

CONVENIENCE TRANSLATION OF  
REPORT AND FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH

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

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2011

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Türk Hava Yolları Anonim Ortaklığı

### Introduction

We have audited the accompanying consolidated balance sheet of Türk Hava Yolları Anonim Ortaklığı and its subsidiaries (together the "Group") as at 31 December 2011 and the related consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year ended 31 December 2011, and a summary of significant accounting policies and other explanatory notes.

### Management Responsibility on Financial Statements

Group Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards published by the 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 misstatements, 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 Capital Markets Board. 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 judgment, 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.

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

## Conclusion

In our opinion, accompanying consolidated financial statements of the Group as of 31 December 2011 and for the year then ended have been properly prepared, in all material respects in accordance with generally accepted accounting standards issued by Capital Markets Board.

## Emphasis of matter

The Company management decided to change the functional currency from Turkish Lira to US Dollar due to the reasons explained in Note 2.1 and considered that it would be appropriate to apply the change beginning from 2011. Turkish Lira is continued to be used as presentation currency and the financial statements are prepared in Turkish Lira. The Company's accompanying financial statements for 2011 are prepared in US Dollar by the method explained in Note 2.1 and translated into Turkish Lira by the method explained in the same Note.

As explained in detail in Note 41, the Group has made certain reclassifications to its financial statements for the year ended 31 December 2010.

İstanbul, 12 April 2012

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Berkman Özata  
Partner

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**AUDITED CONSOLIDATED BALANCE SHEET**  
**AS OF 31 DECEMBER 2011**

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

<b>ASSETS</b>	<b>Notes</b>	<b>Current Period 31 December 2011</b>	<b>Prior Period 31 December 2010</b>
<b>Current Assets</b>		<b>4,073,526,998</b>	<b>3,491,777,500</b>
Cash and cash equivalents	6	1,549,524,710	813,936,552
Financial assets	7	213,899,678	84,070,372
Trade receivables	10	760,396,929	577,622,814
Other receivables	11	811,695,889	1,649,525,777
Inventories	13	251,785,807	172,076,283
Other current assets	26	206,751,785	194,545,702
Non-current assets held for sale	34	279,472,200	-
<b>Non-current Assets</b>		<b>12,331,420,131</b>	<b>7,157,108,485</b>
Other receivables	11	583,806,507	214,636,988
Financial assets	7	1,767,872	1,750,943
Investments accounted for using the equity method	16	294,960,592	193,562,028
Investment property	17	54,720,000	49,570,000
Tangible assets	18	11,092,594,872	6,443,437,235
Intangible assets	19	46,962,939	33,099,101
Other non-current assets	26	256,607,349	221,052,190
<b>TOTAL ASSETS</b>		<b>16,404,947,129</b>	<b>10,648,885,985</b>

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

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**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**AUDITED CONSOLIDATED BALANCE SHEET**  
**AS OF 31 DECEMBER 2011**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>Current Period 31 December 2011</b>	<b>Prior Period 31 December 2010</b>
<b>Current Liabilities</b>		<b>3,951,410,408</b>	<b>2,540,819,554</b>
Financial debt	8	790,159,337	493,120,594
Other financial liabilities	9	158,483,592	63,750,323
Trade payables	10	1,001,609,621	735,874,026
Other payables	11	216,512,852	162,798,563
Current tax liabilities	35	5,368,643	-
Provisions	22	26,224,798	20,480,602
Provisions for employee benefits	24	251,298,892	102,214,757
Passenger flight liabilities	26	1,076,598,617	673,843,879
Other current liabilities	26	425,154,056	288,736,810
 <b>Non- current Liabilities</b>		 <b>7,954,609,080</b>	 <b>4,360,659,447</b>
Financial debt	8	7,122,723,496	3,684,958,785
Other payables	11	11,439,394	9,831,914
Provisions for employee benefits	24	191,632,448	170,505,529
Deferred tax liability	35	574,679,843	435,385,525
Other non- current liabilities	26	54,133,899	59,977,694
 <b>SHAREHOLDERS' EQUITY</b>			
<b>Equity Attributable to Shareholders' of Parent</b>		<b>4,498,927,641</b>	<b>3,747,406,984</b>
Share capital	27	1,200,000,000	1,000,000,000
Inflation difference on shareholders' equity	27	1,123,808,032	1,123,808,032
Restricted reserves assorted from profit reserves	27	39,326,341	39,326,341
Currency translation differences	27	798,590,878	3,589,635
Cash flow hedge fund	27	( 46,613,446)	15,383,772
Retained earnings	27	1,365,299,204	1,278,855,843
Net profit for the year	27	18,516,632	286,443,361
 <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		 <b>16,404,947,129</b>	 <b>10,648,885,985</b>

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

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**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

