

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH

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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

(Convenience Translation of Report And Financial Statements Originally Issued in Turkish)

AUDITOR'S REPORT

To the Board of Directors of
Türk Hava Yolları A.O.

We have audited the accompanying consolidated balance sheet of Türk Hava Yolları A.O. and its subsidiary (together the "Group") as at 31 December 2007 and the related consolidated statement of income, consolidated change in shareholder's equity statement and consolidated cash flow statement for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

Audit of the Group's financial statements as of 31 December 2006 have been performed by another independent audit firm. The previous audit firm issued an unqualified opinion in the independent auditors' report dated 6 April 2007.

Management Responsibility on Financial Statements

The management is responsible for preparation and fair presentation of these financial statements in accordance with accounting standards published by Capital Markets Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards published by the CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group, as well as evaluating the overall presentation of the financial statements.

Independent Auditors' Responsibility on Financial Statements (cont'd)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Financial statements of THY Teknik A.Ş. which is the subsidiary of the company, Gunes Ekspres Havacılık A.Ş. and THY DO&CO İkram Hizmetleri A.Ş which are the affiliates and accounted on the equity method have been audited by other independent audit firms. %8 of total assets and %1 of total sales revenue of accompanying financial statements are contributed by those companies. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for these entities is solely based on reports of the other auditors.

Conclusion

In our and other audit firms' opinion, accompanying consolidated financial statements of the Group as of 31 December 2007 and for the year then ended have been properly prepared, in all material respects in accordance with generally accepted accounting standards issued by Capital Market Board (Note 2)

We also audited the adjustments described in Note 2.4 that were applied to restate the 2006 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

İstanbul, 2 April 2008

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**



Berkman Özata
Partner

(Convenience Translation of Report And Financial Statements Originally Issued in Turkish)
TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007
(All amounts expressed in New Turkish Lira (TRY) unless otherwise stated.)

ASSETS	Note	Audited 31 December 2007	Audited (Restated) 31 December 2006
Current Assets		1.487.528.554	1.061.313.833
Cash and Cash Equivalents	4	772.216.215	365.057.959
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	245.335.636	249.429.209
Finance Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	10.996.580	22.967.266
Other Receivables (net)	10	296.194.360	240.576.417
Biological Assets (net)	11	-	-
Inventories (net)	12	115.708.936	135.643.567
Receivables from Construction Contracts in Progress (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	47.076.827	47.639.415
Non-Current Assets		3.434.267.181	3.373.516.984
Accounts Receivable (net)	7	4.686.496	6.439.102
Finance Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	3.591.420	14.812.000
Other Receivables (net)	10	15.807.812	150.668.831
Financial Assets (net)	16	41.386.607	33.434.578
Positive / Negative Goodwill (net)	17	-	-
Investment Property	18	53.700.000	51.975.000
Tangible Assets (net)	19	3.234.359.407	3.086.053.969
Intangible Assets (net)	20	10.445.317	7.508.620
Deferred Tax Assets	14	2.544.815	-
Other Non-current Assets	15	67.745.307	22.624.884
Total Assets		4.921.795.735	4.434.830.817

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

	Note	Audited 31 December 2007	Audited (Restated) 31 December 2006
LIABILITIES			
Short Term Liabilities		1.140.245.122	1.068.505.356
Bank Borrowings (net)	6	-	-
Short-term Portion of Long-term Bank Borrowings (net)	6	3.735.162	4.481.158
Finance Lease Obligations (net)	8	225.183.209	218.720.799
Other Financial Liabilities (net)	10	877.628	373.497
Accounts Payable (net)	7	362.856.916	318.114.700
Due to Related Parties (net)	9	7.126.031	14.869.046
Advances Received	21	35.024.716	40.996.469
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	24.760.436	7.547.289
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	15	480.681.024	463.402.398
Long Term Liabilities		1.877.243.056	1.756.607.009
Bank Borrowings (net)	6	26.715.577	36.401.442
Finance Lease Obligations (net)	8	1.569.126.885	1.443.932.862
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	7.058.322	8.988.621
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	131.959.011	117.304.910
Deferred Tax Liabilities	14	142.383.261	149.979.174
Other Liabilities (net)	15	-	-
MINORITY INTERESTS	24	-	-
SHAREHOLDERS' EQUITY		1.904.307.557	1.609.718.452
Share Capital	25	175.000.000	175.000.000
Adjustment to Share Capital	25	-	-
Capital Reserves	26	1.872.838.374	1.870.141.892
- Share Premium		181.185	181.185
- Share Premium of Cancelled Shares		-	-
- Revaluation Surplus on Tangible Assets		-	-
- Financial Assets Fair Value Reserve		-	(2.696.482)
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
Profit Reserves	27	8.223.909	8.223.909
- Legal Reserves		417.011	417.011
- Statutory Reserves		-	-
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		9	9
- Associate Shares and Gain on Sale of Investment		-	-
Property to be added to Capital		-	-
- Foreign Currency Translation Differences		-	-
Net Profit for the Year		291.892.623	178.782.921
Accumulated Losses	28	(443.647.349)	(622.430.270)
Total Liabilities and Shareholders' Equity		4.921.795.735	4.434.830.817

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

(Convenience Translation of Report And Financial Statements Originally Issued in Turkish)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2007

(All amounts expressed in New Turkish Lira (TRY) unless otherwise stated.)

		Audited 1 January – 31 December 2007	Audited (Restated) 1 January – 31 December 2006
	Note		
MAIN OPERATING REVENUES			
Sales Revenues (net)	36	4.521.537.724	3.811.798.033
Cost of Sales (-)	36	(3.453.757.947)	(3.252.559.119)
Service Revenues (net)	36	-	-
Other Revenues from Main Operations /Interest +Dividend+Rent (net)	36	251.070.607	239.547.096
GROSS OPERATING PROFIT		1.318.850.384	798.786.010
 Operating Expenses (-)	37	 (772.820.320)	 (712.312.403)
NET OPERATING PROFIT		546.030.064	86.473.607
 Income from Other Operations	38	 112.828.538	 276.079.231
Losses from Other Operations (-)	38	(418.985.940)	(60.678.803)
Financial Income (Expenses)	39	164.350.843	(112.534.754)
OPERATING PROFIT		404.223.505	189.339.281
 Net Monetary Gain / (Loss)	40	 -	 -
MINORITY GAIN/(LOSS)	24	-	-
 PROFIT BEFORE TAXATION		404.223.505	189.339.281
 Taxes	41	 (112.330.882)	 (10.556.360)
NET PROFIT FOR THE YEAR		291.892.623	178.782.921
 EARNINGS PER SHARE (Ykr)	42	 0,167	 0,102

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

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(All amounts expressed in New Turkish Lira (TRY) unless otherwise stated.)

	Share Capital	Share Premium	Revaluation Surplus on Tangible Assets	Financial Assets Fair Value Reserve	Restatement Effect on Shareholders' Equity	Legal Reserves	Extraordinary Reserves	Special Funds	Net Profit for the Period	Accumulated Losses	Total
Balances at 31 December 2005- Previously Reported	175,000,000	181,185	-	-	1,872,657,189	417,011	7,806,889	9	138,227,837	(819,500,254)	1,374,789,866
Measurement of Financial Assets (Note 2)	-	-	-	(7,064,237)	-	-	-	-	4,045,841	3,018,396	-
Adjustment on Transfer to Investment Property (Note 2)	-	-	-	-	-	-	-	-	-	-	-
Balances at 31 December 2005-Restated	175,000,000	181,185	-	(7,064,237)	1,872,657,189	417,011	7,806,889	9	142,273,678	(764,703,948)	1,426,567,776
Measurement of Financial Assets (Note 2)	-	-	-	6,721,164	-	-	-	-	-	-	6,721,164
Related income tax	-	-	-	(2,353,409)	-	-	-	-	-	-	(2,353,409)
Net income recognized directly in equity	-	-	-	4,367,755	-	-	-	-	-	-	4,367,755
Net profit for the year	-	-	-	-	-	-	-	-	178,782,921	-	178,782,921
Total recognized income and expense for the year	-	-	-	4,367,755	-	-	-	-	178,782,921	-	183,150,676
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	-	-	178,782,921	-	-
Balances at 31 December 2006-Restated	175,000,000	181,185	-	(2,696,482)	1,872,657,189	417,011	7,806,889	9	178,782,921	(622,430,270)	1,609,718,452
Balances at 31 December 2006-Previously Reported	175,000,000	181,185	49,179,160	-	1,872,657,189	417,011	7,806,889	9	185,749,426	(681,272,417)	1,609,718,452
Measurement of Financial Assets (Note 2)	-	-	-	(2,696,482)	-	-	-	-	(4,367,755)	7,064,237	-
Adjustment on Transfer to Investment Property (Note 2)	-	-	(49,179,160)	-	-	-	-	-	(2,598,750)	51,777,910	-
Balances at 31 December 2006-Restated	175,000,000	181,185	-	(2,696,482)	1,872,657,189	417,011	7,806,889	9	178,782,921	(622,430,270)	1,609,718,452
Measurement of Financial Assets (Note 2)	-	-	-	(2,839,145)	-	-	-	-	-	-	(2,839,145)
Related Income Tax	-	-	-	567,829	-	-	-	-	-	-	567,829
Net loss recognized directly in equity	-	-	-	(2,271,316)	-	-	-	-	-	-	(2,271,316)
Transfer to profit or loss on sales of available-for-sale investments	-	-	-	4,967,798	-	-	-	-	-	-	4,967,798
Net profit for the year	-	-	-	-	-	-	-	-	291,892,623	-	291,892,623
Total recognized income and expense for the year	-	-	-	2,696,482	-	-	-	-	291,892,623	-	294,589,105
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	-	-	(178,782,921)	178,782,921	-
Balances at 31 December 2007	175,000,000	181,185	-	-	1,872,657,189	417,011	7,806,889	9	291,892,623	(443,647,349)	1,904,307,557

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

(Convenience Translation of Report And Financial Statements Originally Issued in Turkish)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

(All amounts expressed in New Turkish Lira (TRY) unless otherwise stated.)

	1 January- 31 December 2007	1 January- 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/ (Loss) before taxation	404.223.505	189.339.281
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	364.850.565	338.035.611
Provision for retirement pay liability	19.461.897	19.943.672
Interest income	(45.848.879)	(25.766.202)
(Profit) / loss on sale of fixed asset	(131.324)	222.261
Change in provision for diminution in value of fixed assets	290.162.081	(125.125.537)
Loss from financial investment accounted per equity method	(15.489.140)	9.609.379
Interest expense	91.110.741	81.885.860
Movement in manufacturers' credit	12.959.975	27.975.793
Foreign exchange loss /(gain) on finance leases and financial liabilities	(258.280.291)	34.007.429
Amortization of deferred income from USA\$ shares transfer	-	(5.016.608)
Increase in provision for doubtful receivables	2.957.138	1.931.161
Loss on sale of financial assets	4.967.798	10.078.799
Gain on revaluation of financial assets	(1.725.000)	-
Change in the fair value of derivative instruments	2.796.991	(4.107.077)
Deferred tax liability netted of financial assets fair value reserve	(674.120)	-
Operating profit before working capital change	871.341.937	553.013.822
(Increase)/decrease in accounts receivable	2.889.041	(66.202.666)
(Increase)/decrease in due from related parties (short and long term)	23.191.266	(36.808.565)
Decrease in other short and long term receivables	79.243.076	197.232.094
(Increase)/decrease in inventories	19.934.631	(51.388.288)
Decrease in other current assets	562.588	11.982.238
(Increase) in other non-current assets	(45.120.423)	(10.330.879)
Increase in accounts payable	42.811.917	63.984.138
Increase/ (decrease) in due to related parties	(7.743.015)	6.846.187
Decrease in advances received	(5.971.753)	(11.400.945)
Decrease in provision for short term liabilities	(816.049)	(21.948.374)
Increase in other short and long term liabilities	4.318.651	127.827.669
Retirement benefits paid	(4.807.795)	(16.280.004)
InterestS paid	(88.479.267)	(80.161.039)
Prepaid taxes	(104.442.414)	(5.222.340)
Cash generated from operations	786.912.391	661.143.048
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from sales of financial assets	3.142.924	10.111.863
Cash inflow from sale of tangible and intangible assets	5.385.011	7.143.831
Interest received	45.848.879	25.766.202
Acquisition of tangible & intangible assets (*)	(224.114.270)	(279.229.925)
Cash outflow due to acquisition of an affiliate	-	(15.000.000)
Net cash used in investing activities	(169.737.456)	(251.208.029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment of finance leases	(206.665.601)	(189.706.809)
Decrease in financial obligations	(3.855.209)	(338.121.667)
Increase in other financial liabilities	504.131	40.861
Net cash used in financing activities	(210.016.679)	(527.787.615)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	407.158.256	(117.852.596)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	365.057.959	482.910.555
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	772.216.215	365.057.959

(*) The portion amounted TRY 565.806.020 of the total purchases of tangible and intangible assets amounted TRY 811.508.468 for the period ended 31 December 2007 was made through finance lease. (The portion amounted TRY 871.973.047 of the total purchases amounted TRY 1.076.135.508 for the year-ended 31 December 2006 was made through finance lease.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2007.

