet debt securities	53	49
- Corporate debt securities	31	40
Other	1	1
	<u>85</u>	<u>90</u>

Period remaining to contractual maturity dates for FVOCI as of 30 June 2020 and 31 December 2019 is as follows:

	30 June 2020	31 December 2019
Less than 1 year	-	9
1 to 5 years	3	3
Over 5 years	81	86
	<u>84</u>	<u>98</u>

	30 June 2020	31 December 2019
FVTPL		
- Equity securities	<u>15</u>	<u>15</u>

7. BORROWINGS

Short-term borrowings are as follows:

	30 June 2020	31 December 2019
Bank borrowings	<u>1,567</u>	<u>1,241</u>

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

	30 June 2020	31 December 2019
Finance lease obligations (Note: 14)	1,278	1,118
Lease liabilities (Note: 14) (*)	285	256
Bank borrowings	714	491
	<u>2,277</u>	<u>1,865</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

7. BORROWINGS (cont'd)

Long-term borrowings are as follows:

	30 June 2020	31 December 2019
Finance lease obligations (Note: 14)	7,444	7,274
Lease liabilities (Note: 14) (*)	1,423	1,271
Bank borrowings	1,848	1,721
	10,715	10,266

(*) According to IFRS 16, these amounts are lease liabilities.

Details of bank borrowings as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	31 December 2019
Less than 1 year	2,281	1,732
Between 1 – 5 years	1,824	1,721
Over 5 years	24	-
	4,129	3,453

<u>Amount</u>	<u>Currency</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>30 June</u>
						<u>2020</u>
700	TRY	Fixed	8.5% - 9.25%	8.5% - 9.25%	December 2020 - June 2021	102
2,958	EUR	Fixed	0.30% - 4.93%	0.30% - 4.93%	July 2020 - May 2025	3,333
			Euribor + 2.03% -	Euribor + 2.03% -		
616	EUR	Floating	Euribor + 3.77%	Euribor + 3.77%	August 2021 - April 2026	694
						4,129

<u>Amount</u>	<u>Currency</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Effective Interest Rate</u>	<u>Payment Period</u>	<u>31 December</u>
						<u>2019</u>
2,243	EUR	Fixed	0.30% - 4.93%	0.30% - 4.93%	February 2020 - December 2024	2,511
			Euribor + 2.03% -	Euribor + 2.03% -		
841	EUR	Floating	Euribor + 3.77%	Euribor + 3.77%	February 2020 - July 2024	942
						3,453

Reconciliation of liabilities arising from financing activities:

	31 December			New	30 June 2020
	2019	Payment	Non-cash Changes		
Lease Liabilities	8,392	(646)	149	827	8,722

	31 December			New	31 December
	2018	Payment	Non-cash Changes		
Lease Liabilities	7,986	(1,149)	115	1,440	8,392

	31 December			Cash-in	30 June 2020
	2019	Payment	Non-cash Changes		
Bank Borrowings	3,453	(590)	81	1,185	4,129

	31 December			Cash-in	31 December
	2018	Payment	Non-cash Changes		
Bank Borrowings	2,622	(2,340)	10	3,161	3,453

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

7. BORROWINGS (cont'd)

In accordance to IFRS 16 reconciliation of lease liabilities:

	31 December			New	
	2019	Payment	Non-cash Changes	Leases	30 June 2020
Aircraft	1,466	(154)	28	316	1,656
Property	58	(5)	(3)	-	50
Other	3	(1)	-	-	2
	1,527	(160)	25	316	1,708

	1 January	2019	Payment	Non-cash Changes	New	31 December	2019
Aircraft	1,534	(325)	52	205	1,466		
Property	55	(13)	2	14	58		
Other	6	(3)	-	-	3		
	1,595	(341)	54	219	1,527		

8. OTHER FINANCIAL LIABILITIES

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

	30 June 2020	31 December 2019
Other financial liabilities	1	19

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:

	30 June 2020	31 December 2019
Air Albania	6	-
We World Express Ltd.	1	-
	7	-

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

	30 June 2020	31 December 2019
TGS	-	28

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

	30 June 2020	31 December 2019
TFS Akaryakıt Hizmetleri	65	-
TEC	53	55
THY Opet	44	38
TGS	44	37
Turkish DO&CO	30	21
Goodrich	4	2
Sun Express	-	19
	240	172