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

		Current Period 1 January- 31 December 2011	Prior Period 1 January- 31 December 2010
	Notes		
Sales revenue	28	11,815,424,727	8,422,771,140
Cost of sales (-)	28	( 9,787,529,272)	( 6,652,115,477)
<b>GROSS PROFIT</b>		<b>2,027,895,455</b>	<b>1,770,655,663</b>
Marketing and sales expenses (-)	29	( 1,304,775,986)	( 980,877,520)
Administrative expenses (-)	29	( 384,604,722)	( 327,017,860)
Other operating income	31	159,756,551	141,579,534
Other operating expenses (-)	31	( 397,182,482)	( 122,151,211)
<b>OPERATING PROFIT</b>		<b>101,088,816</b>	<b>482,188,606</b>
Share of investments' profit/ (loss) accounted for using the equity method	16	10,074,016	( 36,800,970)
Financial income	32	277,453,552	72,851,263
Financial expenses (-)	33	( 242,727,392)	( 152,549,546)
<b>PROFIT BEFORE TAX</b>		<b>145,888,992</b>	<b>365,689,353</b>
<b>Tax expense</b>		<b>( 127,372,360)</b>	<b>( 79,245,992)</b>
Current tax expense (-)	35	( 16,770,183)	( 10,387,347)
Deferred tax expense (-)	35	( 110,602,177)	( 68,858,645)
<b>PROFIT FOR THE YEAR</b>		<b>18,516,632</b>	<b>286,443,361</b>
<b>OTHER COMPREHENSIVE INCOME / (EXPENSE)</b>			
Change in currency translation differences		795,001,243	( 1,051,704)
Change in cash flow hedge fund		( 77,496,523)	21,418,876
Tax expense (-)/income (+) on items in other comprehensive income		15,499,305	( 4,283,775)
<b>OTHER COMPREHENSIVE INCOME (AFTER TAX)</b>		<b>733,004,025</b>	<b>16,083,397</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>751,520,657</b>	<b>302,526,758</b>
Earnings per share (Kr)	36	0.02	0.24

Ekteki dipnotlar konsolide finansal tabloların tamamlayıcı parçasını oluştururlar.

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**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**  
**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
**(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)**

	Notes	Share capital	Inflation difference on shareholders' equity	Restricted reserves assorted from profit reserves	Currency translation differences	Cash flow hedge fund	Net profit for the year	Retained earnings	Total shareholders' equity
As of 31 December 2009		875,000,000	1,123,808,032	22,686,727	4,641,339	(1,751,329)	559,076,280	861,419,177	3,444,880,226
Capital increase	27	125,000,000	-	-	-	-	(125,000,000)	-	-
Transfer of previous years' profit to capital reserves	27	-	-	16,639,614	-	-	(16,639,614)	-	-
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	(417,436,666)	417,436,666	-
Total comprehensive income/(loss) for the year		-	-	-	(1,051,704)	17,135,101	286,443,361	-	302,526,758
As of 31 December 2010		1,000,000,000	1,123,808,032	39,326,341	3,589,635	15,383,772	286,443,361	1,278,855,843	3,747,406,984
Capital increase	27	200,000,000	-	-	-	-	(200,000,000)	-	-
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	(86,443,361)	86,443,361	-
Total comprehensive income /(loss) for the year		-	-	-	795,001,243	(61,997,218)	18,516,632	-	751,520,657
As of 31 December 2011		1,200,000,000	1,123,808,032	39,326,341	798,590,878	(46,613,446)	18,516,632	1,365,299,204	4,498,927,641

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

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

		Current Period 1 January- 31 December 2011	Prior Period 1 January- 31 December 2010
CASH FLOW FROM OPERATING ACTIVITIES	Notes		
Net profit before taxes		145,888,992	365,689,353
Adjustments to obtain net cash flow generated from operating activities:			
Depreciation and amortization	18-19	811,848,621	458,539,301
Provision for retirement pay liability	24	43,712,634	48,486,761
Provisions, net	22	5,765,448	13,193,248
Interest income	32	(90,492,295)	(38,397,854)
Gain on sales of fixed assets	31	(5,400,013)	(45,206,644)
Increase in provision for impairment	18	329,671,432	5,356,560
(Profit)/loss on equity investments accounted for using the equity method	16	(10,074,016)	36,800,970
Interest expense on finance leases	33	217,312,422	87,999,221
Change in manufacturers' credit	26	(3,746,701)	(2,728,629)
Unrealized foreign exchange loss on finance leases	32-33	17,326,207	13,262,857
Increase in provision for doubtful receivables	17	25,733,253	37,489,876
Impairment on investment property	32-33	5,169,703	(760,000)
Change in fair value of derivative instruments	32-33	8,879,487	5,787,041
Operating profit before working capital changes		<b>1,501,595,174</b>	<b>985,512,061</b>
Increase in trade receivables		( 74,080,593)	(171,422,465)
Increase in other short and long term receivables		(149,193,114)	(35,459,709)
Increase in inventories	13	(36,746,558)	(23,080,351)
Decrease in other current assets	26	27,370,907	8,798,815
(Increase) / decrease in other non-current assets	26	11,918,075	(137,480,236)
Increase in trade payables	10	90,682,688	176,764,204
Increase in other short-term and long-term payables	11	15,065,985	7,055,483
Increase in other short and long term liabilities		39,474,917	104,740,795
Increase in short-term employee benefits	24	111,816,923	47,480,277
Increase in passenger flight liabilities	26	224,050,649	87,318,600
Cash flow from operating activities		<b>1,761,955,053</b>	<b>1,050,227,474</b>
Payment of retirement pay liability	24	(27,610,423)	(29,856,794)
Interest paid		(168,515,067)	(86,727,275)
Taxes paid	35	(13,587,608)	(72,477,652)
Net cash flow from operating activities		<b>1,552,241,955</b>	<b>861,165,753</b>
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible and intangible fixed assets	18-19-31	20,246,527	116,003,254
Interest received		94,039,511	34,658,151
Purchase of tangible and intangible fixed assets (*)	18-19	(1,088,704,104)	( 629,433,434)
Prepayments for the purchase of aircrafts	11	929,467,323	(415,301,558)
(Increase)/ decrease in financial investments	7	(117,786,293)	175,000,000
Cash outflow resulting from purchase of joint ventures		(11,681,249)	(34,162,146)
Net cash used in investing activities		<b>( 174,418,285)</b>	<b>( 753,235,733)</b>
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal in finance lease liabilities		( 628,472,899)	( 371,225,019)
(Decrease)/increase in financial borrowings		( 15,750,096)	( 13,503,240)
Increase/(decrease) in other financial liabilities	9	1,987,483	270,916
Net cash used in financing activities		<b>( 642,235,512)</b>	<b>( 384,457,343)</b>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>735,588,158</b>	<b>( 276,527,323)</b>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		<b>813,936,552</b>	<b>1,090,463,875</b>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<b>1,549,524,710</b>	<b>813,936,552</b>