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

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

Türk Hava Yolları A.O. ("the Company" or "THY") was incorporated in Turkey in 1933. The principal activity of the Company is domestic and international air transportation of passengers and cargo.

As of 31 December 2007 and 2006, the shareholders and their respective shareholdings in the Company are as follows:

	31 December 2007	31 December 2006
Republic of Turkey Prime Ministry Privatization Administration	% 49,12	% 49,12
Others (Offered to Public)	% 50,88	% 50,88
Total	% 100,00	% 100,00

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary ("the Group") as of 31 December 2007 is 12.951 (31 December 2006: 12.807). The average number of employees working for the Group as of 31 December 2007 and 2006 is 13.043 and 12.778, respectively.

The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Accounting Standards Applied

The consolidated financial statements of the Group are prepared in accordance with the accounting and reporting principles of the Capital Markets Board ("CMB"), namely "CMB Accounting Standards". CMB published a comprehensive set of accounting principles in Communiqué Serial XI No: 25 "The Accounting Standards in the Capital Markets". On the other hand, in the Supplementary Article 1 which is added into Communiqué Serial XI No: 25 Accounting Standards in the Capital Markets by the issuance of Communiqué Serial XI No: 27 Changes in Communiqué About The Accounting Standards in the Capital Markets, it is stated that application of International Financial Reporting Standards is deemed as the fulfillment of preparation and announcement responsibilities required by Communiqué Serial XI No: 25. Taking this into account, in the General Assembly of the Group held on 24 April 2007, it is decided that accounting set of International Financial Reporting Standards will be applied starting from 1 January 2007 instead of set applying of accounting standards in Communiqué Serial XI No: 25. The Group applied IFRS compliant with the alternative provision stated above in the year ended 31 December 2007 and restated the comparative financial statements.

In the preparation of consolidated financial statements and notes as of 31 December 2007, the principles stated in the "Guide about the Formats of Financial Statements and Notes" announced by the CMB decision dated 10 December 2004 and numbered 1604, were applied.

The Group and its Subsidiary and Affiliates registered in Turkey keep their books of account and prepare their statutory financial statements in accordance with the principles and obligations published by the CMB, Turkish Commercial Code (the "TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2007.

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

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

2.2 Preparation of Financial Statements in Hyperinflationary Periods

The Group ended inflation accounting application starting from 1 January 2005 in accordance with the decision of CMB dated 17 March 2005.

2.3 Basis of Consolidation

a) The consolidated financial statements include the accounts of the parent company, Türk Hava Yolları A.O., its Subsidiary and its Affiliates on the basis set out in sections (b) and (c) below. Financial statements of subsidiary and affiliates are adjusted where applicable in order to apply the same accounting policies.

All intra-group transactions, balances, income and expenses have been eliminated in consolidation.

b) Subsidiary is the entity in which the Company has power to control the financial and operating policies for the benefit of the Company through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself, otherwise having the power to exercise control over the financial and operating policies for the benefit of the Company.

The table below sets out the consolidated Subsidiary and participation rate of the Group in this subsidiary at 31 December 2007:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation</u>	<u>Indirect Participation</u>	<u>Country of Registration</u>
THY Teknik A.Ş.	Technical Maintenance	% 100	-	Turkey

The balance sheet and statement of income of the subsidiary were consolidated on the basis of full consolidation. The carrying value of the investment held by the Group and its Subsidiary were eliminated against the related shareholders' equity. Intercompany transactions and balances between the Group and its Subsidiary were eliminated during consolidation process.

c) The Group has two affiliates. The affiliates to which the participation rate of the Group is 50% are controlled by the Group jointly, and are valued by equity method.

The table below sets out consolidated affiliates and indicates the proportion of ownership interest of the Company in these affiliates at 31 December 2007:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation</u>	<u>Indirect Participation</u>	<u>Country of Registration</u>
Güneş Ekspres Havacılık A.Ş.	Air Transportation	% 50	-	Turkey
THY DO&CO İkrâm Hizmetleri A.Ş.	Catering Services	% 50	-	Turkey

In the accompanying financial statements, subsidiaries' operations' results, assets and liabilities are journalized by using equity method except for the subsidiaries that are journalized as assets available-for-sale based on IFRS 5 standard. According to the equity method, subsidiaries are stated as the cost value adjusted as deducting the impairment in subsidiary from the change occurred in the subsidiary's assets after the acquisition date that is calculated by the Group's share in the consolidated balance sheet. Subsidiary's losses that exceed the Group's share are not considered (actually, that contains a long term investment which composes the net investment in the subsidiary).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2007.

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**2.4 Comparative Information and Corrections on Previous Periods' Financial Statements****Reclassification of Prior Period Financial Statements**

Current period consolidated financial statements are prepared comparatively with the prior period's financial statements. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period so that the reclassification will result in a more appropriate presentation of events and transactions.

Effect of significant reclassifications on balance sheet items are summarized below:

<u>Account Name:</u>	31 December 2006 (Previously reported)	31 December 2006 (Restated)	Difference
Assets:			
Short Term Accounts Receivable ⁽¹⁾	273.400.852	249.429.209	23.971.643
Short Term Due from Related Parties (net) ⁽¹⁾	21.318.613	22.967.266	(1.648.653)
Short Term Other Receivables (net) ⁽¹⁾⁽³⁾	8.571.133	240.576.417	(232.005.284)
Other Current Assets ⁽²⁾	53.265.323	47.639.415	5.625.908
Long Term Accounts Receivable (net) ⁽⁵⁾	-	6.439.102	(6.439.102)
Long Term Other Receivables (net) ⁽¹⁾⁽³⁾	1.971.731	150.668.831	(148.697.100)
Financial Assets (net) ⁽²⁾⁽⁵⁾	29.327.501	33.434.578	(4.107.077)
Investment Property (net) ⁽⁴⁾	-	51.975.000	(51.975.000)
Tangible Assets (net) ⁽²⁾⁽³⁾⁽⁴⁾	3.503.076.666	3.086.053.969	417.022.697
Deferred Tax Assets ⁽⁶⁾	158.971.576	-	158.971.576
Other Non-Current Assets ⁽⁴⁾⁽⁵⁾	26.099.192	22.624.884	3.474.308
Total			164.193.916
Liabilities:			
Short Term Advances Received ⁽⁷⁾	45.665.631	40.996.469	4.669.162
Short Term Provisions for Liabilities ⁽²⁾⁽⁸⁾⁽⁹⁾	27.369.058	7.547.289	19.821.769
Short Term Other Liabilities (net) ⁽⁷⁾⁽⁸⁾⁽⁹⁾	444.133.807	463.402.398	(19.268.591)
Deferred Tax Liabilities ⁽⁶⁾	308.950.750	149.979.174	158.971.576
Total			164.193.916

(1) Related party balance which is previously disclosed in "trade receivables", is reclassified to "due from related parties", receivables for foreign technical equipments which is also disclosed in "trade receivables" previously, is reclassified to "short and long term other receivables".

(2) Prepaid taxes and funds which is previously disclosed in "other current assets", is reclassified to "short term provisions for liabilities", fair value of derivative instruments is reclassified to "financial assets".

(3) Advances given for aircraft purchases which are previously disclosed in "tangible assets" are reclassified to "short term other receivables" and "long term other receivables" according to their maturities.

(4) Land held for investment purposes which took place in "tangible assets" previously, is reclassified to "investment property", advances given for tangible assets are reclassified to "other non-current assets".

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

2.4 Comparative Information and Corrections on Previous Periods' Financial Statements (cont'd)

Reclassification of Prior Period Financial Statements (cont'd)

(5) Deposits and guarantees given which is previously disclosed in "other non-current assets", is reclassified to "long term trade receivables", fair value of derivative instruments is reclassified to "financials assets".

(6) "Deferred tax assets" and "deferred tax liabilities" balances which are previously disclosed in separate line-items, are netted-off with each other based on corresponding company in the financial statements.

(7) Manufacturer's Credits taken for acquisition of the aircrafts which previously took place in "short term advances received", are reclassified to "other short term liabilities".

(8) Salary accruals which are previously disclosed in "provisions for liabilities" are reclassified to group of "other short term liabilities".

(9) Taxes and Funds Payable which is previously disclosed in "other short term liabilities" is reclassified to "short term provisions for liabilities".

Significant reclassifications made in Profit&Loss items are as follows:

<u>Account Name</u>	<u>1 January- 31 December 2006 (Previously reported)</u>	<u>1 January- 31 December 2006 (Restated)</u>	<u>Difference</u>
Sales Revenues and			
Other Revenues from			
Main Operations ⁽¹⁾	4.049.382.765	4.051.345.129	(1.962.364)
Cost of Sales (-) ⁽²⁾	(3.247.648.431)	(3.252.559.119)	4.910.688
Income from Other Operations ⁽¹⁾⁽³⁾⁽⁴⁾	875.813.548	276.079.231	599.734.317
Losses from Other Operations (-) ⁽²⁾⁽³⁾⁽⁴⁾	(671.072.706)	(60.678.803)	(610.393.903)
Financial Income /(Expenses) ⁽³⁾⁽⁴⁾	(98.102.328)	(112.534.754)	14.432.426
Total			<u>(6.721.164)</u>

(1) Surcharge Income which is TRY 1.962.364 in total and disclosed in "income from other operations" previously, is reclassified to "other revenues from main operations".

(2) Provision for diminution in value of inventory which is TRY 4.910.688 in total and disclosed in "losses from other operations" is reclassified to "cost of sales".

(3) Foreign currency gain/ losses which is disclosed in separate line-items previously, net-off as TRY 444.887.498. Besides TRY 5.491.073 which is previously disclosed in profit on sale of marketable securities is reclassified to loss on sale of marketable securities, the amount related with provision for bad debt which is TRY 1.991.545 in total, is reclassified to "amounts recovered during the year".

(4) TRY 147.033.937 previously disclosed in foreign exchange gains and TRY 165.573.440 previously disclosed in foreign exchange losses, are netted off and entitled as finance lease foreign exchange loss. The amount is reclassified to "financial income/(expense)". Change in fair value of derivative instruments is reclassified to "financial income/(expense) from "income from other operations". Besides TRY 2.351.001 which is previously disclosed in "loss from other operations", is netted off in "income from other operations".

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

2.4 Comparative Information and Corrections on Previous Periods' Financial Statements (cont'd)

Adjustments on Prior Period Financial Statements

As stated in Note 2.1, the Group decided to apply accounting set of International Financial Reporting Standards starting from 1 January 2007 instead of applying set of accounting standards in Communiqué Serial XI No: 25 in the General Assembly of the Group held on 24 April 2007. Therefore, accompanying consolidated financial statements and comparative financial statements as of 31 December 2006 are restated compliant with IFRS. In this sense, the Group disclosed the gains and losses on available-for-sale financial assets directly under the shareholders' equity until the derecognition of those assets, taking into consideration the International Financial Reporting Standard 39 "Financial Instruments: Recognition and Measurement".