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

9. RELATED PARTIES (cont'd)

Transactions with related parties for the period ended 30 June 2020 and 2019 are as follows:

a) Sales to related parties:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
TEC	33	20	14	11
Sun Express	12	6	20	9
We World Express Ltd.	4	-	-	-
PTT	2	1	2	-
TGS	1	-	3	2
Goodrich	1	-	1	-
Air Albania	-	-	1	1
	53	27	41	23
	=====	=====	=====	=====

b) Purchases from related parties:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
TFS Akaryakıt Hizmetleri	321	14	-	-
TEC	119	69	109	54
THY Opet	115	28	533	127
TGS	80	8	153	86
Turkish DO&CO	76	10	152	82
Sun Express	44	12	84	51
Goodrich	9	4	10	4
Uçak Koltuk	5	2	3	2
Air Albania	3	(1)	-	-
Other	-	-	1	1
	772	146	1,045	407
	=====	=====	=====	=====

Details of the financial assets and liabilities for related parties as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	31 December 2019
Banks - Time deposits	479	1,435
Financial assets	92	104
Banks - Demand deposits	3	8
Financial investments	-	275
Bank borrowing	(310)	(312)
	264	1,510
	=====	=====

As of 30 June 2020, the amount of letters of guarantee given to the related parties is USD 901. (31 December 2019: USD 886)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

9. RELATED PARTIES (cont'd)

Details of the financial investments at related parties as of 31 December 2019 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	31 December 2019
246	EUR	0.28% - 0.40%	April 2020	275

Details of the time deposits at related parties as of 30 June 2020 and 31 December 2019 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2020
358	TL	7.50% - 7.65%	July 2020	52
379	EUR	0.28% - 1.00%	August 2020	427
				479

Amount	Currency	Effective Interest Rate	Maturity	31 December 2019
2,381	TL	9.35% - 10.00%	January 2020	401
922	EUR	0.36% - 0.56%	March 2020	1,033
1	USD	1.50%	January 2020	1
				1,435

Details of the financial assets at related parties as of 30 June 2020 and 31 December 2019 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2020
92	USD	3.88% - 8.50%	July 2020 - December 2020	92
Amount	Currency	Effective Interest Rate	Maturity	31 December 2019
104	USD	3.88% - 8.50%	February 2020 - June 2020	104

Details of the bank borrowings at related parties as of 30 June 2020 and 31 December 2019 are as follows:

Amount	Currency	Effective Interest Rate	Maturity	30 June 2020
276	EUR	2.94% - 4.00%	December 2024	310
Amount	Currency	Effective Interest Rate	Maturity	31 December 2019
279	EUR	2.94% - 4.00%	December 2024	312

Interest income from related parties:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Türkiye Halk Bankası A.Ş.	5	2	17	11
Ziraat Bankası A.Ş.	-	-	1	1
	5	2	18	12

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Six-Month Period Ended 30 June 2020**

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

9. RELATED PARTIES (cont'd)**Interest expense to related parties:**

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Ziraat Bankası A.Ş.	5	2	3	2

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, transactions between the Group and Türk Telekom are related to advertising and telecommunication services and transactions between the Group and TFS Akaryakit Hizmetleri A.Ş. are related to the supply of aircraft fuel. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short-term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 2 (1 January- 30 June 2019: USD 2).

10. OTHER RECEIVABLES

Other short-term receivables from third parties as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	31 December 2019
Predelivery payments made for aircrafts	1,191	778
Receivables from technical purchases	194	168
Value added tax receivables	38	42
Receivables from pilots for flight training	27	24
Bank deposits with transfer limitations (*)	25	36
Others	2	5
	1,477	1,053

(*)As of 30 June 2020, the balance of this account includes bank deposits in Ethiopia, Bangladesh, 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 Zimbabwe, Argentina, Democratic Republic of the Congo, Republic of Cuba, Republic of Lebanon and Iran. (As of 31 December 2019, the balance of this account includes bank deposits in Ethiopia, Bangladesh, 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 Zimbabwe, Argentina, Democratic Republic of the Congo, Republic of Cuba, Republic of Lebanon and Iran)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

10. OTHER RECEIVABLES (cont'd)

Other long-term receivables from third parties as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	31 December 2019
Receivables related to investment certificates (***)	343	313
Predelivery payments made for aircrafts	318	761
Receivables from pilots for flight training	177	154
Interest and commodity swap agreement deposits	160	-
Deposits and guarantees given	40	42
Bank deposits with transfer limitations (**)	4	6
	1,042	1,276

(**) As of 30 June 2020, the balance of this account includes bank deposits in Syria.

(***) This represents the accrued amount as of 30 June 2020. Total contribution of government incentives related to fleet investments amounts to USD 2,727. See note 2.3 for accounting policy.