(\*) TL 3.236.232.943 portion of tangible and intangible assets purchases in total of TL 4.324.937.047 for the year ended 31 December 2011 was financed through finance leases. (31 December 2010: TL 1.560.106.711 portion of tangible and intangible assets purchases in total of TL 2.189.540.145 was financed through leases.)

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



# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

## Audited Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2011

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

### 1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 31 December 2011 and 31 December 2010, the shareholders and their respective shareholdings in the Company are as follows:

	<u>1 December 2011</u>	<u>31 December 2010</u>
Republic of Turkey Prime Ministry		
Privatization Administration	49,12 %	49,12 %
Other (publicly held)	50,88 %	50,88 %
Total	<u>100,00 %</u>	<u>100,00 %</u>

The total number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 December 2011 is 18.489 (31 December 2010: 17.119). The average number of employees working for the Group for the year ended 31 December 2011 and 2010 are 18.104 and 16.027, respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

The Company’s stocks are traded on the Istanbul Stock Exchange since 1990.

Subsidiaries of the Company are THY Teknik A.Ş. (THY Teknik A.Ş.) and HABOM Havacılık Bakım Onarım ve Modifikasyon Merkezi A.Ş. (HABOM).

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

#### Air Transport (“Aviation”)

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

#### Technical Maintenance Services (“Technical”)

The Company’s objective is to become an important regional base for technical maintenance, in addition to this, repair and maintenance on civil aviation sector and give all kinds of technical and infrastructure support related to airline industry.

#### **Approval of Financial Statements**

Board of Directors has approved the consolidated financial statements as of 31 December 2011 and delegated authority for publishing it on 12 April 2012. General shareholders’ meeting has the authority to modify the financial statements.

### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

#### **2.1 Basis of Presentation**

##### Basis of Preparation for Financial Statements and Significant Accounting Policies

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles and the local currency in their registered countries.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

### **2.1 Basis of Presentation (cont'd)**

#### Basis of Preparation for Financial Statements and Significant Accounting Policies (cont'd)

The Capital Markets Board (“CMB”) has established principles, procedures and basis on the preparation of financial reports by enterprises and the representation of the reports with Communiqué Series XI, No: 29 “Communiqué on Capital Market Financial Reporting Standards”. This Communiqué is applicable for the first interim financial statements to be prepared after 1 January 2008 and with this Communiqué, the Communiqué Series XI, No: 29 “Communiqué on Capital Market Accounting Standards” has been repealed. In accordance with this Communiqué, the companies are supposed to prepare their financial statements in accordance with the International Financial Reporting Standards (“IAS/IFRS”) accepted by the European Union. Nevertheless, until the discrepancies between the IAS/IFRS accepted by the European Union, and the IAS/IFRS declared by IASB are announced by the Turkish Accounting Standards Board (“TASB”), IAS/IFRS will be in use. Under these circumstances, Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS/TFRS”), which are the standards published by TASB, not contradicting with IAS/IFRS will be predicated on.

The accompanying consolidated financial statements have been prepared in accordance with IFRS and comply with CMB’s decree announce on 17 April 2008 and 9 January 2009 regarding the format of the financial statements and footnotes.

Statutory Decree No: 660, which has been become effective and published in the Official Gazette on 2 November 2011, and the Additional Clause 1 of the Law No: 2499 were nullified and accordingly, Public Oversight, Accounting and Audit Standards Institution (the “Institution”) was established. As per Additional Article 1 of the Statutory Decree, applicable laws and standards will apply until new standards and regulations be issued by the Institution and will become effective. In this respect, the respective matter has no effect over the ‘Basis of The Preparation of Financial Statements’ Note disclosed in the accompanying financial statements as of the reporting date.

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

#### Currency Used In Financial Statements

##### *Change in the functional currency*

The Company has significantly increased its fleet size and flight destinations through the investments in recent years. Together with the increase in the number of wide-body aircrafts in the fleet, the portion of revenue from international transit passengers within total revenue increased. Within the Company’s strategy toward operating on a global basis instead of a relatively narrow geographical area and making İstanbul as an important international hub, and due to the expansion in the geographical environment in which it competes/operates, the power of Turkish Lira to reflect fundamental economic environment in which the Company operates has decreased in terms of competition/operational factors. The Company management evaluated the effect of US Dollar upon the Company’s operations and decided to change the functional currency as US Dollars.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

### **2.1 Basis of Presentation (Cont'd)**

#### Currency Used In Financial Statements (cont'd)

##### Change in the functional currency (cont'd)

The Company has made the functional currency change calculations in the last quarter of 2011. When the results of these calculations and the method to be used for the functional currency change are taken into account, the Company management has concluded to apply the change in functional currency from the beginning of 2011 and to use US Dollars as the functional currency as of 1 January 2011 considering changes in the economic environment of the Company and its operations happened gradually overtime and the Company's TL financial statements prepared as of 31 December 2010 are so close with the Company's financial statements prepared based on the US Dollar historical cost method. TL remains as the presentation currency of the Group.