Two plot's of Land of the Group which are disclosed in "tangible assets" previously are reclassified to "investment property" as mentioned in Note 18. In this respect the Group disclose gains arising from changes in the fair values of investment property in the profit or loss in the year in which they arise as mentioned in IAS 40 "Investment Property".

As a result of matters mentioned above, prior period financial statements have been restated based on IAS 8 "Change in Accounting Policies, Accounting Estimates and Errors". The affects of restatement of prior period financial statements are summarized below:

	31 December 2006		31 December 2005	
	Previously Reported	Restated (Before Reclassifications)	Previously Reported	Restated (Before Reclassifications)
Investment Property	-	51.975.000	-	51.975.000
Tangible Assets	3.503.076.666	3.451.101.666	2.631.113.979	2.630.916.889
Revaluation Fund	49.179.160	-	-	-
Financial Assets Fair Value Reserve	-	(2.696.482)	-	(7.064.237)
Net profit for the Period	185.749.426	178.782.921	138.227.837	142.273.678
Losses from Previous Years	(681.272.417)	(622.430.270)	(819.500.254)	(764.703.948)

2.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

2.6 Adoption of New and Revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007.

The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- IFRS 7, "Financial instruments: Disclosures"
- IAS 1, "Presentation of financial statements"

IFRS 7, "Financial instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1, "Presentation of financial statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, "Insurance contracts",
- IFRIC 7, "Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies",
- IFRIC 8, "Scope of IFRS 2",
- IFRIC 9, "Reassessment of embedded derivatives",
- IFRIC 10, "Interim financial reporting and impairment".

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

2.6 Adoption of New and Revised International Financial Reporting Standards (cont'd)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- | | |
|---|--|
| • IFRIC 11, "IFRS 2 – Group and treasury share transactions" | Effective for annual periods beginning on or after 1 March 2007 |
| • IAS 23, "(Amendment) Borrowing costs" | Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 8, "Operating segments" | Effective for annual periods beginning on or after 1 January 2009. |
| • IFRIC 12, "Service concession arrangements" | Effective for annual periods beginning on or after 1 January 2008 |
| • IFRIC 13, "Customer loyalty programmes" | Effective for annual periods beginning on or after 1 July 2008 |
| • IFRIC 14, "IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction" | Effective for annual periods beginning on or after 1 January 2008 |
| • IFRS 2, "Share-based Payments" Amendment relating to vesting conditions and cancellations | Effective for annual periods beginning on or after 1 January 2009. |
| • IFRS 3, "Business Combinations" | Effective for annual periods beginning on or after 1 July 2009. |
| • IAS 27, "Consolidated and Separate Financial Statements" IAS 28, "Investments in Associates" | |
| • IAS 31 "Interests in Joint Ventures
Comprehensive revision on applying the acquisition method | |
| • IAS 1, "Presentation of Financial Statements" | Effective for annual periods beginning on or after 1 January 2009. |
| • IAS 32, "Financial Instruments: Presentation"
Amendments relating to disclosure of puttable instruments and obligations arising on liquidation | |
| • IAS 1, "Presentation of Financial Statements" | Effective for annual periods beginning on or after 1 January 2009. |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the accompanying financial statements are as follows:

3.1 Revenue

Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (not flired) are recorded as passenger flight liabilities.

The Group develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue.

Agency commissions to relating to the passenger revenue are recognized as expense when the transportation service is provided.

3.2 Inventories

Inventories are valued at the lower of cost or net realizable value by using the moving weighted average cost method.

3.3 Tangible Assets

Tangible assets are measured at net book value calculated by deduction of accumulated depreciation from cost values, cost values being restated until 31 December 2004 in accordance with inflation accounting. Depreciation is calculated over the useful lives for tangible assets on a straight-line basis.

The useful lives and residual values used for tangible assets are as follows:

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25-50	-
- Aircrafts	15-20	%10-30
- Cargo Aircraft	30	% 10
- Engines	15-20	%10-30
- Components	4-10	-
- Repairable Spare Parts	2-3	-
- Simulators	10-20	%0-10
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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Notes to the consolidated financial statements as at 31 December 2007.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Leasing Transactions

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so

as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.5 Intangible Assets

Intangible assets include leasehold improvements, rights, information systems and software. Intangible assets are carried at the beginning cost including the restatement to the equivalent purchasing power for those accounted on or before 31 December 2004 less accumulated depreciation. Leasehold improvements are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis..

3.6 Impairment on Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted at the consolidated income statement.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount is recognized as income in the consolidated financial statements and cannot exceed the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognized for the asset in prior years.

As of 31 December 2007, an examination is made of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts. Recoverable amount is determined as, higher of the present value of cash flows expected from the usage of an asset and its net selling price. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations account. Changes in value due to exchange rate changes and real changes are disclosed separately.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Borrowing Costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.8 Financial Instruments

Financial assets and liabilities are recorded in the balance sheet when the Group is a legal party to these financial instruments.

a) Financial assets

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net off transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets as “at fair value through profit or loss” (FVTPL), “held-to-maturity investments”, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as derivatives that are not designated and effective hedging instruments. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriates a shorter period.

Income is recognized on an effective interest basis for held-to-maturity investments, available-for-sale financial assets and loans and receivables.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments (cont'd)

a) Financial assets (cont'd)

Available for sale financial assets

Certain shares and redeemable notes held by the Company are classified as being available for sale and are stated at fair value.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available for sale equity instruments are recognized in profit and loss when the Group's right to receive payments is established.

The fair value of available for sale monetary assets denominated in a foreign currency determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Loans and receivables

Trade and other receivables are initially recorded at fair value. At subsequent periods, loans and receivables are measured at amortised cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously recognize written off are credited against the allowance account are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments (cont'd)

a) Financial assets (cont'd)

Impairment of financial assets (cont'd)

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below.

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value, and at each reporting period revalued at fair value as of balance sheet date. Changes in fair value are recognized in profit and loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments (cont'd)

b) Financial liabilities (cont'd)

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The significant interest rate risk arises from finance lease liabilities. The Group policy is to turn some financial liabilities with fixed interest rates into financial liabilities with variable interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in USD.

The Group uses derivative financial instruments for these purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are immediately recognized in profit or loss.

3.9 Business combinations

None.

3.10 Foreign currency transactions

Transactions in foreign currencies are translated into New Turkish Lira at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

The closing and average TRY-US Dollar exchange rates for the periods are as follows:

	<u>Closing rate</u>	<u>Average rate</u>
Year ended at 31 December 2007	1,1647	1,3003
Year ended at 31 December 2006	1,4056	1,4297

The closing and average TRY Euro exchange rates for the periods are as follows:

	<u>Closing rate</u>	<u>Average rate</u>
Year ended at 31 December 2007	1,7102	1,7773
Year ended at 31 December 2006	1,8515	1,8032

3.11 Earnings Per Share

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to share holders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Events Subsequent to the Balance Sheet Date

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Group (should any evidence come about events that were prior to the balance sheet date or should new events come about) they will be explained in the relevant footnote.

The Group; restates its financial statements if such subsequent events arise.

3.13 Provisions, contingent liabilities, contingent assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.14 Change in accounting policies, accounting estimates and errors

Changes in accounting policies or accounting errors noted are applied retroactively and the financial statements of the previous year are adjusted. If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes are for the following periods, changes are applied both on the current and following years prospectively.

3.15 Related parties

The affiliates, shareholders, top managers and Board Members of the Company, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties in the accompanying financial statements

3.16 Segmental information

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Segmental information (cont'd)

A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and if its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

The Group has chosen business segments as the Group's primary segment reporting format based on the risks and returns on products produced and services rendered reflecting the primary source of the enterprise's risks and returns. Geographical segments have not been disclosed in these consolidated financial statements as the secondary segment reporting format on the grounds of materiality as the operations of the Group in geographical areas other than Turkey are not reportable geographical segments individually when compared with the overall consolidated financial statements (Note 33).

3.17 Construction agreements

None

3.18 Discontinued operations

None

3.19 Government incentives and grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Investment properties

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

3.21 Taxation and deferred tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Taxation and deferred tax (cont'd)

Deferred Tax (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost

3.22 Retirement pay provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.23 Retirement plans

None.

3.24 Agricultural activities

None.

3.25 Statement of cash flows

In statement of cash flow, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities reflect cash flows generated from sales of the Group.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.26 Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognised in equity in the period in which they are approved and declared.

3.27 Manufacturers' Credits

Manufacturers' credits are received against acquisition or lease of aircraft and engines. The Group records these credits as a reduction to the cost of the owned and amortizes them over the related asset's remaining economic life. Manufacturers' credits related to operating leases are recorded as deferred revenue and amortized over the lease term.

3.28 Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimations.

3.29 Maintenance and Repair Costs

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Overhaul maintenance checks for owned and finance leased aircraft are expensed as incurred and delivery maintenance checks of operating leased aircraft are accrued on a periodical basis.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.30 Frequent Flyer Program

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. The estimated cost of providing free travel, using the incremental cost method as adjusted for estimated redemption rates, is recognized as a liability.

The Group also sells mileage credits to participating partners in "Shop and Miles" program. A portion of such revenue is deferred and amortized as transportation is provided.

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2007	31 December 2006
Cash	372.624	503.956
Cheques received	144.736	309.601
Banks – Time deposits	691.935.290	252.138.493
Banks – Demand Deposits	71.505.567	102.053.761
Other liquid assets	8.257.998	10.052.148
	<u>772.216.215</u>	<u>365.057.959</u>

Foreign currency bank balances are TRY 562.191.073 as at 31 December 2007 (31 December 2006: TRY 317.154.164).

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2007</u>
193.700.000	TRY	05.11.2007- 31.12.2007	% 14,88-% 18,00	02.01.2008- 05.05.2008	193.700.000
272.365.000	Euro	22.10.2007- 31.12.2007	% 4,04-% 4,90	02.01.2008- 21.05.2008	465.798.623
27.849.804	USD	03.12.2007- 31.12.2007	% 3,66-% 5,80	02.01.2008- 28.01.2008	32.436.667
					<u>691.935.290</u>

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2006</u>
33.582.312	TRY	04.12.2006- 29.12.2006	% 19,00-%21,30	04.01.2007	33.582.312
112.392.082	Euro	11.12.2006- 29.12.2006	% 4,00	04.01.2007- 12.01.2007	208.093.940
7.443.256	USD	29.12.2006	% 5,25	04.01.2007	10.462.241
					<u>252.138.493</u>

5 MARKETABLE SECURITIES (NET)

None (31 December 2006: None).

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6 BANK BORROWINGS (NET)

Short-term portion of long-term bank borrowing at 31 December 2007 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TRY</u>
15.08.2009	Libor + %1,25	2.959.707 US Dollars	247.266 US Dollars	3.735.162

Details of long-term bank borrowing at 31 December 2007 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TRY</u>
15.08.2009	Libor + %1,25	22.937.732 US Dollars	-	26.715.577

Short-term portion of long-term bank borrowing at 31 December 2006 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TRY</u>
15.08.2009	Libor + %1,25	2.959.707 US Dollars	228.368 US Dollars	4.481.158

Details of long-term bank borrowing at 31 December 2006 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>TRY</u>
15.08.2009	Libor + %1,25	25.897.440 US Dollars	-	36.401.442

7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

Short-term accounts receivable comprised the following:

	31 December 2007	31 December 2006
Trade receivables	268.433.319	271.235.548
Discount on receivables (-)	(2.078.023)	(3.361.677)
Allowance for doubtful receivables	(21.405.019)	(18.447.881)
Deposits and Guarantees Given	385.359	3.219
	<u>245.335.636</u>	<u>249.429.209</u>

The Group's total short-term accounts receivable is TRY 268.433.319. The Group's average days in receivables is 30 days, total receivables due over 30 days is TRY 39.036.317 as of 31.12.2007. (31 December 2006: TRY 35.797.902). The Group provided provision amounted TRY 17.077.533 for the receivables that are carried to legal proceedings, and TRY 4.327.486 for the others by making historical statistical calculations, totally TRY 21.405.019. (31 December 2006: TRY 18.447.881). Movement of the doubtful receivables period ended 31 December 2007 and 2006 is as follows:

	1 January - 31 December 2007	1 January- 31 Aralık 2006
Opening Balance	18.447.881	16.516.720
Current period expense	6.377.605	4.481.267
Collected amount	(2.520.959)	(2.490.049)
Write- off	(899.508)	(60.057)
Closing Balance	<u>21.405.019</u>	<u>18.447.881</u>

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Notes to the consolidated financial statements as at 31 December 2007.