11. DEFERRED INCOME

Deferred income is as follows:

	30 June 2020	31 December 2019
Passenger flight liabilities	885	1,032
Other short-term deferred income	33	39
	918	1,071

Passenger flight liability is as follows:

	30 June 2020	31 December 2019
Flight liability generating from ticket sales	678	797
Flight liability generating from frequent flyer program	207	235
	885	1,032

Other short-term deferred income is as follows:

	30 June 2020	31 December 2019
Advances received	15	18
Deferred finance income	11	11
Unearned bank protocol revenue accruals	7	10
	33	39

Long-term deferred income is as follows:

	30 June 2020	31 December 2019
Deferred finance income	114	118
Gross manufacturer's credits	31	31
Accumulated depreciation of manufacturer's credit	(31)	(31)
Unearned bank protocol revenue accruals	-	2
	114	120

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

12. PROPERTY AND EQUIPMENT

	Land, land improvements and buildings	Technical Equipment, Simulator 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 2020	948	591	239	20,814	826	660	183	692	24,953
Additions	1	8	3	1,459	14	68	-	219	1,772
Transfer (*)	-	30	1	14	19	-	1	(77)	(12)
Disposals	-	(1)	(2)	(72)	(3)	(36)	(4)	-	(118)
Closing balance at 30 June 2020	949	628	241	22,215	856	692	180	834	26,595
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2020	242	271	173	6,317	279	315	95	-	7,692
Depreciation charge	25	23	11	667	32	37	8	-	803
Disposals	-	(1)	(1)	(72)	(3)	(19)	(4)	-	(100)
Closing balance at 30 June 2020	267	293	183	6,912	308	333	99	-	8,395
Net book value at 30 June 2020	682	335	58	15,303	548	359	81	834	18,200
Net book value at 31 December 2019	706	320	66	14,497	547	345	88	692	17,261

(*) Construction in progress amounting to USD 12 has been transferred to intangible assets.

As of 30 June 2020, the total net book value of the property, plant and equipment acquired by leases is USD 14,324 (31 December 2019: USD 13,618)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 781 (30 June 2019: USD 707), general administrative expenses is amounting to USD 28 (30 June 2019: USD 26) and marketing and sales expenses is amounting to USD 4 (30 June 2019: USD 3) in total of USD 813 as of 30 June 2020 (30 June 2019: USD 736).

The Group's construction in progress balances mainly consist of İstanbul Airport buildings, aircraft modifications, engine maintenance, backup engines, simulators and cargo equipment.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 2019	303	429	214	17,491	738	583	531	718	21,007
Recognition of right of use asset on initial application of IFRS 16	56	6	-	1,576	-	-	-	-	1,638
Adjusted Opening balance as of 1 January 2019	359	435	214	19,067	738	583	531	718	22,645
Additions	-	13	16	821	60	113	8	252	1,283
Transfer	-	3	1	56	20	-	31	(111)	-
Disposals	-	(4)	(2)	(724)	(35)	(59)	(17)	-	(841)
Closing balance at 30 June 2019	359	447	229	19,220	783	637	553	859	23,087
<u>Accumulated Depreciation</u>									
Opening balance at 1 January 2019	89	235	151	5,835	267	310	202	-	7,089
Depreciation charge	11	19	13	594	28	43	20	-	728
Disposals	-	(2)	(2)	(632)	(33)	(35)	(16)	-	(720)
Closing balance at 30 June 2019	100	252	162	5,797	262	318	206	-	7,097
Net book value at 30 June 2019	259	195	67	13,423	521	319	347	859	15,990
Net book value at 31 December 2018	214	194	63	11,656	471	273	329	718	13,918

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

12. PROPERTY AND EQUIPMENT (cont'd)

Lease assets are as follows:

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Cost</u>					
Opening balance at 1 January 2020	17,647	165	74	6	17,892
Additions	1,431	-	1	-	1,432
Transfer	10	-	-	-	10
Disposals	(58)	-	-	-	(58)
Transfers between the accounts (*)	(263)	-	-	-	(263)
Closing balance at 30 June 2020	18,767	165	75	6	19,013

	Aircraft	Spare engines	Real Estate	Vehicles	Total
<u>Accumulated Depreciation</u>					
Opening balance at 1 January 2020	4,222	39	10	3	4,274
Depreciation charge	583	5	6	1	595
Disposals	(58)	-	-	-	(58)
Transfers between the account (*)	(122)	-	-	-	(122)
Closing balance at 30 June 2020	4,625	44	16	4	4,689
Net book value at 30 June 2020	14,142	121	59	2	14,324
Net book value at 31 December 2019	13,425	126	64	3	13,618

(*) Transfers are mainly consists of aircraft that lease payments have been acquired and ownership has been transferred to the Group.

The Group is still carrying out negotiations with the airport operator company (İGA Havalimanı İşletmesi A.Ş.) regarding the rental areas, rental fee, renting conditions and period for İstanbul Airport. Yet, no agreement is signed and there is no Board Decision about the above mentioned rental matters. Despite the fact that there is a PPP tariff issued by State Airports Authority (DHMİ), it does not eliminate the uncertainties regarding rental areas, rental fee, renting conditions and period which are considered as material terms of a contract. Thus, it is not considered as appropriate to consider them under IFRS16 scope and no calculations for assets or liabilities are made concerning the İstanbul Airport rentals at June 2020 financial statements. However, the payments for the areas used at İstanbul Airport are made with reservation according to PPP tariff and they are recorded under expense accounts for the period.