Accordingly, all the figures in the 31 December 2010 balance sheet are translated into US Dollars by using the prevailing Central Bank's closing rate, which corresponds to 1,5460, at 31 December 2010 and all these figures are taken as the opening historical cost of non-monetary balance sheet items such as; tangible and intangible assets, investment property, inventories, associates and passenger flight liabilities. The 2011 movements of these items and the statement of income are translated to US Dollars at the rates of exchange prevailing on the dates of the transactions (or by using average exchange rates when suitable). The translation difference gain is recognized as foreign exchange income under finance expenses.

##### Translation to the presentation currency

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

- (a) Assets and liabilities in the balance sheet as of 31 December 2011 are translated into TL at the prevailing exchange rates of the Central Bank of Turkish Republic (TL 1,8889 TL = US Dollar \$ 1);
- (b) The income statement prepared for the year ended as of 31 December 2011 is translated into TL by using the 2011 average US Dollar exchange rates; and
- (c) All differences are recognized as a separate equity item under exchange differences.

##### Adjustment of Financial Statements in Hyperinflationary Periods

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

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)****2.1 Basis of Presentation (cont'd)**Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current year, the Group has made several reclassifications in the prior year consolidated financial statements in order to maintain consistency, with current year consolidated financial statements. Nature, cause and amounts of classifications are explained in Note 41.

Basis of the Consolidation

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

b) 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 Subsidiaries and participation rate of the Group in these subsidiaries as of 31 December 2011:

Name of the Company	Principal Activity	<u>Participation Rate</u>		Country of Registration
		<u>31December2011</u>	<u>31 December 2010</u>	
THY Teknik	Aircraft			
	Maintenance	100%	100%	Turkey
	Services			
HABOM	Aircraft			
	Maintenance	100%	-	Turkey
	Services			

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

c) The Group has ten joint ventures. These joint ventures are economical activities that decisions about strategic finance and operating policy are jointly controlled by the consensus of the Group and other participants. The affiliates are controlled by the Group jointly, and are valued by equity method.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Audited Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2011**

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

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)****2.1 Basis of Presentation (cont'd)**Basis of the Consolidation (Cont'd)

The table below sets out consolidated affiliates and indicates the proportion of ownership interest of the Company in these affiliates as of 31 December 2011:

Company Name	Country of Registration and Operation	Ownership Share (*)	Voting Power (*)	Principle Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express) (*)	Turkey	50%	50%	Air transportation
THY DO&CO İkram Hizmetleri A.Ş. (Turkish DO&CO) (*)	Turkey	50%	50%	Catering services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC) (*)	Turkey	49%	49%	Maintenance services
Bosnia Herzegovina Airlines (Air Bosna) (*)	Bosnia and Herzegovina	49%	49%	Air transportation
TGS Yer Hizmetleri A.Ş. (TGS) (*)	Turkey	50%	50%	Ground services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet) (*)	Turkey	50%	50%	Aviation fuel
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich) (**)	Turkey	40%	40%	Maintenance services
Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk)(**)	Turkey	50%	50%	Cabin Interior Products
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) (**)	Turkey	51%	51%	Cabin Interior Products
Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Turkbine Teknik) (**)	Turkey	50%	50%	Maintenance services

(\*) Share percentage and voting rights are the same in the year 2011 and 2010.

(\*\*) Established in the year 2011.

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).

**2.2 Changes in Accounting Policies**

Significant amendments in accounting policies and significant accounting errors are applied retrospectively and prior period financial statements should be restated. Changes in accounting estimates should be applied prospectively, if only for a period in which the change in current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period.

**2.3 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.

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

### 2.4 New and Revised International Financial Reporting Standards

#### (a) New and Revised IFRSs affecting presentation and disclosure only

Amendments to IAS 1  
*Presentation of Financial  
Statements (as part of Improvements to  
IFRSs issued in 2010)*

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.

#### (b) New and Revised IFRSs affecting the reported financial performance and / or financial position

None.

#### (c) New and Revised IFRSs applied with no material effect on the consolidated financial statements

IAS 24 *Related Party Disclosures*  
*(as revised in 2009)*

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

Amendments to IFRS 3 Business  
Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

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

**2.4 New and Revised International Financial Reporting Standards (Cont'd)**

**(c) New and Revised IFRSs applied with no material effect on the consolidated financial statements (Cont'd)**

*Amendments to IAS 32*

*Classification of  
Rights Issues*

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

*Amendments to IFRIC 14  
Prepayments of a Minimum  
Funding Requirement*

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.

*IFRIC 19 Extinguishing  
Financial Liabilities with  
Equity Instruments*

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

The application of IFRIC 19 had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)****2.4 New and Revised International Financial Reporting Standards (Cont'd)****(c) New and Revised IFRSs applied with no material effect on the consolidated financial statements (Cont'd)**

Improvements to IFRSs issued in 2010	Except for the amendments to IAS 1 described earlier in section (a), the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.
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**(d) New and Revised IFRSs in issue but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets; Offsetting of Financial Assets and Financial Liabilities</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
Amendments to IAS 12	<i>Deferred Taxes – Recovery of Underlying Assets</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statement</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Amendments to IAS 32	<i>Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities</i>

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Group management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.