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7 ACCOUNTS RECEIVABLE AND PAYABLE (NET) (cont'd)

The amount of guarantees in the form of cash equivalent received for accounts receivable is TRY 11.555.928 (31 December 2006: TRY 12.823.888), and the amount of guarantee letters received is TRY 86.032.736 (31 December 2006: TRY 80.741.419).

Long-term accounts receivable comprised the following:

	31 December 2007	31 December 2006
Advances given for the operational lease	2.447.361	4.414.740
Deposits given	2.239.135	2.024.362
	<u>4.686.496</u>	<u>6.439.102</u>

Short-term accounts payable comprised the following:

	31 December 2007	31 December 2006
Trade payables	360.281.125	317.204.325
Discount on payables (-)	(3.130.776)	(4.941.179)
Deposits and guarantees received	5.458.956	4.349.529
Other	247.611	1.502.025
	<u>362.856.916</u>	<u>318.114.700</u>

Long-term accounts payable comprised the following:

	31 December 2007	31 December 2006
Deposits and guarantees received	<u>7.058.322</u>	<u>8.988.621</u>

8 FINANCE LEASE RECEIVABLES AND OBLIGATIONS (NET)

Finance lease obligations are as follows:

	31 December 2007	31 December 2006
Not later than 1 year	298.808.141	293.245.257
Between 1-4 years	797.170.667	824.972.080
Over 4 years	1.137.792.480	930.144.100
	<u>2.233.771.288</u>	<u>2.048.361.437</u>
Less: Future interest expense	<u>(439.461.194)</u>	<u>(385.707.776)</u>
Principal value of future rentals shown in the balance sheets	<u>1.794.310.094</u>	<u>1.662.653.661</u>
Represented by:		
Short-term liabilities	225.183.209	218.720.799
Long-term liabilities	1.569.126.885	1.443.932.862
	<u>1.794.310.094</u>	<u>1.662.653.661</u>
Interest Range:		
Floating rate obligations	1.123.591.167	1.530.403.463
Fixed rate obligations	670.718.927	132.250.198
	<u>1.794.310.094</u>	<u>1.662.653.661</u>

As of 31 December 2007, the US Dollar and Euro denominated lease obligations' weighted average interest rates for the fixed rate obligations are %5,0269; and for the floating rate obligations are %4,9832.

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8 FINANCE LEASE RECEIVABLES AND OBLIGATIONS (NET) (cont'd)

The future lease rental payments under operating leases are as follows:

	31 December 2007	31 December 2006
Not later than one year	130.984.676	170.991.574
Between 1 - 4 years	374.178.949	357.227.317
Over 4 years	522.289.995	611.303.660
	<u>1.027.453.620</u>	<u>1.139.522.551</u>

9 DUE TO AND FROM RELATED PARTIES (NET)

Due from related parties (short-term) comprised the following:

	31 December 2007	31 December 2006
THY DO&CO İkrām Hizmetleri A.Ş.	10.293.642	19.833.398
Güneş Ekspres Havacılık A.Ş. (Sun Express)	702.938	3.133.868
	<u>10.996.580</u>	<u>22.967.266</u>

Due from related parties (long-term) comprised the following:

	31 December 2007	31 December 2006
THY DO&CO İkrām Hizmetleri A.Ş.	3.591.420	14.812.000
	<u>3.591.420</u>	<u>14.812.000</u>

Due from THY DO&CO İkrām Hizmetleri A.Ş. comprised of short and long term credits at amounts of EUR 5.900.000 and EUR 2.100.000 respectively, in total EUR 8.000.000. The Group accrues 5,00 % interest on these debts.

Due to related parties (short-term) comprised the following:

	31 December 2007	31 December 2006
THY DO&CO İkrām Hizmetleri A.Ş.	4.481.293	-
Uçak Servisi A.Ş. (USAŞ) (*)	-	11.496.508
Güneş Ekspres Havacılık A.Ş. (Sun Express)	2.644.738	3.372.538
	<u>7.126.031</u>	<u>14.869.046</u>

(*)Because the Group has sold Uçak Servisi A.Ş. (USAŞ) shares as of 15 November 2007, USAŞ isn't a related party as of balance sheet date.

Transactions with related parties in the periods ended as of 31 December are as follows:

	1 January - 31 December 2007	1 January - 31 December 2006
Services rendered to Sun Express	7.522.413	4.926.339
Services rendered to THY DO&CO	559.408	-
Interest income from THY DO&CO	1.478.805	22.348
Services rendered to USAŞ (**)	-	461.158
	<u>9.560.626</u>	<u>5.409.845</u>

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9 DUE TO AND FROM RELATED PARTIES (NET) (cont'd)

	1 January - 31 December 2007	1 January - 31 December 2006
Services received from THY DO&CO	109.001.142	-
Services received from Sun Express (Güneş Ekspress Havacılık A.Ş.)	22.434.065	11.667.348
Services received from USAŞ (**)	1.144.635	98.159.997
	132.579.842	109.827.345

Dividends received from the related parties are as follows:

	1 January - 31 December 2007	1 January - 31 December 2006
Uçak Servisi A.Ş. (USAŞ) (**)	2.539.966	409.135
Güneş Ekspress Havacılık A.Ş. (Sun Express)	-	11.999.919
France Telecom	-	342.789
Emek İnşaat ve İşletme A.Ş.	327	103
	2.540.293	12.751.946

(**)Because the Group has sold Uçak Servisi A.Ş. (USAŞ) shares as of 15 November 2007, transactions made with USAŞ indicates transactions made by this date.

The Group's total salary and similar benefits paid to the chairman of the board of directors and members, general manager, general coordinator and general deputy manager are TRY 1.963.485. (31 December 2006: TRY 1.105.740)

10 OTHER RECEIVABLES AND LIABILITIES (NET)

Other short-term receivables comprised the following:

	31 December 2007	31 December 2006
VAT Deductible	-	27.545
Receivables from foreign technical suppliers	1.634.072	2.194.204
Advances for business purposes	727.382	771.160
Receivables from tax office	478.459	13.157
Receivables from foreign acquisition transactions	11.352.699	10.970.720
Advance payments for aircraft purchase	280.205.350	220.993.862
Due from personnel	745.269	869.293
Receivable from SITA deposit certificate	593.654	188.675
Due from insurance firms	-	3.688.278
Other receivables	457.475	859.523
	296.194.360	240.576.417

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10 OTHER RECEIVABLES AND LIABILITIES (NET) (cont'd)

Other long-term receivables comprised the following:

	31 December 2007	31 December 2006
Receivable from SITA deposit certificates	917.469	985.359
Receivables from foreign acquisition transactions	11.750.866	11.355.489
Advance payments for aircraft purchase	2.329.400	137.341.611
Due from personnel	810.077	986.372
	<u>15.807.812</u>	<u>150.668.831</u>

Other short-term financial liabilities comprised the following:

	31 December 2007	31 December 2006
Debt to banks	<u>877.628</u>	<u>373.497</u>

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

11 BIOLOGICAL ASSETS (NET)

None (31 December 2006: None).

12 INVENTORIES (NET)

	31 December 2007	31 December 2006
Spare parts, flight equipments	91.924.069	119.132.823
Other inventories	34.630.375	21.421.432
	<u>126.554.444</u>	<u>140.554.255</u>
Provision for impairment (-)	<u>(10.845.508)</u>	<u>(4.910.688)</u>
	<u>115.708.936</u>	<u>135.643.567</u>

Movement in change of diminution in value of inventories as of 31 December 2007 and 2006 are as follows:

	1 January - 31 December 2007	1 January - 31 December 2006
Provision at 1 January	4.910.688	-
Current period expense	5.934.820	4.910.688
Provision at the end of the period	<u>10.845.508</u>	<u>4.910.688</u>

13 RECEIVABLES FROM CONSTRUCTION CONTRACTS IN PROGRESS AND BILLINGS ON THE CONTRACTS (NET)

None (31 December 2006: None).

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14 DEFERRED TAX ASSETS AND LIABILITIES

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements prepared in accordance with IFRS and its statutory financial statements. Tax rates used for the calculation of deferred tax assets and liabilities calculated for temporary differences expected to be realized in future under the liability method are disclosed in Note 41.

The deferred tax assets and liabilities as of 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Long term lease obligations	61.960.569	100.292.302
Retirement pay liability	26.391.803	23.460.981
Short term lease obligations	17.036.113	25.180.043
Expense accruals	10.545.592	6.698.855
Provision for diminution in value of inventories	2.169.102	982.138
Allowance for doubtful receivables	865.498	494.424
Loss in value of financial assets	-	576.407
Discount on receivables	415.605	672.335
Income and expenses relating to future periods	(112.032)	220.206
Other	132.416	393.885
Discount on payables	(626.155)	(988.236)
Provision for advance ticket sales	(21.728.406)	(18.437.485)
Fixed assets	(236.888.551)	(289.525.029)
	<u>(139.838.446)</u>	<u>(149.979.174)</u>

	31 December 2007	31 December 2006
Deferred tax assets	2.544.815	-
Deferred tax liabilities	(142.383.261)	(149.979.174)
Deferred tax assets / (liabilities), net	<u>(139.838.446)</u>	<u>(149.979.174)</u>

Movement in deferred tax liability as of 31 December 2007 and 2006 are as follows:

	1 January- 31 December 2007	1 January- 31 December 2006
1 January opening value of deferred tax	149.979.174	144.243.764
Effect of changes in tax rate at deferred tax calculation	-	(48.081.255)
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	(10.814.849)	51.463.256
Transfer of deferred tax asset to profit or loss on sale of available-for-sale asset	674.121	-
Current period deferred tax expense / (income)	<u>(10.140.728)</u>	<u>3.382.001</u>
Deferred taxes netted off from financial assets fair value reserve	-	2.353.409
Current period deferred tax liability	<u>139.838.446</u>	<u>149.979.174</u>

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15 OTHER CURRENT/NON-CURRENT ASSETS AND SHORT/LONG TERM LIABILITIES

Other current assets comprised the following:

	31 December 2007	31 December 2006
Prepaid sales commissions	11.254.831	14.173.900
Income accruals	2.176.269	997.056
Technical maintenance income accruals	5.458.505	5.792.001
Prepaid operational lease expenses	7.845.528	11.356.882
Interline passenger income accruals	7.715.608	3.886.502
Prepaid insurance expenses	3.366.409	283.404
VAT to be refunded	3.462.269	4.077.674
Deferred VAT	1.744.538	2.947.788
Prepaid rent expenses	594.629	666.760
Prepaid other expenses	1.579.874	1.919.767
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Prepaid aircraft financing expense	764.269	423.583
Prepaid financial expense of bank borrowing	21.690	21.690
	<u>47.076.827</u>	<u>47.639.415</u>

Other non-current assets comprised the following:

	31 December 2007	31 December 2006
Maintenance reserve for engines	9.420.039	5.707.606
Payment for tangible assets	46.690.839	6.712.224
Prepaid aircraft financing expenses	4.797.882	1.723.667
Prepaid Eximbank USA guarantee and exposure fee	3.704.559	4.796.966
Prepaid operating lease expenses	2.743.798	3.670.910
Prepaid expenses	388.190	13.511
	<u>67.745.307</u>	<u>22.624.884</u>

Other short-term liabilities comprised the following:

	31 December 2007	31 December 2006
Flight liability resulting from ticket sales	227.074.654	218.668.355
Flight liability resulting from mileage sales	71.787.413	60.789.528
Frequent flyer program liability	49.186.534	42.285.285
Social security premiums payable	20.378.288	16.898.094
Manufacturer's credit related to aircrafts to be received	20.327.228	4.669.162
Gross manufacturer's credits	27.843.438	28.394.376
Accumulated depreciations of manufacturer's credit	(3.743.686)	(1.596.533)
Taxes and funds payable	19.849.575	18.419.181
Accruals for sales incentive premiums	7.144.213	19.226.521
Accruals for wages	27.511.763	21.773.788
Accruals for maintenance costs	5.899.117	13.271.328
Expense accruals for insurance premiums	-	10.613.244
Accruals for other expenses	2.650.295	6.909.507
Deferred income	150.945	-
Debt to personnel	729.765	375.941
Other liabilities	3.891.482	2.704.621
	<u>480.681.024</u>	<u>463.402.398</u>

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16 FINANCIAL ASSETS (NET)

The affiliates accounted for using the equity method are as follows:

	31 December 2007	31 December 2006
Güneş Ekspres Havacılık A.Ş. (Sun Express)	18.301.705	7.681.874
THY DO&CO İkrâm Hizmetleri A.Ş.	20.068.338	15.199.029
	<u>38.370.043</u>	<u>22.880.903</u>
Financial assets available for sale are as follows:		
Uçak Servisi A.Ş. (USAŞ)(*)	-	8.110.722
Diminution in value of USAŞ shares	-	(3.370.602)
Sita Inc.	1.679.619	1.679.619
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
	<u>1.706.478</u>	<u>6.446.598</u>
Fair value of derivative instruments (Note: 45)	1.310.086	4.107.077
	<u>41.386.607</u>	<u>33.434.578</u>

As of 15 November 2007, the Group's all USAŞ shares are sold, and gains and losses on this sale are transferred from financial assets fair value reserve to profit or loss.