13. INTANGIBLE ASSETS

	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
<u>Cost</u>				
Opening balance at 1 January 2020	44	193	5	242
Additions	-	6	-	6
Transfers	-	12	-	12
Closing balance at 30 June 2020	44	211	5	260
<u>Accumulated Amortization</u>				
Opening balance at 1 January 2020	-	157	3	160
Amortization charge	-	10	-	10
Closing balance at 30 June 2020	-	167	3	170
Net book value at 30 June 2020	44	44	2	90
Net book value at 31 December 2019	44	36	2	82

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

13. INTANGIBLE ASSETS (cont'd)

	Slot rights and acquired technical licenses (*)	Rights	Other intangible assets	Total
Cost				
Opening balance at 1 January 2019	44	175	5	224
Additions	-	6	-	6
Closing balance at 30 June 2019	44	181	5	230
Accumulated Amortization				
Opening balance at 1 January 2019	-	141	1	142
Amortization charge	-	8	-	8
Closing balance at 30 June 2019	-	149	1	150
Net book value at 30 June 2019	44	32	4	80
Net book value at 31 December 2018	44	34	4	82

(*) 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

Resulting from IFRS16, maturities of lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Less than 1 year	343	308	(58)	(52)	285	256
Between 1 – 5 years	968	891	(140)	(129)	828	762
Over 5 years	682	597	(87)	(88)	595	509
	1,993	1,796	(285)	(269)	1,708	1,527

Maturities of finance lease obligations are as follows:

	Future Minimum Lease Payments		Interest		Present Values of Minimum Lease Payments	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Less than 1 year	1,408	1,257	(130)	(139)	1,278	1,118
Between 1 – 5 years	4,820	4,722	(321)	(354)	4,499	4,368
Over 5 years	3,017	2,991	(72)	(85)	2,945	2,906
	9,245	8,970	(523)	(578)	8,722	8,392

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Six-Month Period Ended 30 June 2020**

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

14. LEASING TRANSACTIONS (cont'd)

	30 June 2020	31 December 2019
Interest Range:		
Floating rate obligations	5,112	5,394
Fixed rate obligations	3,610	2,998
	8,722	8,392

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.

Lease term of Group's contracts under IFRS 16 is 1-45 years. As of 30 June 2020 Turkish Lira, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 5.20% (31 December 2019: 5.41%) .

As of 30 June 2020, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 1.98% (31 December 2019: 2.37%) for the fixed rate obligations and 1.30% (31 December 2019: 1.29%) for the floating rate obligations.

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 30 June 2020 and 31 December 2019 are as follows:

Short-term provision for employee benefits is as follows:

	30 June 2020	31 December 2019
Provisions for unused vacation	45	39

Changes in the provisions for the period ended 30 June 2020 and 2019 are set out below:

	1 January -	1 January -
	30 June 2020	30 June 2019
Provisions at the beginning of the period	39	39
Provisions for the current period	160	148
Provisions released	(148)	(138)
Foreign currency translation differences	(6)	(4)
Provisions at the end of the period	45	45

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Six-Month Period Ended 30 June 2020**

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

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

Other short-term provision is as follows:

	30 June 2020	31 December 2019
Provisions for legal claims	11	13

Changes in the provisions for legal claims for the period ended 30 June 2020 and 2019 are set out below:

	1 January -	1 January -
	30 June 2020	30 June 2019
Provisions at the beginning of the period	13	16
Provisions for the current period	-	2
Provisions released	(1)	(4)
Foreign currency translation differences	(1)	(1)
Provisions at the end of the period	11	13

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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

16. COMMITMENTS

a) Guarantees/Pledges/Mortgages (“GPM”) given by the Group:

Amount of letters of guarantees given as of 30 June 2020 is USD 1,703 (31 December 2019: USD 1,334).

As of 30 June 2020, the letters of guarantee are given to various authorities (i.e. various banks and vendors.)