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

### **2.4 New and Revised International Financial Reporting Standards (cont'd)**

#### **(d) New and Revised IFRSs in issue but not yet effective**

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

The Group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.4 New and Revised International Financial Reporting Standards (Cont'd)**

#### **(d) New and Revised IFRSs in issue but not yet effective (Cont'd)**

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Group management anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of IFRS 10 may result in the Group consolidating investees that were not previously consolidated. Under IFRS 11, a jointly controlled entity may be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement. However, the management has not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.4 New and Revised International Financial Reporting Standards (Cont'd)**

#### **(d) New and Revised IFRSs in issue but not yet effective (Cont'd)**

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The management anticipates that the application of the amendments to IAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognized in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the management has not yet performed a detailed analysis of the impact of the application of the amendments and hence has not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.4 New and Revised International Financial Reporting Standards (Cont'd)**

#### **(d) New and Revised IFRSs in issue but not yet effective (Cont'd)**

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The management anticipates that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the management has not yet performed a detailed analysis of the impact of the application of the amendments and hence has not yet quantified the extent of the impact.

On 19 October 2011 the IASB issued an Interpretation, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

### **2.5 Summary of Significant Accounting Policies**

Significant accounting policies applied in the preparation of accompanying consolidated financial statements are as follows

#### **2.5.1 Revenue**

##### *Rendering of services:*

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (unflown) 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.

Aircraft maintenance and infrastructure support services are accrued with regard to invoices prepared subsequent to the services.

##### *Dividend and interest income:*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income generated from equity investments is registered as shareholders gain the dividend rights.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.5.2 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Average cost method is applied in the calculation of cost of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

### **2.5.3 Tangible Assets**

Tangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction that are held for rental or any other administrative or undefined purposes are carried at cost less any impairment loss, if any. Legal fees are also included in cost. Borrowing costs are capitalized for assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

Assets acquired under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The Group has classified the cost of assets that are acquired directly or through finance leases into the following three parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; fuselage, overhaul maintenance for the fuselage, engine and overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life. They are capitalized subsequent to overhaul maintenance for the fuselage and engines and are depreciated over the shorter of the next maintenance period or the remaining period of the aircraft's useful life.

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.

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES****Audited Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2011**

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

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)****2.5 Summary of Significant Accounting Policies (Cont'd)****2.5.3 Tangible Assets (Cont'd)**

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 and Engines	20	10%
- Cargo Aircraft and Engines	20	10%
- Overhaul maintenance for aircrafts' fuselage	6	-
- Overhaul maintenance for engines	3-6-8-13	-
- Components	7	-
- Repairable Spare Parts	3-7	-
- Simulators	10-20	10%
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-
- Leasehold improvements	Lease period	-

**2.5.4 Leasing Transactions**Leasing - the Group as the lessee

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.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.5 Summary of Significant Accounting Policies (Cont'd)**

**2.5.5 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. Other intangible assets are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with infinite useful life, once there are no time restrictions on them time.

**2.5.6 Non-current Assets Held For Sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Such assets can be a separate line of business, a disposal group or a single non-current asset.

**2.5.7 Impairment on Assets**

The carrying amounts of the Group'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 amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

Group determined aircrafts, spare engines and simulators together ("Aircrafts") as lower-line cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively. In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used for determination of recoverable amounts. 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 are shown under group of financial income/expenses.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.5 Summary of Significant Accounting Policies (Cont'd)**

**2.5.8 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

**2.5.9 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**

Financial investments are recognized and derecognized on a 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 of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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 amortized 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 appropriate 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.



## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.5 Summary of Significant Accounting Policies (Cont'd)**

#### **2.5.9 Financial Instruments (Cont'd)**

##### **a) Financial assets (Cont'd)**

##### **Loans and receivables**

Trade and other receivables are initially recorded at fair value. At subsequent periods, loans and receivables are measured at amortized 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 financial assets at amortized cost, 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 of fare 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 amortized cost would have been had the impairment not been recognized. 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.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.5 Summary of Significant Accounting Policies (Cont'd)**

#### **2.5.9 Financial Instruments (Cont'd)**

##### **a) Financial liabilities (Cont'd)**

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 amortized 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 amortized 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.

##### **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 major source of interest rate risk is finance lease liabilities. The Group's policy is to convert 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 derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments is directly accounted in the income statement. The Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments.

Also, the Group began to obtain derivative financial instruments to hedge against jet fuel price risks beginning from 2009. The Group accounts for those transactions as hedging against cash flow risks arising from jet fuel prices.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)****2.5 Summary of Significant Accounting Policies (Cont'd)****2.5.9 Financial Instruments (Cont'd)****b) Financial liabilities (Cont'd)****Derivative financial instruments and hedge accounting (cont'd)**

Use of derivative financial instruments is managed according to the Group policy which is written principles approved by the Board of Directors and compliant with the risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivative financial instruments are calculated according to the fair value and again calculated for the next reporting period at fair value base. If the changes in the fair value of derivatives which are determined as the hedge of future cash flows are the ineffective, then they are recorded directly under income statement.

**2.5.10 Foreign Currency Transactions**

Transactions in foreign currencies are translated into US Dollar 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 TL - US Dollar exchange rates for the periods are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2011	1,8889	1,6708
Year ended 31 December 2010	1,5460	1,4990
Year ended 31 December 2009	1,5057	1,5457

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

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2011	1,2938	1,3912
Year ended 31 December 2010	1,3254	1,3266
Year ended 31 December 2009	1,4347	1,3970

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.5 Summary of Significant Accounting Policies (Cont'd)**

#### **2.5.11 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.

#### **2.5.12 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.

If such an event were to arise, the Group restates its financial statements accordingly.