Financial information for Sun Express as of 31 December 2007 and 2006 are as follows;

	31 December 2007	31 December 2006
Total Assets	97.835.411	85.513.379
Total Liabilities	61.232.001	70.149.632
Shareholder's Equity	36.603.410	15.363.747
Group's share in associates' shareholder's equity	18.301.705	7.681.874

Financial information for THY DO&CO as of 31 December 2007 and 2006 are as follows;

	31 December 2007	31 December 2006
Total Assets	98.361.252	107.915.720
Total Liabilities	58.224.577	77.517.662
Shareholder's Equity	40.136.675	30.398.058
Group's share in associates' shareholder's equity	20.068.338	15.199.029

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16 FINANCIAL ASSETS (NET)

The Group's financial assets as of 31 December 2007 are as follows:

Name of the Company	Place of Incorporation and Operation	Ownership Rate	Voting Power Rate	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	%50	%50	Air transportation
THY DO&CO İkram Hizmetleri A.Ş.	Turkey	%50	%50	Catering services
Emek İnşaat ve İşletme A.Ş.	Turkey	%0,3	%0,3	Construction
Sita Inc.	Holland	Less than %0,1	Less than %0,1	Information & Telecommunication Services

17 POSITIVE / NEGATIVE GOODWILL (NET)

None (31 December 2006: None)

18 INVESTMENT PROPERTY (NET)

	31 December 2007	31 December 2006
Opening Balance, 1 January	51.975.000	51.975.000
Income from the change in the fair value	1.725.000	-
Year-end Balance, 31 December	53.700.000	51.975.000

The fair value of the Group's investment property at 31 December 2007 has been determined on the basis of a valuation carried out by an independent expert company, who is not related with the Group, on 29-30 January 2008. This independent expert is accredited by Capital Market Board of Turkey.

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2007.

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

19 TANGIBLE ASSETS (NET)

	Land, Land Improvements & Buildings	Technical Equipment, Simulators and Vehicles	Other Equipment, Fixtures	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Total
Cost									
Opening balance 1 January 2007	164,584,014	299,032,332	184,022,713	2,594,142,676	348,240,451	889,470	3,590,911,656	3,264,215,075	6,855,126,731
Additions	-	18,351,381	17,599,129	45,794,497	97,781,251	60,911,307	240,437,565	565,806,020	806,243,585
Disposals	-	(14,374,285)	(30,583,704)	-	(118,777,056)	-	(163,735,045)	-	(163,735,045)
Transferler	-	-	113,106	-	-	(2,103,277)	(1,990,171)	-	(1,990,171)
Closing balance 31 December 2007	164,584,014	303,009,428	171,151,244	2,639,937,173	327,244,646	59,697,500	3,665,624,005	3,830,021,095	7,495,645,100
Accumulated Depreciation									
Opening balance 1 January 2007	50,636,378	249,655,257	167,630,870	1,377,629,493	168,324,320	-	2,013,876,318	742,326,360	2,756,202,678
Depreciation for the period	2,736,243	12,074,399	7,261,263	82,481,660	98,551,773	-	203,105,338	157,456,187	360,561,525
Disposals	-	(14,357,967)	(30,320,553)	-	(113,832,155)	-	(158,510,675)	-	(158,510,675)
Closing balance 31 December 2007	53,372,621	247,371,689	144,571,580	1,460,111,153	153,043,938	-	2,058,470,981	899,782,547	2,958,253,528
Accumulated impairment	-	4,719,819	-	617,510,428	-	-	622,230,247	680,801,918	1,303,032,165
31 December 2007 net book value	111,211,393	50,917,920	26,579,664	562,315,592	174,200,708	59,697,500	984,922,777	2,249,436,630	3,234,359,407

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19 TANGIBLE ASSETS (NET) (cont'd)

Cost	Land, Land Improvements & Buildings	Technical Equipments and Vehicles	Other Equipment Fixtures	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Other Leased Fixed Assets and Simulator	Total Leased assets	Total
Opening balance 1 January 2006	164,196,913	295,103,154	200,528,580	2,027,132,388	309,650,653	1,670,455	2,998,282,143	2,901,409,819	17,796,598	2,919,206,417	5,917,488,560
Transfers from finance leased aircraft	-	4,654,093	-	522,310,296	-	-	526,964,389	(509,167,791)	(17,796,598)	(526,964,389)	-
Additions	1,236,388	32,419,711	7,928,444	44,699,992	112,609,302	625,818	199,519,655	871,973,047	-	871,973,047	1,071,492,702
Disposals	(849,287)	(33,144,626)	(24,434,311)	-	(74,019,504)	(1,406,803)	(133,854,531)	-	-	-	(133,854,531)
Closing balance 31 December 2006	164,384,014	299,032,332	184,022,713	2,594,142,676	348,240,451	889,470	3,590,911,656	3,264,215,075	-	3,264,215,075	6,855,126,731
Accumulated Depreciation											
Opening Balance 1 January 2006	48,373,526	262,683,227	184,566,172	1,050,923,392	146,892,242	-	1,693,438,559	847,858,584	6,646,682	854,505,266	2,547,943,825
Transfers from finance leased aircraft	-	4,193,415	-	240,233,317	-	-	244,426,732	(237,780,050)	(6,646,682)	(244,426,732)	-
Depreciation for the period	2,732,356	11,415,258	6,431,550	86,472,784	95,451,582	-	202,503,530	132,247,826	-	132,247,826	334,751,356
Disposals	(469,504)	(28,636,643)	(23,366,852)	-	(74,019,504)	-	(126,492,503)	-	-	-	(126,492,503)
Closing Balance 31 December 2006	50,636,378	249,655,257	167,630,870	1,377,629,493	168,324,320	-	2,013,876,318	742,326,360	-	742,326,360	2,756,202,678
Accumulated impairment	-	3,095,448	-	629,210,248	-	-	632,305,696	380,564,388	-	380,564,388	1,012,870,084
31 December 2006 net book value	113,947,636	46,281,627	16,391,843	587,302,935	179,916,131	889,470	944,729,642	2,141,324,327	-	2,141,324,327	3,086,053,969

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20 INTANGIBLE ASSETS (NET)

	Rights	Leasehold Improvements	Total
<u>Cost</u>			
Opening balance 1 January 2007	65.652.323	19.848.969	85.501.292
Additions	3.213.543	2.051.340	5.264.883
Disposals	(33.654)	-	(33.654)
Transferler	-	1.990.171	1.990.171
Closing balance 31 December 2007	68.832.212	23.890.480	92.722.692
<u>Accumulated Depreciation</u>			
Opening balance 1 January 2007	58.966.832	19.025.840	77.992.672
Amortization charge for the period	3.068.545	1.220.495	4.289.040
Disposals	(4.337)	-	(4.337)
Closing balance 31 December 2007	62.031.040	20.246.335	82.277.375
31 December 2007 net book value	6.801.172	3.644.145	10.445.317

	Rights	Leasehold Improvements	Total
<u>Cost</u>			
Opening balance 1 January 2006	61.631.745	19.233.061	80.864.806
Additions	4.026.898	615.908	4.642.806
Disposals	(6.320)	-	(6.320)
Closing balance 31 December 2006	65.652.323	19.848.969	85.501.292
<u>Accumulated Depreciation</u>			
Opening balance 1 January 2006	56.095.307	18.615.366	74.710.673
Amortization charge for the period	2.873.781	410.474	3.284.255
Disposals	(2.256)	-	(2.256)
Closing balance 31 December 2006	58.966.832	19.025.840	77.992.672
31 December 2006 net book value	6.685.491	823.129	7.508.620

21 ADVANCES RECEIVED

Short-term advances received comprised the following:

	31 December 2007	31 December 2006
MCO advances	24.971.575	18.976.134
E-pos ticket advances	380.719	701.462
Charter advances	350.971	2.087.449
Advances received for mileage credit sales	8.359.465	18.396.195
Other advances received	961.986	835.229
	35.024.716	40.996.469

22 RETIREMENT PLANS

The Group does not have any obligations regarding the retirement plans. (31 December 2006: None).

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23 PROVISIONS FOR LIABILITIES

Provisions for short-term liabilities comprised the following:

	31 December 2007	31 December 2006
Tax provision	19.981.215	1.952.019
Provisions for legal claims	4.695.954	5.544.394
Other provisions	83.267	50.876
	<u>24.760.436</u>	<u>7.547.289</u>

Movements in the provisions for legal claims at 31 December 2007 and 2006 periods set out below:

	01 January- 31 December 2007	01 January- 31 December 2006
Provision at 1 January	5.544.394	9.202.870
Charge for the period	283.140	1.071.870
Provisions released	(1.131.580)	(4.730.346)
Provision at the end of the period	<u>4.695.954</u>	<u>5.544.394</u>

Provisions for long-term liabilities comprised the following:

	31 December 2007	31 December 2006
Provision for retirement pay liability	<u>131.959.011</u>	<u>117.304.910</u>

Provision for retirement pay liability is recognized as explained below:

Under labor laws effective in Turkey, employees who worked for at least one year are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), are called up for military service or die. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to an upper limit of TRY 2.087,92 as at 31 December 2007 (1 January 2007: TRY 1.960,69). The number of service years required before retirement is rising according to a sliding scale (60 for men, 58 for women) based on new legislation enacted in 1999. Provision for retirement pay liability is not subject to any kind of funding and no funding is required. The total provision recognized in the financial statements represents the estimated present value of the vested benefit obligation.

Amounts recognized in the income statement as provision for retirement pay liability are as follows:

	31 December 2007	31 December 2006
Current service cost	12.758.760	13.449.887
Interest cost	6.703.137	6.493.785
	<u>19.461.897</u>	<u>19.943.672</u>

Movements in the provision for retirement pay liability in the balance sheet are as follows:

	01 January- 31 December 2007	01 January- 31 December 2006
Provision at 1 January	117.304.910	113.641.242
Charge for the period	19.461.897	19.943.672
Payments during the period	(4.807.796)	(16.280.004)
Provision at the end of the period	<u>131.959.011</u>	<u>117.304.910</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,71% (31 December 2006: 5,71 %) per annum considering the effect of increase in eligible pay and its limit.

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24 MINORITY INTERESTS

None (31 December 2006: None).