	30 June 2020		31 December 2019	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	1,703	-	1,334
- Collaterals				
TL	59	9	52	9
EUR	1,424	1,604	1,131	1,266
USD	53	53	49	49
Other	-	37	-	10
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>1,703</u>	-	<u>1,334</u>

The ratio of other GPM (“D”) given by the group to its equity is 0% as of 30 June 2020 (31 December 2019: 0%)

b) Aircraft purchase commitments:

To be delivered between the years 2020-2025, the Group signed an agreement for 179 aircrafts, (169 of aircrafts are contractual and 10 of them are optional) with a list price value of 25,036 US Dollars. The Group has made a predelivery payment of 1,513 US Dollars relevant to these purchases as of 30 June 2020.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Six-Month Period Ended 30 June 2020**

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

17. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 30 June 2020 and 31 December 2019 is comprised of the following:

	30 June 2020	31 December 2019
Provision for retirement pay liability	133	135

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 1,040 (full) (equivalent of TL 7,117 (full)) as of 30 June 2020. (31 December 2019: US Dollar 1,133 (full) equivalent of TL 6,730 (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 30 June 2020 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.80% annual inflation rate (31 December 2019: 7.65%) and 11.90% interest rate (31 December 2019: 12.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.41% (31 December 2019: 2.62%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,040 (full) which is in effect since 30 June 2020 is used in the calculation of Group’s provision for retirement pay liability.

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

	1 January - 30 June 2020	1 January - 30 June 2019
Provision at the beginning of the period	135	130
Interest charges	7	6
Service charge for the period	7	9
Actuarial loss	8	5
Payments	(6)	(5)
Foreign currency translation difference	(18)	(12)
Provision at the end of the period	133	133

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

18. EXPENSES BY NATURE

Expenses by nature for the period ended 30 June 2020 and 2019 are as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Fuel expenses	985	196	1,836	981
Depreciation and amortisation charges	813	402	736	376
Personnel expenses	617	127	1,041	524
Aircraft maintenance expenses	310	93	384	192
Ground services expenses	239	55	391	202
Airport expenses	160	31	285	163
Air traffic control expenses	157	34	263	140
Passenger services and catering expenses	144	23	298	157
Commissions and incentives	110	19	258	116
Wet lease expenses	103	40	140	76
Advertisement and promotion expenses	51	14	88	41
Reservation systems expenses	43	(3)	144	71
Rents	37	22	42	20
Service expenses	33	11	40	21
Insurance expenses	27	13	27	14
Taxes and duties	26	5	32	7
IT and communication expenses	21	12	22	11
Transportation expenses	18	8	20	10
Aircraft rent expenses	12	7	19	9
Consultancy expenses	9	4	10	5
Systems use and associateship expenses	5	3	4	2
Membership fees	2	2	3	3
Utility expenses	2	2	2	2
Other expenses	42	13	57	28
	3,966	1,133	6,142	3,171

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

19. SHAREHOLDERS' EQUITY

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

(Millions of TL)	Class	%	30 June		31 December	
			2020	%	2019	2019
Turkey Wealth Fund (*)	A	49.12	678	49.12	678	678
Republic of Turkey Treasury and Finance Ministry Privatization Administration (*)	C	-	-	-	-	-
Other (publicly held)	A	50.88	702	50.88	702	702
Paid-in capital (Turkish Lira)			1,380		1,380	1,380
Inflation adjustment on share capital (Turkish Lira) (**)			1,124		1,124	1,124
Share capital (Turkish Lira)			<u>2,504</u>		<u>2,504</u>	<u>2,504</u>
Share capital (USD Equivalent)			<u>1,597</u>		<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 Company and its subsidiaries (together the "Group") owned by Republic of Turkey Prime Ministry Privatisation Administriy has been transferred to Sovereign Wealth Fund of Turkey as of 3 February 2017.

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

As of 30 June 2020, 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,
 - 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%).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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):

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 in other comprehensive income.

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 2020, 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 %49 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized 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 Six-Month Period Ended 30 June 2020

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

20. REVENUE

Breakdown of gross profit is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Passenger revenue				
Scheduled	2,096	108	4,951	2,680
Unscheduled	11	7	20	16
Total passenger revenue	2,107	115	4,971	2,696
Cargo revenue				
Carried by passenger aircraft	172	9	355	174
Carried by cargo aircraft	1,041	738	444	219
Total cargo revenue	1,213	747	799	393
Total passenger and cargo revenue	3,320	862	5,770	3,089
Technical revenue	86	31	150	80
Other revenue	28	8	29	12
Net sales	3,434	901	5,949	3,181
Cost of sales (-)	(3,474)	(1,000)	(5,257)	(2,753)
Gross profit	(40)	(99)	692	428

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

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
International flights				
- Far East	1,020	370	1,473	767
- Europe	794	156	1,616	902
- America	589	168	887	484
- Africa	347	74	570	285
- Middle East	306	51	661	347
Total	3,056	819	5,207	2,785
Domestic flights	264	43	563	304
Total passenger and cargo revenue	3,320	862	5,770	3,089