#### **2.5.13 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 recognized 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Onerous Contracts**

Present liabilities arising from onerous contracts are calculated and accounted for as provision.

It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract.

#### **2.5.14 Segmental Information**

There are two operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Company management uses the operating profit calculated according to financial reporting standards issued by the Capital Markets Board while evaluating the performances of the segments.

#### **2.5.15 Investment Property**

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.5 Summary of Significant Accounting Policies (Cont'd)**

**2.5.15 Investment Property (cont'd)**

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 derecognized 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 recognized in profit or loss in the year of retirement or disposal.

**2.5.16 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.

Deferred tax liabilities are recognized 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

### 2.5 Summary of Significant Accounting Policies (Cont'd)

#### 2.5.16 Taxation and Deferred Tax (cont'd)

##### Deferred Tax (cont'd)

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 realized, 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 (Cont'd)

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 recognized 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 recognized 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 acquirer's identifiable assets, liabilities and contingent liabilities over cost.

#### 2.5.17 Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.5 Summary of Significant Accounting Policies (Cont'd)**

#### **2.5.18 Employee Benefits / 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 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

#### **2.5.19 Statement of Cash flows**

In statement of cash flows, 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.

#### **2.5.20 Share Capital and Dividends**

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

#### **2.5.21 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.

#### **2.5.22 Maintenance and Repair Costs**

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and finance leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft and delivery maintenance checks of operating leased aircraft are accrued on a periodical basis. The maintenance expenses for the operational leased aircrafts are accrued on a periodical basis.

#### **2.5.23 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. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s). A portion of the fair value of the consideration received in respect of the initial sale shall be allocated to the award credits and the consideration allocated to award credits should be recognized as revenue when awards credits are redeemed.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.5 Summary of Significant Accounting Policies (Cont'd)**

**2.5.23 Frequent Flyer Program (cont'd)**

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.

**2.6 Changes and Errors in Accounting Estimates**

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively.

In this context, the Group reviewed prediction of useful lives of engine major maintenance which included fixed assets and decided to change major maintenance useful lives from 3 and 5 years to 3,6,8 and 13 years. As a result of this change in useful lives, for the year ended on 31 December 2011 consolidated financial statements, depreciation expense included in cost of sales decreased by TL 42.500.924, deferred tax expense increased by TL 8.500.185 TL, profit and earnings per share increased TL 34.000.739 and Kr 0,028 respectively.

Changes in accounting policies or accounting errors applied retroactively and the financial statements of the previous periods were adjusted.

**2.7 Important Accounting Estimates and Assumptions**

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period were given below:

**The Determination of Impairment on Long Term Assets:**

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Disclosure 2.5.7.

**Calculation of the Liability for Frequent Flyer Program:**

As explained in Note 2.5.23, Group has programs called “Miles and Smiles” and “Shop & Miles” which are applied for its members. In the calculations of the liability related with concerned programs, the rate of use and mile values which are determined by using statistical methods over the historical data were used.



## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

### **2.7 Important Accounting Estimates and Assumptions (cont'd)**

#### *Useful Lives and Salvage Values of Tangible Assets:*

Group has allocated depreciation over tangible assets by taking into consideration the useful lives and salvage values which were explained in Note 2.5.3.

#### *Deferred Tax:*

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. There are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future in the Group. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. As a result of the assessment made, the Group has recognized deferred tax assets because it is probable that taxable profit will be available sufficient to recognize deferred tax assets.

#### *Corporate Tax Law 32/A and the effects of Resolution issued on “Government Assistance for Investments” by the Council of Ministers:*

A new incentive standard that reconstitutes government assistance for investments has been developed with the addition to the clause 32/A of the Corporate Tax Law to be effective from 28 February 2009 with the 9<sup>th</sup> article of the 5838 numbered Law in order to support investments through taxes on income. The new investment system becomes effective upon the issuance of the Council of Ministers’ resolution “Government Assistance for Investments” No:2009/15199 on 14 July 2009.

Apart from the previous “investment incentive” application, which provides the deduction of certain portion of investment expenditures against corporate tax base, the new support system aims to provide incentive support to companies by deducting “contribution amount”, which is calculated by applying the “contribution rate” prescribed in the Council of Ministers’ resolution over the related investment expenditure, against the corporate tax imposed on the related investment to the extent the amount reaches to the corresponding “contribution amount”.

The Group has obtained an Incentive Certificate dated 28 December 2010 and numbered 99256 from Turkish Treasury. For the related 89 aircrafts to be obtained in 2010-2015, 20% of investment assistance and 50% of reduction in the corporate tax rate will be used. The contribution amount that will be deducted from the corporate tax calculated over the earnings arising from the related investment, which will be used in the following years for the aircrafts delivered as of 31 December 2011 is TL 1.166.491.347.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.7 Important Accounting Estimates and Assumptions (Cont'd)**

There is no clear guidance in regards to the accounting for government tax incentives on investments in IAS 12 “Income Tax” and IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. Since “contribution amount” exemption as explained in the new investment support system depends on the earnings from the related investment and the recovery of the related asset and utilization of contribution amount will be over many years, the Group management considers that the accounting for the related investment assistance will be more appropriate if the grant is classified as deferred income which is recognized as income on a systematic and rational basis over the useful life of the related assets, as explained in the paragraphs 24 and 26 of IAS 20.