25 SHARE CAPITAL/ ADJUSTMENT TO SHARE CAPITAL

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

	Group	%	31 December 2007	%	31 December 2006
Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	49,12(**)	85.963.662	49,12(**)	85.963.662
Others (publicly held)	A	50,88(**)	89.036.338	50,88(**)	89.036.338
Share capital (historic)			175.000.000		175.000.000
Restatement effect (Note:26)			1.739.005.871		1.739.005.871
Restated share capital			1.914.005.871		1.914.005.871

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

(**) The shares of the stock owned by Turkish Republic Privatization Administration are offered to the public between 16-18.05.2006 with the 12.05.2006 dated and 22/569 numbered allowance of CMB. The A group registered shares with the total of TRY 50.312.500 (28,75% of the issued capital) which were sold in Istanbul Stock Exchange Whole Sales Market in 24.05.2006 with the nominal value of TRY 1 consists of the 43.750.000 TRY amount of shares which is 25% of the total amount of the issued capital which is TRY 175.000.000 and the rest of the A Group registered shares consist of the additional selling amount of shares which is 15% of the total amount of the public offering as well as which comes out to the 3,75% of the issued capital which is TRY 6.562.500. The Privatization Administration's share on capital approached to 49,12% after Privatization Administration had acquired the 212.254 THY shares which are returned from credit sales.

As at 31 December 2007, the Group's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

Articles of Association 7: Positive vote of the board member representing class C share and approval of the Board of Directors are necessary for transfer of shares issued to the name.

Articles of Association 10: The Board of Directors consists of seven members of which one member has to be nominated by the class C shareholder.

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

- As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board

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25 SHARE CAPITAL/ ADJUSTMENT TO SHARE CAPITAL (cont'd)

- f) Making decisions relating to merges and liquidation,
- g) Making decisions to cancel flight routes or significantly decrease number of flights except for the ones that cannot recover even its operational expenses subject to the market conditions.

26-27-28 CAPITAL RESERVES, PROFIT RESERVES AND ACCUMULATED LOSSES

The Shareholder's Equity items of the Group, based on the Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards" issued by Capital Markets Board on 15 November 2003, are stated below with their nominal amounts and the differences arising from inflation adjustments are recognized in "Shareholders' Equity Inflation Adjustment Differences" account.

	31 December 2007	31 December 2006
Share capital	175.000.000	175.000.000
Share premium	181.185	181.185
Revaluation surplus on tangible assets	-	-
Financial assets fair value reserve	-	(2.696.482)
Legal reserves	417.011	417.011
Extraordinary reserves	7.806.889	7.806.889
Special funds	9	9
Shareholders' equity inflation adjustment differences (*)	1.872.657.189	1.872.657.189
Net profit for the year	291.892.623	178.782.921
Accumulated losses	(443.647.349)	(622.430.270)
	<u>1.904.307.557</u>	<u>1.609.718.452</u>
(*) Shareholders' Equity Inflation Adjustment Differences		
Share capital	1.739.005.871	1.739.005.871
Share premium	714.307	714.307
Legal reserves	60.597.395	60.597.395
Extraordinary reserves	67.026.275	67.026.275
Special funds	5.313.341	5.313.341
	<u>1.872.657.189</u>	<u>1.872.657.189</u>

Accumulated profits in statutory books can be distributed except for the following legal provision related to legal reserves. According to Turkish Commercial Code, legal reserves can be categorized as order I (first) legal reserves and order II (second) legal reserves. Order I (first) legal reserves are apportioned as 5% of statutory net profit to the extent that they reach to 20% of the company's paid-in capital. Order II (second) legal reserves equal to 10% of distributable profit exceeding 5% of paid-in capital. According to Turkish Commercial Code, legal reserves can only be used to set off losses as long as they do not exceed 50% of paid-in capital. Publicly held companies distribute dividends in the following way that Capital Market Board requires.

In accordance with Communiqué No: 25 of Series XI part 15th clause number 399, losses arising from the first time application of inflation accounting and recorded in "accumulated losses" account shall be considered as a deduction in determining the distributable profit with respect to CMB regulations. However, these losses can be reduced by the profit for the year and accumulated profits, and the remaining losses can then be reduced by in an order of extraordinary reserves, legal reserves and shareholders' equity inflation adjustment differences.

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29 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Group has a foreign currency risk because of the foreign currency denominated debts US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Group.

The foreign currency position of the Company as of 31 December 2007 and 31 December 2006 in terms of TRY is as follows:

31 December 2007	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency denominated assets</i>					
Cash and cash equivalents	40.343.617	480.569.767	2.751.061	47.238.521	570.902.966
Accounts Receivable (net)					
(short term)	32.348.612	49.856.749	4.463.030	55.340.461	142.008.852
Due from related parties (net)	506.106	10.414.775	-	-	10.920.881
Other receivables (short term)	281.471.506	312.975	96.953	365.767	282.247.201
Other current assets	22.917.949	2.168.036	344.931	2.256.551	27.687.467
Accounts receivable (net)					
(long-term)	3.244.783	641.775	72.219	701.626	4.660.403
Due from related parties					
(long-term)	-	3.591.420	-	-	3.591.420
Other receivables (long term)					
(net)	4.056.946	-	-	-	4.056.946
Other non-current assets	20.666.278	62.868	-	-	20.729.146
	405.555.797	547.618.365	7.728.194	105.902.926	1.066.805.282
<i>Foreign currency denominated liabilities</i>					
Short term portion of long term					
Liabilities	3.735.162	-	-	-	3.735.162
Finance lease obligations					
(short term) (net)	169.098.106	56.085.103	-	-	225.183.209
Accounts payable (short term)					
(net)	165.364.163	61.461.771	6.293.475	40.546.901	273.666.310
Due to related parties (net)	628.635	727.708	127.802	87.121	1.571.266
Financial liabilities (long term)					
(net)	26.715.577	-	-	-	26.715.577
Finance lease obligations					
(long term) (net)	975.487.285	593.639.600	-	-	1.569.126.885
Accounts payable (long-term)					
(net)	623.528	5.475.078	4.466	955.250	7.058.322
	1.341.652.456	717.389.260	6.425.743	41.589.272	2.107.056.731
Net "foreign currency position (*)	(936.096.659)	(169.770.895)	1.302.451	64.313.654	(1.040.251.449)

(*) Although the Group seems to be in an open position based on its monetary assets and liabilities, the Group values its aircraft, spare engines and simulators according to their US Dollar selling prices as explained in Note 3.6. In this respect, the Group's management has the opinion that the Group's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Group's assets and liabilities against the changes in foreign exchange rates. As of 31 December 2007, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices, is TRY 2.822.415.164 (31 December 2006: TRY 2.747.836.474).

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29 FOREIGN CURRENCY POSITION (cont'd)

31 December 2006	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	52.188.763	224.456.764	1.196.876	49.621.686	327.464.089
Accounts Receivable (net) (short term)	55.945.872	45.509.655	6.622.176	63.170.691	171.248.394
Due from related parties (net)		36.511.706	-	-	36.511.706
Other receivables (short term)	225.449.936	420.952	27.145	669.436	226.567.469
Other current assets	17.739.763	5.504.877	364.685	2.736.520	26.345.845
Accounts receivable (net) (long-term)	5.032.537	649.703	85.602	630.406	6.398.248
Due from related parties (long-term)	139.313.342	-	-	-	139.313.342
Other receivables (long term) (net)	10.191.542	13.511	-	-	10.205.053
Other non-current assets	505.861.755	313.067.168	8.296.484	116.828.739	944.054.146
Foreign currency denominated liabilities					
Short term portion of long term Liabilities	4.481.158	-	-	-	4.481.158
Finance lease obligations (short term) (net)	188.669.421	30.051.378	-	-	218.720.799
Accounts payable (short term) (net)	137.662.365	60.824.377	3.445.186	52.079.242	254.011.170
Due to related parties (net)	35.939	3.334.160	-	-	3.370.099
Financial liabilities (long term) (net)	36.401.442	-	-	-	36.401.442
Finance lease obligations (long term) (net)	1.099.716.929	344.215.933	-	-	1.443.932.862
Accounts payable (long-term) (net)	468.075	6.876.034	65.036	1.579.476	8.988.621
Net foreign currency position	1.467.435.329	445.301.882	3.510.222	53.658.718	1.969.906.151
	(961.573.574)	(132.234.714)	4.786.262	63.170.021	(1.025.852.005)

30 GOVERNMENT GRANTS

The Group has investment incentive certificates; dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2008 at amount of TRY 118.897.557 . The investment incentive certificates provide benefits for the exemption of Value Added Tax regarding domestic and international purchases of goods and exemption of customs duty for investment goods imported from countries other than European Union members.

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31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is TRY 41.570.477 as of 31 December 2007 (31 December 2006: TRY 55.363.981).

b) Purchase Commitments:

The Group has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered in 2005, 23 of these aircrafts are delivered in 2006 and 12 of these aircrafts are delivered in the 2007. Total value of aircrafts is approximately US Dollar 4,7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Group paid a deposit of US Dollar 241 million as of 31 December 2007 related to aircrafts to be purchased.

c) Letters of comfort:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Letters of comfort given to Sun Express	US Dollar 2.900.000	US Dollar 2.900.000
	Euro 2.556.459	Euro 2.556.459

d) The Group's discounted retirement pay provision is TRY 131.959.011. The Group's liability for retirement pay would be approximately TRY 225.141.040 as of 31 December 2007, if all employees were dismissed on that date.

e) At the beginning of 2006, US Ministry of Justice Antitrust Unit and Europe Antitrust Authorities synchronously initiated an investigation in Europe and the United States about the fix of the air cargo prices that covers the leading airline companies. Within the context of this investigation, information and documents that the Company holds are requested to be presented by USA Columbia (Washington) Regional Court through official notification in April 6, 2006. Similar notifications are sent to the other concerning airline companies. Within the context of this investigation, the Company's inviolation of the agreement is declared to Anti-trust department of US Ministry of Justice, negotiations are continued by the American lawyers on behalf of the Company. As of the report date, the Company management thinks that the results of this investigation initiated by the US Ministry of Justice cannot be reliably measured. For this reason, no provision is provided for this issue in the accompanying financial statements. But, there is a possibility of financial liability to the Group as the result of this issue.

32 BUSINESS COMBINATIONS

None (31 December 2006: None).

33 SEGMENTAL REPORTING

Business Segments

The Group predominantly operates in one industry segment as of 31 December 2007, the primary businesses are air transportation of passengers and cargo within, to or from Turkey and to supply maintenance service for aircrafts.

Geographical Segments

The revenue analysis is based on the destinations that the Group serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Revenues from both scheduled and non-scheduled international flight are attributed to destinations' geographical areas.