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

21. COST OF SALES

Breakdown of the cost of sales is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Fuel expenses	985	196	1,836	981
Depreciation and amortisation charges	781	386	707	362
Personnel expenses	475	87	813	412
Aircraft maintenance expenses	310	93	384	192
Ground services expenses	239	55	391	202
Airport expenses	160	31	285	163
Air traffic control expenses	157	34	263	140
Passenger services and catering expenses	144	23	298	157
Wet lease expenses	103	40	140	76
Insurance expenses	25	12	26	14
Rents	24	14	33	15
Transportation expenses	18	8	20	10
Service expenses	16	6	17	9
Aircraft rent expenses	12	7	19	9
Taxes and duties	10	3	7	3
IT & communication expenses	2	2	2	1
Other expenses	13	3	16	7
	3,474	1,000	5,257	2,753

22. GENERAL ADMINISTRATIVE EXPENSES AND SELLING AND MARKETING EXPENSES

Breakdown of general administrative expenses is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Personnel expenses	34	4	66	33
Depreciation and amortisation charges	28	14	26	13
IT and communication expenses	15	8	16	8
Service expenses	13	5	16	8
Consultancy expenses	6	3	6	3
Systems use and associateship expenses	5	3	4	2
Rents	5	5	-	-
Insurance expenses	2	1	1	-
Utility expenses	2	2	2	2
Taxes and duties	1	-	1	1
Other general administrative expenses	5	-	7	3
	116	45	145	73

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

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

Breakdown of selling and marketing expenses is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Commissions and incentives	110	19	258	116
Personnel expenses	108	36	162	79
Advertisement and promotion expenses	51	14	88	41
Reservation systems expenses	43	(3)	144	71
Taxes and duties	15	2	24	3
Rents	8	3	9	5
Depreciation and amortisation charges	4	2	3	1
Service expenses	4	-	7	4
IT and communication expenses	4	2	4	2
Consultancy expenses	3	1	4	2
Membership fees	2	2	3	3
Other marketing and sales expenses	24	10	34	18
	376	88	740	345
	=====	=====	=====	=====

23. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Manufacturers' credits	72	57	56	22
Insurance, indemnities, penalties income	17	8	18	13
Rent income	6	2	3	2
Non- interest income from banks	5	2	5	2
Turnover premium from suppliers	3	1	2	-
Provisions released	2	1	6	1
Rediscount interest income	2	2	4	1
Delay interest income	-	-	1	1
Other operating income	11	5	5	3
	118	78	100	45
	=====	=====	=====	=====

Breakdown of other operating expenses is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Provisions	8	4	13	10
Foreign exchange losses from operational activities, net	6	(46)	15	21
IFRS 9 Adjustment	3	4	-	-
Indemnity and penalty expenses	3	2	3	2
Other operating expenses	8	-	11	7
	28	(36)	42	40
	=====	=====	=====	=====

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

24. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Income from investment incentives	75	39	44	31
Gain on subsidiaries	8	8	-	-
Interest income from financial investment	4	3	35	21
Gain on sale of financial investments	2	1	5	3
Gain on sale of fixed assets	2	1	3	2
	91	52	87	57
	91	52	87	57

Breakdown of expense from investment activities is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Loss on sale of fixed assets	-	-	79	52
	-	-	79	52

25. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Rediscount interest income from repayments of aircrafts	18	4	10	7
Fair value gains on derivative financial instruments, net	13	13	-	5
Interest income	11	7	16	-
Other financial incomes	4	4	-	-
	46	28	26	12
	46	28	26	12

Breakdown of financial expenses is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Interest expense from financial activities	116	57	99	50
Foreign exchange losses on financial activities, net	106	108	61	24
Interest expense from leasing liabilities	30	15	28	13
Aircraft financing expenses	12	5	10	(3)
Interest expenses on employee benefits	7	3	6	3
Fair value losses on derivative financial instruments, net (*)	-	(53)	16	-
Other financial expenses	3	1	3	1
	274	136	223	88
	274	136	223	88

(*) As a result of the impact of Covid-19, expected capacity to be operated in 2020 will be lower than that originally anticipated when fuel hedging derivatives were put in place. Therefore, certain hedging instruments no longer correspond to future purchases of jet fuel and a part of the hedging relation for these derivatives has been discontinued. In relation to the instruments, the Group has charged a total loss of USD 6 because of discontinuation resulting from the over-hedging of fuel hedge to "Financial Expenses" in profit or loss statement. The associated tax credit in profit and loss statement is USD 1.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

26. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	30 June 2020	31 December 2019
Prepaid taxes	27	43

Tax income is as follows:

	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Current period tax expense	-	-	4	(5)
Deferred tax (income) / expense	(16)	79	(117)	(54)
Tax income	<u>(16)</u>	<u>79</u>	<u>(113)</u>	<u>(59)</u>

Tax effect related to other comprehensive income is as follows:

	1 January - 30 June 2020		1 January - 30 June 2019			
	Amount before tax	Tax income	Amount after tax	Amount before tax	Tax expense	Amount after tax
Change in cash flow hedge reserve	(278)	59	(219)	91	(20)	71
Losses on Remeasuring FVOCI	(4)	1	(3)	2	-	2
Change in actuarial losses from retirement pay obligation	(8)	1	(7)	(5)	1	(4)
Changes in foreign currency translation difference	(19)	-	(19)	(10)	-	(10)
Other comprehensive income	<u>(309)</u>	<u>61</u>	<u>(248)</u>	<u>78</u>	<u>(19)</u>	<u>59</u>

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 30 June 2020 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% (2019: 22%) to be calculated and paid based on earnings generated for each quarter for the period ended 30 June 2020. 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 Six-Month Period Ended 30 June 2020

(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 Six-Month Period Ended 30 June 2020

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

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

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

	30 June 2020	31 December 2019
Fixed assets	(2,064)	(1,910)
Right of use asset	(344)	(310)
Adjustments for passenger flight liabilities	(143)	(171)
Tax loss carried forward	652	528
Lease obligations	344	311
Income and expense for future years	96	104
Accruals for expenses	78	69
Change in fair value of derivative instruments	38	4
Provisions for employee benefits	27	28
Incentives	25	17
Miles accruals	20	30
Provisions for unused vacation	10	9
Other	(5)	(2)
Deferred tax liabilities	(1,266)	(1,293)

The changes of deferred tax liability for the period ended 1 January – 30 June 2020 and 2019 are as follows:

	1 January -	1 January -
	30 June 2020	30 June 2019
Opening balance at 1 January	1,293	1,133
Foreign currency translation difference	46	22
Tax income from FVOCI	(1)	-
Tax (income) / expense from hedging reserves	(56)	21
Deferred tax income	(16)	(117)
Deferred tax liability at the end of the period	1,266	1,059

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

Reconciliation with current tax charge for the period 1 January – 30 June 2020 and 2019 are as follows:

<u>Reconciliation of effective tax charge</u>	1 January - 30 June 2020	1 April - 30 June 2020	1 January - 30 June 2019	1 April - 30 June 2019
Loss from operations before tax	(670)	(248)	(316)	(33)
Domestic expense tax rate of 22%	147	54	70	8
Taxation effects on:				
- investment incentive	15	7	18	12
- foreign currency translation difference	3	7	33	28
- expense from investment certificates	1	(6)	9	6
- non deductible expenses	(3)	1	(4)	-
- investments accounted by using the equity method	(15)	(12)	2	5
- adjustment for prior year loss	(132)	(130)	(15)	-
Tax charge in statement of loss	16	(79)	113	59

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 losses per share at 1 January – 30 June 2020 and 2019:

	1 January - 30 June 2020	1 January - 30 June 2019
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
Number of shares outstanding at 30 June (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the period (in full)	138,000,000,000	138,000,000,000
Net loss for the period	(654)	(203)
Basic loss per share (Full US Cents) (*)	(0.47)	(0.15)
Diluted loss per share (Full US Cents) (*)	(0.47)	(0.15)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Interim Financial Statements****As At And For the Six-Month Period Ended 30 June 2020**

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 30 June 2020 and 31 December 2019 are as follows:

<u>Derivative financial assets</u>	30 June 2020	31 December 2019
Derivative instruments not subject to hedge accounting	28	17
Derivative instruments for fuel prices cash flow hedge	22	31
Derivative instruments for cross currency rate cash flow hedge	-	4
	50	52

<u>Derivative financial liabilities</u>	30 June 2020	31 December 2019
Derivative instruments for fuel prices cash flow hedge	167	14
Derivative instruments for interest rate cash flow hedge	31	35
Derivative instruments not subject to hedge accounting	24	18
Derivative instruments for cross currency rate cash flow hedge	2	3
	224	70