As for the reasons mentioned above, as of 31 December 2011, the Group recognized TL 43.866.276 of the related contribution amount as other income in the accompanying comprehensive income statement and the investment assistance receivable in the long-term other assets based on the passage of time since the related aircraft entered into service.

**3. BUSINESS COMBINATIONS**

None.

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**4. JOINT VENTURES**

See Note 16.

**5. SEGMENTAL REPORTING**

The management of the Group investigates the results and operations based on air transportation and aircraft technical maintenance services in order to determine in which resources to be allocated to segments and to evaluate the performances of segments. The detailed information on the sales data of the Group is given in Note 28.

**5.1 Total Assets and Liabilities**

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total Assets		
Aviation	16,342,114,312	10,539,002,128
Technic	1,097,317,847	775,767,109
Total	17,439,432,159	11,314,769,237
Less: Eliminations due to consolidation statements	(1,034,485,030)	(665,883,252)
	16,404,947,129	10,648,885,985
Total Liabilities	<b>31 December 2011</b>	<b>31 December 2010</b>
Aviation	11,748,214,373	6,791,595,144
Technic	248,997,863	192,513,058
Total	11,997,212,236	6,984,108,202
Less: Eliminations due to consolidation statements	(91,192,748)	(82,629,201)
	11,906,019,488	6,901,479,001

**5.2 Net Operating Profit / (Loss)**

Segment Results:

<b>1 January 2011- 31 December 2011</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to external customers	11,602,840,576	212,584,151	-	11,815,424,727
Inter-segment sales	29,362,804	614,148,458	(643,511,262)	-
Segment revenue	11,632,203,380	826,732,609	(643,511,262)	11,815,424,727
Cost of sales	(9,742,933,483)	(683,918,768)	639,322,979	(9,787,529,272)
Gross profit / (loss)	1,889,269,897	142,813,841	(4,188,283)	2,027,895,455
Marketing, sales and distribution expenses	(1,296,606,993)	(8,653,848)	484,855	(1,304,775,986)
Administrative expenses	(327,838,866)	(60,147,481)	3,381,625	(384,604,722)
Other operating income	148,986,937	17,881,114	(7,111,500)	159,756,551
Other operating expense	(382,879,487)	(15,637,879)	1,334,884	(397,182,482)
Operating profit / (loss)	30,931,488	76,255,747	(6,098,419)	101,088,816
Share of investment profit/ (loss) accounted for using the equity method	40,112,749	(30,038,733)	-	10,074,016
Financial income	287,540,045	(3,253,302)	(6,833,191)	277,453,552
Financial loss	(242,719,153)	(8,299)	60	(242,727,392)
Profit / (loss) before tax	115,865,129	42,955,413	(12,931,550)	145,888,992

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**5. SEGMENTAL REPORTING (Cont'd)****5.2 Net Operating Profit / (Loss) (cont'd)**

<b>1 January 2010- 31 December 2010</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Sales to external customers	8,223,653,220	199,117,920	-	8,422,771,140
Inter-segment sales	50,470,804	521,588,023	(572,058,827)	-
Segment revenue	8,274,124,024	720,705,943	(572,058,827)	8,422,771,140
Cost of sales	(6,640,428,539)	(584,975,934)	573,288,996	(6,652,115,477)
Gross profit / (loss)	1,633,695,485	135,730,009	1,230,169	1,770,655,663
Marketing, sales and distribution expenses	(974,598,462)	(6,677,116)	398,058	(980,877,520)
Administrative expenses	(277,110,210)	(54,533,025)	4,625,375	(327,017,860)
Other operating income	120,345,974	25,608,193	(4,374,633)	141,579,534
Other operating expense	(95,970,306)	(28,963,851)	2,782,946	(122,151,211)
Operating profit / (loss)	406,362,481	71,164,210	(4,661,915)	482,188,606
Share of investment profit/ (loss) accounted for using the equity method	(12,034,246)	(24,766,724)	-	(36,800,970)
Financial income	20,168,084	57,422,792	4,739,613	72,851,263
Financial loss	(100,988,494)	(51,638,750)	(77,698)	(152,549,546)
Profit before tax	313,507,825	52,181,528	-	365,689,353

Income statement items related to investments accounted for equity method

<b>1 January-31 December 2011</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Share of investment profit/ (loss) accounted for using the equity method	40,112,749	(30,038,733)	-	10,074,016

  

<b>1 January-31 December 2010</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Share of investment profit/ (loss) accounted for using the equity method	(12,034,246)	(24,766,724)	-	(36,800,970)

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**5. SEGMENTAL REPORTING (Cont'd)****5.3 Investment Operations**

<b>1 January-31 December 2011</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of tangible and intangible fixed assets	4,091,389,794	233,547,254	-	4,324,937,048
Current period amortization and depreciation	753,118,045	58,730,576	-	811,848,621
Investmensts accounted for using the equity method	209,705,888	85,254,704	-	294,960,592

<b>1 January-31 December 2010</b>	<b>Aviation</b>	<b>Technic</b>	<b>Inter-segment elimination</b>	<b>Total</b>
Purchase of tangible and intangible fixed assets	2,040,545,247	148,994,905	-	2,189,540,152
Current period amortization and depreciation	405,284,021	53,255,280	-	458,539,301
Investmensts accounted for using the equity method	139,869,760	53,692,268	-	193,562,028