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33 SEGMENTAL REPORTING (cont'd)**33.1. Total Assets and Liabilities**

	31 December 2007	31 December 2006
Total Assets		
Aviation	4.890.190.857	4.379.540.741
Technical service	400.905.113	382.668.873
Total	5.291.095.970	4.762.209.614
Less: Eliminations of consolidation	(369.300.235)	(327.378.797)
Total assets according to consolidated financial statements	4.921.795.735	4.434.830.817
Total Liabilities		
Aviation	2.985.883.300	2.797.503.511
Technical service	87.326.345	63.371.102
Total	3.073.209.645	2.860.874.613
Less: Eliminations of consolidation	(55.721.467)	(35.762.248)
Total liabilities according to consolidated financial statements	3.017.488.178	2.825.112.365

33.2. Net Operating Profit / (Loss)

01 January 2007 -31 December 2007	Aviation	Technical service	Eliminations between segments	Total
Sales Revenues (net)	4.521.537.724	-	-	4.521.537.724
Other revenue from main Operations	195.271.126	593.130.196	(537.330.715)	251.070.607
Cost of sales	(3.420.076.838)	(564.366.842)	530.685.733	(3.453.757.947)
Gross operating profit	1.296.732.012	28.763.354	(6.644.982)	1.318.850.384
Operating expenses	(742.848.063)	(30.796.444)	824.187	(772.820.320)
Net operating profit/(loss)	553.883.949	(2.033.090)	(5.820.795)	546.030.064

01 January 2006 - 31 December 2006	Aviation	Technical service	Eliminations between segments	Total
Sales Revenues (net)	3.811.798.033	-	-	3.811.798.033
Other revenue from main Operations	179.884.974	356.764.461	(297.102.339)	239.547.096
Cost of sales	(3.233.933.574)	(307.525.342)	288.899.797	(3.252.559.119)
Gross operating profit	757.749.433	49.239.119	(8.202.542)	798.786.010
Operating expenses	(700.295.466)	(12.016.937)	-	(712.312.403)
Net operating profit/(loss)	57.453.967	37.222.182	(8.202.542)	86.473.607

33.3 Investment Operations

01 January 2007 -31 December 2007	Aviation	Technical service	Eliminations between segments	Total
Purchases of tangible and intangible assets	703.014.972	108.493.496	-	811.508.468
Current period amortization and depreciation expense	262.343.010	102.507.555	-	364.850.565

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33.3 Investment Operations (cont'd)

01 January 2006 -31 December 2006	Aviation	Technical service	Eliminations between segments	Total
Purchases of tangible and intangible assets	1.009.576.378	66.559.130	-	1.076.135.508
Current period amortization and depreciation expense	279.417.058	58.618.553	-	338.035.611

34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a-) Within the Group's operations, implementation of transportation model operation with low cost which can offer attractive ticket prices performing through increasing the frequency of Ankara recurrences by B737-400 aircrafts are decided. The operations will be Ankara centered and will serve as full economy configuration beginning with 2008 summer schedule. And in this context, registration of "Anadolu-Jet" name that will be used in Türk Hava Yolları A.O.'s operations are decided by the Group's Board of Directors. Additionally, within the context of THY 2008 summer schedule, usage of at most six B737-400 aircrafts from the Group's fleet under the logo of "Anadolu-Jet" in THY's Ankara centered domestic flights, and within the context of the operation, the opening of Ankara-Hatay line are decided.

b-) Within the context of HABOM project, the Group decides to sign a "Joint Venture" agreement regarding the foundation of an engine maintenance service center on January 7, 2007 with Pratt&Whitney which is a United Technologies Corporation's group company. According to the agreement, the Group will transfer the motor maintenance service unit to this new company. Group shares in new company will be 49%.

c-) Group decides to give a letter of intent to Air Bosna of which partial privatization has been announced and which is not about the company's cooperation and privatization declaration, on the Board of Directors Meeting dated 22.02.2008.

d-) After the term sheet signed on 9 December 2006, the Group has become a full member of Star Alliance which is an airline alliance with a signing ceremony dated April 2008.

e) In 2008, THY A.O has planned long range direct flight to Toronto, Washington and Sao Paulo points, also medium range direct flight from İstanbul to Aleppo (Syria), Birmingham (England), Lahore (Pakistan) Atrou (Kazakhstan), Oran (Algeria), Lvov (Ukraine), Ufa (Russia) ve Alexandria (Egypt). Opening of each airline changes depending on the purchase date of new medium range and long range aircrafts and opening of each airline becomes final, the public will be informed. Besides, in 2008 summer schedule, the Group decides the starting of Antalya-Moskova and Ankara -Tahran mutual flights.

35 DISCONTINUED OPERATIONS

None (31 December 2006: None).

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36 MAIN OPERATING REVENUES

Main operating revenues consists of the following:

	1 January - 31 December 2007	1 January - 31 December 2006
Scheduled flights		
- Passenger	4.203.069.693	3.495.872.818
- Cargo and mail	318.468.031	315.925.215
Total scheduled flights	4.521.537.724	3.811.798.033
Non-scheduled flights	55.981.490	37.578.028
Other revenues	195.099.796	201.981.727
Total revenues	4.772.619.010	4.051.357.788
Less: Discounts and sales		
Returns	(10.679)	(12.659)
Net Sales	4.772.608.331	4.051.345.129
Cost of Sales (-)	(3.453.757.947)	(3.252.559.119)
Gross Operating Profit	1.318.850.384	798.786.010

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

	1 January - 31 December 2007	1 January - 31 December 2006
- Europe	1.827.110.397	1.621.042.993
- Far East	828.585.173	674.614.455
- Middle East	445.395.463	350.368.900
- North America	210.576.132	193.534.065
- North Africa	100.392.505	91.797.795
- Middle Africa	17.354.529	8.011.336
- West Africa	15.930.960	4.613.898
- South Africa	12.273.906	-
	3.457.619.065	2.943.983.442
Domestic	1.063.918.659	867.814.591
Total Revenue from the scheduled flights	4.521.537.724	3.811.798.033

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36 MAIN OPERATING REVENUES (cont'd)

Cost of sales consists of the following:

	1 January - 31 December 2007	1 January - 31 December 2006
Fuel expenses	1.168.894.146	1.106.553.053
Staff expenses	736.005.170	590.691.963
Depreciation expenses	346.726.772	324.922.024
Landing and navigation expenses	331.960.978	332.533.505
Handling expenses	223.839.196	193.980.518
Passenger service and catering expenses	211.204.158	178.470.351
Maintenance expenses	174.993.594	234.060.712
Operating lease expenses	165.884.682	173.603.826
Insurance expenses	31.339.269	42.638.453
Other renting expenses	13.498.606	14.482.806
Aircraft wet-lease expenses	8.644.856	10.703.448
Lighting, heating, energy and water expenses	7.782.769	4.159.285
Service expenses	5.845.162	10.761.634
Communication expenses	5.307.418	8.473.153
Other taxes	4.449.236	6.027.706
Transportation expenses	2.350.624	7.542.167
Cost of other sales	15.031.311	12.954.515
	3.453.757.947	3.252.559.119

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37 OPERATING EXPENSES (-)

Operating expenses comprised the following:

	1 January - 31 December 2007	1 January - 31 December 2006
Sales and marketing expenses (-)		
Commission and promotion Expenses	214.794.109	257.815.843
Staff expenses	174.151.104	143.569.983
Reservation system expenses	81.639.787	71.684.061
Code share expenses	18.014.837	14.202.646
Advertisement expenses	17.941.039	15.096.452
Other renting expenses	17.360.670	16.840.480
Communication expenses	12.161.793	14.408.470
Membership expenses	10.104.609	1.009.303
Service expenses	9.252.686	9.494.147
Passenger service and catering expenses	6.597.606	5.664.104
Transportation expenses	4.946.627	4.652.765
Other taxes	4.612.134	4.288.302
Lighting, heating, energy and water expenses	2.101.925	1.828.496
Maintenance expenses	1.710.098	1.204.158
Fuel expenses	846.778	783.485
Software and computer equipment expenses	607.880	681.903
Insurance expenses	548.350	392.860
Depreciation expenses	507.897	224.791
Other sales and marketing expenses	19.940.828	14.374.931
	597.840.757	578.217.180
	1 January - 31 December 2007	1 January - 31 December 2006
General administrative expenses (-)		
Staff expenses	102.809.257	80.966.019
Depreciation expenses	17.615.896	12.888.796
Maintenance expenses	7.629.252	5.249.415
Other taxes	6.727.369	6.065.980
Service expenses	6.312.313	4.183.080
Fuel expenses	4.969.703	270.533
Communication expenses	4.823.437	3.552.489
Commission and promotion expenses	3.766.379	3.128.220
Software and computer equipment expenses	3.706.905	3.767.597
Insurance expenses	2.280.134	992.253
Other renting expenses	2.274.023	5.107.661
Lighting, heating, energy and water expenses	2.152.697	1.547.531
Other general administrative expenses	9.912.198	6.375.649
	174.979.563	134.095.223
Total Operating Expenses	772.820.320	712.312.403

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37 OPERATING EXPENSES (-) (cont')

Income from other operations consists of the following:

	1 January - 31 December 2007	1 January - 31 December 2006
Real decrease in provision for diminution in value of tangible asset	-	111.799.837
Decrease in provision for diminution in value of tangible assets due to exchange rate changes	-	13.325.700
Foreign exchange gains	-	52.077.553
Interest income	45.848.879	25.766.202
Gain on financial investment accounted per equity		
Method	15.489.140	-
Maintenance fee returns from leasing companies	13.020.663	-
Discounts received from spare parts suppliers	5.831.205	11.932.007
Indemnity and penalty income	5.354.254	6.532.566
Purchase discounts	4.172.900	3.696.768
Provision released	3.655.647	10.215.649
Yapı Kredi protocol income	3.388.398	2.964.893
Dividend income	2.540.293	12.751.946
Maintenance fee returns from fuel, service and handling		
Companies	1.802.460	2.298.308
Valuation difference of investment property	1.725.000	-
Inventory count surplus	1.195.563	-
Other services income	1.148.542	149.801
Cost free material income	1.054.398	6.489.584
Drawbacks and deductions relating to received services.	964.234	477.202
Rent income	912.474	638.845
Refund as per arrangement by builder of aircraft	702.503	-
Refund of rent relating to returning aircraft	455.007	-
Profit on sale of scrap material	283.261	94.966
Profit on sale of fixed assets	132.624	109.463
Commission income	118.644	64.737
Discount income	-	881.913
Income from manufacturers' credit	-	921.667
Other	3.032.449	12.889.624
	112.828.538	276.079.231

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38 INCOME/LOSSES FROM OTHER OPERATIONS (cont'd)

Losses from other operations consist of the following:

	1 January - 31 December 2007	1 January - 31 December 2006
Increase in provision for diminution in value of tangibl		
Asset due to exchange rate changes	468.893.946	-
Real decrease in provision for diminution in value of tangible asset	(178.731.865)	-
Foreign exchange losses	98.750.693	-
Provision expense	13.326.222	17.053.425
Retirement pay interest cost	6.703.137	6.493.785
Loss on sale of marketable securities	4.967.798	10.078.799
Passengers without visa expense	1.112.743	1.425.731
Indemnity and penalty expense	1.012.296	8.256.573
Discount expense	444.110	-
Loss on sales of fixed assets	1.300	331.724
Loss / (Gain) from financial investment accounted per equity method	-	9.609.379
Rent expense of returning RJ aircraft	-	3.524.454
Maintenance expense of returning RJ aircraft	-	2.316.527
Other expenses	2.505.560	1.588.406
	<u>418.985.940</u>	<u>60.678.803</u>

39 FINANCIAL INCOME/ (EXPENSES)

Financial income and expenses consist of the following:

	1 January - 31 December 2007	1 January - 31 December 2006
Foreign exchange gain / (loss) on finance leases	252.301.590	(18.539.503)
Finance lease interest expenses	(88.707.976)	(71.807.751)
Foreign exchange gain/loss on bank loans	5.978.698	(15.467.926)
Finance lease interest expenses	(2.402.762)	(10.078.109)
Other financial expenses	(21.715)	(748.542)
Gain /loss from the change in fair value of derivative Instuments	(2.796.992)	4.107.077
	<u>164.350.843</u>	<u>(112.534.754)</u>

40 NET MONETARY GAIN/LOSS

On 17 March 2005, CMB announced that the application of inflation accounting is no longer required effective from 1 January 2005 (Note 2). Consequently, for the period ended 31 December 2007 and 31 December 2006, there is no monetary gain / loss.

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41 TAX

Corporate tax payable is as follows:

	31 December 2007	31 December 2006
Provision for corporate tax payable	122.471.610	7.174.359
Prepaid taxes and funds	(102.490.395)	(5.222.340)
	<u>19.981.215</u>	<u>1.952.019</u>

Tax expense is as follows:

	1 January - 31 December 2007	1 January - 31 December 2006
Current period tax expense	122.471.610	7.174.359
Deferred tax expense / (income)	(10.140.728)	3.382.001
Tax expense / (income)	<u>112.330.882</u>	<u>10.556.360</u>

Turkish tax legislation does not permit a parent company, its subsidiaries, joint ventures and affiliates to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

Corporate Income Tax Law numbered 5520 was published in the official gazette numbered 26205 dated 21 June 2006 and came into effect immediately. Herewith, Corporate Income Tax Law numbered 5422 has been abolished.