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

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

29. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

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

	30 June 2020					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	269	7	26	-	2	234
2a.Monetary Financial Assets	1,511	65	1,388	1	3	54
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	309	130	88	-	5	86
4.Current Assets (1+2+3)	2,089	202	1,502	1	10	374
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	522	522	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	637	343	286	-	-	8
8.Non Current Assets (5+6+7)	1,159	865	286	-	-	8
9.Total Assets (4+8)	3,248	1,067	1,788	1	10	382
10.Trade Payables	641	382	204	1	3	51
11.Financial Liabilities (*)	3,239	103	2,885	229	22	-
12a.Other Liabilities, Monetary	134	113	18	1	-	2
12b.Other Liabilities, Non Monetary	56	56	-	-	-	-
13.Current Liabilities (10+11+12)	4,070	654	3,107	231	25	53
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities (*)	8,256	-	6,470	1,653	133	-
16a.Other Liabilities, Monetary	27	20	6	-	-	1
16b.Other Liabilities, Non Monetary	133	133	-	-	-	-
17.Non Current Liabilities (14+15+16)	8,416	153	6,476	1,653	133	1
18.Total Liabilities (13+17)	12,486	807	9,583	1,884	158	54
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)	(9,238)	260	(7,795)	(1,883)	(148)	328
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a -14-15-16a)	(9,995)	(24)	(8,169)	(1,883)	(153)	234
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	836	-	836	-	-	-
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 8,419 USD as of 30 June 2020 (31 December 2019: USD 7,385).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 2019					
	USD EQUIVALENT	TL	EUR	JPY	CHF	OTHER
1.Trade Receivables	459	33	108	4	7	307
2a.Monetary Financial Assets	2,239	419	1,724	2	3	91
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	407	178	101	-	5	123
4.Current Assets (1+2+3)	3,105	630	1,933	6	15	521
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	272	272	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	505	313	181	-	-	11
8.Non Current Assets (5+6+7)	777	585	181	-	-	11
9.Total Assets (4+8)	3,882	1,215	2,114	6	15	532
10.Trade Payables	799	474	245	-	4	76
11.Financial Liabilities	2,590	14	2,323	232	21	-
12a.Other Liabilities, Monetary	186	139	43	1	-	3
12b.Other Liabilities, Non Monetary	52	52	-	-	-	-
13.Current Liabilities (10+11+12)	3,627	679	2,611	233	25	79
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	7,767	-	5,901	1,727	139	-
16a.Other Liabilities, Monetary	31	23	6	-	-	2
16b.Other Liabilities, Non Monetary	135	135	-	-	-	-
17.Non Current Liabilities (14+15+16)	7,933	158	5,907	1,727	139	2
18.Total Liabilities (13+17)	11,560	837	8,518	1,960	164	81
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(7,678)	378	(6,404)	(1,954)	(149)	451
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(8,403)	74	(6,686)	(1,954)	(154)	317
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	924	-	924	-	-	-
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 Six-Month Period Ended 30 June 2020

(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)

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 and aircraft financial liabilities in scope of cash flow hedge accounting and foreign exchange income/expense arising from these loans and liabilities are recognized in equity. 10% increase and decrease effect of foreign exchange rates are calculated with the same method and the calculated foreign exchange gains/losses are presented as hedged portion in the foreign exchange sensitivity table. Furthermore, the hedged portion of foreign exchange gains/losses via forwards and cross currency swap transactions is classified as the amount hedged against USD in the statement of exchange rate sensitivity analysis.

	30 June 2020			
	Profit / (Loss)			
	Before Tax		Equity	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	26	(26)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	<u>26</u>	<u>(26)</u>	<u>-</u>	<u>-</u>
4- Euro net asset / liability	(46)	46	(734)	734
5- Part hedged from Euro risk (-)	84	(84)	-	-
6- Euro net effect (4+5)	<u>38</u>	<u>(38)</u>	<u>(734)</u>	<u>734</u>
7- JPY net asset / liability	(85)	85	(103)	103
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	<u>(85)</u>	<u>85</u>	<u>(103)</u>	<u>103</u>
10- CHF net asset / liability	-	-	(15)	15
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>15</u>
13- Other foreign currency net asset / liability	33	(33)	-	-
14- Part hedged other foreign currency risk (-)	-	-	-	-
15- Other foreign currency net effect (13+14)	<u>33</u>	<u>(33)</u>	<u>-</u>	<u>-</u>
TOTAL (3 + 6 + 9 + 12 + 15)	<u>12</u>	<u>(12)</u>	<u>(852)</u>	<u>852</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

As At And For the Six-Month Period Ended 30 June 2020

(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 2019			
	Profit / (Loss)		Equity	
	Before Tax		Equity	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	38	(38)	-	-
2- Part hedged from TL risk (-)	-	-	-	-
3- TL net effect (1+2)	<u>38</u>	<u>(38)</u>	<u>-</u>	<u>-</u>
4- Euro net asset / liability	59	(59)	(699)	699
5- Part hedged from Euro risk (-)	(92)	92	-	-
6- Euro net effect (4+5)	<u>(33)</u>	<u>33</u>	<u>(699)</u>	<u>699</u>
7- JPY net asset / liability	(101)	101	(94)	94
8- Part hedged from JPY risk (-)	-	-	-	-
9- JPY net effect (7+8)	<u>(101)</u>	<u>101</u>	<u>(94)</u>	<u>94</u>
10- CHF net asset / liability	1	(1)	(16)	16
11- Part hedged from CHF risk (-)	-	-	-	-
12- CHF net effect (10+11)	<u>1</u>	<u>(1)</u>	<u>(16)</u>	<u>16</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>(50)</u>	<u>50</u>	<u>(809)</u>	<u>809</u>

30. EVENTS AFTER THE BALANCE SHEET DATE

Due to Covid-19 pandemic impact, the Company is considering adjustments in the wages of employees. The negotiations between Hava-İş Union and the Company is continuing as of 13 August 2020.