The corporate tax rate for the fiscal years starting from 2006 is 20% (30% those for benefiting from investment allowances in 2006, 2007 and 2008.) Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and allowances. The annual corporate income tax return is required to be filled in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year. Payments can be made up until the end of the month in which the tax return is to be filed.

In accordance with Income Tax Law Temporary Article 69, investment allowances available as of 31 December 2005 and due to insufficiency of profit are transferable to next years; can be deducted from the profits of 2006, 2007 and 2008 depending on taxpayers' choice. Investment allowances can be forwarded to next years by restatement with Producer Price Index (PPI).

In case of benefiting from investment allowances, the Corporate Tax rate is 30 % instead of 20%. Taxpayers have the option to benefit from investment allowances in all or any of the years 2006, 2007 and 2008.

The parent company preferred to deduct the investment allowances of 2005 from the earnings in 2006 and 2007. Therefore, the applicable current corporate tax rate is 30% for 2006 and 2007. Despite that, the parent company uses 20 % as deferred tax rate for deferred tax assets and liabilities which are of long-term.

Corporations are required to pay advance corporation tax quarterly, at the current rate on their corporate income. Advance tax is to be filed in the following second month's 14th day and paid on 17th day. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

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41 TAX (cont'd)

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the related financial year. Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings.

Except for the dividends paid to non-resident corporations, which have a representative office in Turkey, or resident corporations, dividends that are paid to non-resident corporations or corporations exempt from taxation in accordance with Income Tax Law article 75 paragraph 2 lines (1), (2) and (3) are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

	1 January- 31 December 2007	1 January- 31 December 2006
<u>Reconciliation of provision for taxes:</u>		
Profit from operations before tax	404.223.505	189.339.281
Tax at the domestic income tax rate of %30 (2006: %30)	121.267.050	56.801.784
Tax effect of :		
- revenue that is exempt from taxation	(3.036.319)	(2.845.891)
- investment incentive used	(9.404.519)	(1.447.330)
- expenses that are not deductible in determining taxable profit	1.084.716	6.129.052
- effect of change in tax rate at deferred tax calculation	2.419.954	(48.081.255)
Tax provision expense in profit or loss.	<u>112.330.882</u>	<u>10.556.360</u>

42 EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted average number of shares that have been outstanding during the period concerned.

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

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

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42 EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 31 December 2007 and 2006 are as follows:

	1 January – 31 December 2007	1 January – 31 December 2006
Number of shares outstanding on 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (in full)	-	-
Number of shares outstanding on 31 December (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the period (in full)	175.000.000.000	175.000.000.000
Net profit for the period	291.892.623	178.782.921
Earnings per share (YKr)	0,167	0,102

43 STATEMENTS OF CASH FLOWS

Statements of cash flows are presented together with the financial statements.

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

Consolidated financial statements have been approved by the Group Board of Directors on 2 April 2008.

45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing its profit and market value through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 6 and 8, and equity comprising issued capital, reserves and retained earnings, accumulated losses as disclosed in notes 25, 26, 27 and 28 respectively.

The top management of the Group assesses the cost of capital and the risks associated with each class of capital. At the time of these analyses, top management assesses the risks associatible with each class of capital and gives the ones that are dependent to Board of Directors to the assessment of Board of Directors. As the results of the assessments of top management and Board of Directors, the Group provides the optimisation of the capital diversification through obtaining new debts, repayment of the existing debts and/or capital increase.

Overall strategy of the Group does not differ from the previous period.

(b) Significant accounting policies

Significant accounting policies on financial instruments are disclosed in note 3 "Summary of Significant Accounting Policies", "3.8 Financial Instruments".

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Notes to the consolidated financial statements as at 31 December 2007.

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45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)

(c) Categories of financial instruments

	Financial assets at amortized cost	Loans and receivables	Financial assets at fair value through profit or loss	Investments available for sale	Financial liabilities at amortized cost	Carrying Value	Fair value	Note
31 December 2007 Balance Sheet								
<u>Financial assets</u>								
Cash and cash equivalents	772.216.215	-	-	-	-	772.216.215	772.216.215	4
Accounts receivable	-	250.022.132	-	-	-	250.022.132	250.022.132	7
Due from related parties	-	14.588.000	-	-	-	14.588.000	14.588.000	9
Other Receivables	-	312.002.172	-	-	-	312.002.172	312.002.172	10
Financial assets	-	-	1.310.086	1.706.478	-	3.016.564	3.016.564	16
<u>Financial liabilities</u>								
Financial debts	-	-	-	-	30.450.739	30.450.739	30.450.739	6
Finance lease liabilities	-	-	-	-	1.794.310.094	1.794.310.094	1.794.310.094	8
Other financial liabilities	-	-	-	-	877.628	877.628	877.628	10
Accounts payable	-	-	-	-	369.915.238	369.915.238	369.915.238	7
Due to related parties	-	-	-	-	7.126.031	7.126.031	7.126.031	9
31 December 2006 Balance Sheet								
<u>Financial assets</u>								
Cash and cash equivalents	365.057.959	-	-	-	-	365.057.959	365.057.959	4
Accounts receivable	-	255.868.311	-	-	-	255.868.311	255.868.311	7
Due from related parties	-	37.779.266	-	-	-	37.779.266	37.779.266	9
Other Receivables	-	391.245.248	-	-	-	391.245.248	391.245.248	10
Financial assets	-	-	4.107.077	6.446.598	-	10.553.675	10.553.675	16
<u>Financial liabilities</u>								
Financial debts	-	-	-	-	40.882.600	40.882.600	40.882.600	6
Finance lease liabilities	-	-	-	-	1.662.653.661	1.662.653.661	1.662.653.661	8
Other financial liabilities	-	-	-	-	373.497	373.497	373.497	10
Accounts payable	-	-	-	-	327.103.321	327.103.321	327.103.321	7
Due to related parties	-	-	-	-	14.869.046	14.869.046	14.869.046	9

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45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)

(d) Financial risk management objectives

A formally specified risk management model and its active application are not available within the Group. Currency risk, interest rate risk and liquidity risk are some important risks of the Group.

The Group management manages the risks through its decisions and applications. Even a formally specified risk management model is not available, corporate risk management model has been aimed and the related activities are being performed.

(e) Market risk

The Group is subject to the financial risks related to the changes in the exchange rate (Please see (f) below) and interest rate (Please see (g) below) due to its operations. Distribution of expenses and incomes based the types of exchange rates and distribution of debts based on the types of exchange rates and fixed and variable interest rates are managed by the company management.

(f) Foreign currency risk management

There is a natural balance in the foreign currency risk between the Group's incomes and expenses. This balance is tried to be kept through taking into consideration the future forecasts and market conditions.

Foreign currency sensitivity

The Group is primarily subject to US Dollar and EUR foreign currency risk.

The table below demonstrates that the sensitivity of the Group against the 10 % change in US Dollar and Euro exchange rates. Negative amount demonstrates the decrease effect of the 10 % increase in the value of US Dollar and EUR against TRY in the net profit for the year.

	US Dollar effect (i)		Euro effect (ii)	
	1 January- 31 December 2007	1 January- 31 December 2006	1 January- 31 December 2007	1 January- 31 December 2006
Income statement effect	(74.887.733)	(76.925.886)	(13.581.672)	(10.578.777)

(i) Related to the receivables and payables in US Dollar not due yet as of the end of the period

(ii) Related to the receivables and payables in Euro not due yet as of the end of the period

If US Dollar and Euro is devaluated against TRY by 10 %, the amounts are the same as the figures in the table above and its effect in profit or loss will be reverse.

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Notes to the consolidated financial statements as at 31 December 2007.

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45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management (cont'd)

In the impairment calculation of aircrafts, spare engines, and simulators, US Dollar denominated market prices are used. Accordingly, the impairment provided by the Group for the tangible assets decreases when the US Dollar is evaluated against TRY, and increases when the US Dollar is devaluated against TRY. In this context, If US Dollar is evaluated by 10 % against TRY, there would be an increase amounted TRY 181.754.114 (01 January – 31 December 2006: TRY 161.841.779 YTL) in the net profit for the period except for the effects in the table above due to the decrease in the impairment of aircrafts, spare engines and simulators. If US Dollar is devaluated by 10 % against TRY, effect in the profit or loss would be reverse except for the effects in the table above.

(g) Interest rate risk management

The Group's liabilities are on fixed and variable interest rates. When the interest situations of the existing debts are being considered, it is seen that the variable interests compose the majority. In recent years, a partial balance between the debts with fixed interest and the debts with variable interest is tried to be provided through increasing the weight of the debts with fixed interest provided that the financing of the aircraft is favorable. Because the Group's debts with variable interest rate are dependent to Libor and Euribor, dependency to local risks is low.

The interest rates of the Group's financial liabilities are disclosed in notes 6 and 8.

Interest rate sensitivity

Sensitivity analysis below is determined according to the interest rate risk that is subject to as of the reporting date and the change in this rate and is kept constant throughout the reporting period. The Group Management calculates the effects that are arisen from the fluctuation in the Libor and Euribor rates by 0,5 % that are the interest rates of the Group's variable interest rates and reports them to the top management.

When there is an increase by 0,5 % in Libor and Euribor interest rates and the other variables remain to be constant:

Group's net loss for twelve months period increases by TRY 4.616.168 (In 31December 2006 period , it increases by TRY 6.285.144). When the Libor and Euribor interest rates decrease by 0,5 %, twelve months interest expense decreases as the same amount.

Derivative instruments

The Group made interest rate and exchange rate swap agreements for changing some financial leasing liabilities with fixed interest rate into financial leasing liabilities with floating interest rate, and changing financial leasing liabilities denominated in EUR into financial leasing liabilities denominated in USD.

Gains and losses on changes in the fair value of these transactions are immediately recognized in profit or loss.

Fair value of transaction at issue as of 31 December 2007 and 2006 as follows:

	31 December 2007	31 December 2006
Cross rate swap contracts	(332.468)	4.107.077
Interest rate swap contracts	1.642.554	-
	<u>1.310.086</u>	<u>4.107.077</u>

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Notes to the consolidated financial statements as at 31 December 2007.

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

45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)**(h) Credit risk management**

The Group's credit risk is basically related to its receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economical conditions. Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration. Additionally, the Group manages the risk through obtaining guarantees for its receivables.

(i) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities, and these interests are shown in the adjustment columns in order to confirm with the balance sheet amounts.

	<u>Less than 1 month</u>	<u>1 month-3 months</u>	<u>3 months-1 year</u>	<u>1 year-4 years</u>	<u>Over 4 years</u>	<u>Adjustments</u>	<u>Balance sheet amount</u>
31 December 2007							
Financial liabilities	536.418	803.067	3.936.297	27.921.706	-	(2.746.749)	30.450.739
Finance lease liabilities	26.525.543	45.909.340	226.373.258	797.170.667	1.137.792.480	(439.461.194)	1.794.310.094
Other financial liabilities	877.628	-	-	-	-	-	877.628
Accounts payable	315.683.194	-	50.304.498	7.058.322	-	(3.130.776)	369.915.238
Due to related parties	7.126.031	-	-	-	-	-	7.126.031
	<u>350.748.814</u>	<u>46.712.407</u>	<u>280.614.053</u>	<u>832.150.695</u>	<u>1.137.792.480</u>	<u>(445.338.719)</u>	<u>2.202.679.730</u>
31 December 2006							
Financial Liabilities	686.069	1.037.659	5.053.037	40.316.724	-	(6.210.889)	40.882.600
Finance lease liabilities	27.449.554	46.960.074	218.835.629	824.972.080	930.144.100	(385.707.776)	1.662.653.661
Other financial liabilities	373.497	-	-	-	-	-	373.497
Accounts payable	272.442.087	-	50.613.792	8.988.621	-	(4.941.179)	327.103.321
Due to related parties	14.869.046	-	-	-	-	-	14.869.046
	<u>315.820.253</u>	<u>47.997.733</u>	<u>274.502.458</u>	<u>874.277.425</u>	<u>930.144.100</u>	<u>(396.859.844)</u>	<u>2.045.882.125</u>