**6. CASH AND CASH EQUIVALENTS**

	<b><u>31 December 2011</u></b>	<b><u>31 December 2010</u></b>
Cash	5,959,669	760,094
Banks – Time deposits	1,291,657,138	686,094,724
Banks – Demand deposits	213,883,414	92,757,084
Other liquid assets	38,024,489	34,324,650
	<b><u>1,549,524,710</u></b>	<b><u>813,936,552</u></b>

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**6. CASH AND CASH EQUIVALENTS (cont'd)**Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2011</u>
193,850,000	TL	6,30%-12,25%	February 2012	204,608,315
322,754,001	EUR	5,30%-6,25%	March 2012	790,619,702
153,906,163	USD	4,50%-6,25%	March 2012	296,429,121
				<u>1,291,657,138</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2010</u>
194,300,000	TL	8,03% - 9,45%	February 2011	195,646,658
41,490,000	EUR	3,25% - 3,60%	March 2011	85,094,255
261,895,582	USD	3,06% - 3,60%	March 2011	405,353,811
				<u>686,094,724</u>

**7. FINANCIAL ASSETS**

Short-term financial assets are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Time deposits with maturity more than 3 months	133,533,101	-
Derivative instruments at fair values (Note 39)	80,366,577	84,070,372
	<u>213,899,678</u>	<u>84,070,372</u>

Time deposits with maturity of more than 3 months:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2011</u>
20,000,000	TL	8,16%-9,60%	April 2012	20,000,000
46,457,607	EUR	4,67%-5,50%	June 2012	113,533,101
				<u>133,533,101</u>

Long-term financial assets are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Sita Inc.	1,679,619	1,679,619
Star Alliance GMBH	44,465	44,465
Emek İnşaat ve İşletme A.Ş.	26,859	26,859
UATP Inc.	16,929 -	-
	<u>1,767,872</u>	<u>1,750,943</u>

Sita Inc., Star Alliance GMBH, Emek İnşaat ve İşletme A.Ş. and UATP Inc. are disclosed at cost since they are not traded in an active market.

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**7. FINANCIAL ASSETS (cont'd)**

Details of the long-term financial assets of the Group at 31 December 2011 are as follows:

Company name	Country of registration and operation	Ownership Share	Voting Right	Principle Activity
Sita Inc.	Netherlands	Less than 0,1%	Less than 0,1%	Information& Telecommunication Services
Star Alliance Gmbh	Germany	5,55%	5,55%	Coordination Between Star Alliance Member Airlines
UATP Inc.	USA	4%	4%	Payment Intermediation Between the Passenger and the Airline
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction

**8. FINANCIAL BORROWINGS**

Short-term financial borrowings are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Finance lease obligations	790,159,337	478,423,865
Bank loans	-	14,696,729
	<b>790,159,337</b>	<b>493,120,594</b>

The details of short-term part of long-term bank loans as of and 31 December 2010 are as follows:

**31 December 2010**

<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TL</u>
October 2011	Libor+3,50%	USD	9,422,728	83,565	14,696,729

Long-term financial borrowings are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Finance lease obligations	7,122,723,496	3,684,958,785
	<b>7,122,723,496</b>	<b>3,684,958,785</b>

## **8. FINANCIAL BORROWINGS**

Financial lease obligations are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Less than 1 year	964,312,250	574,170,632
Between 1 – 5 years	3,599,737,058	1,904,550,140
Over 5 years	4,498,997,066	2,205,369,454
	9,063,046,374	4,684,090,226
Less: Future interest expenses	(1,150,163,541)	(520,707,576)
Principal value of future rentals stated in financial statements	7,912,882,833	4,163,382,650
Interest Range:		
Floating rate obligations	3,984,803,923	1,956,645,410
Fixed rate obligations	3,928,078,910	2,206,737,240
	7,912,882,833	4,163,382,650

As of 31 December 2011, the US Dollars and Euro denominated lease obligations' weighted average interest rates are 4,47% (31 December 2010: 4,52%) for the fixed rate obligations and 0,88% (31 December 2010: 0,66%) for the floating rate obligations.

## **9. OTHER FINANCIAL LIABILITIES**

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

	<b>31 December 2011</b>	<b>31 December 2010</b>
Fair value of derivative instruments (Note 39)	154,871,082	62,632,636
Borrowings to banks	3,612,510	1,117,687
	158,483,592	63,750,323

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

## **10. ACCOUNTS RECEIVABLE AND PAYABLE**

Short-term trade receivables are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Trade receivables	830,595,090	613,963,860
Due from related parties (Note 37)	6,969,060	31,289,397
Allowance for doubtful receivables	(77,167,221)	(67,630,443)
	760,396,929	577,622,814



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**10. ACCOUNTS RECEIVABLE AND PAYABLE**

The Group provided provision for the receivables carried to legal proceedings and for the others by making historical statistical calculations. Movement of the doubtful receivables for the period ended 31 December 2011 and 2010 are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Opening Balance	67,630,443	41,791,892
Charge for the period	25,733,253	37,489,876
Collections during the period	(13,071,676)	(11,136,802)
Currency translation adjustment	476,370	(74,649)
Receivables written-off	(3,601,169)	(439,874)
Closing Balance	<u>77,167,221</u>	<u>67,630,443</u>

Explanations about the credit risk of Group's receivables are provided in Note 38 Credit Risk.

Short-term trade payables are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Trade payables	816,357,993	672,370,479
Due from related parties (Note 37)	180,943,942	61,509,126
Other	4,307,686	1,994,421
	<u>1,001,609,621</u>	<u>735,874,026</u>

**11. OTHER RECEIVABLES AND PAYABLES**

Other short-term receivables are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Prepayments made for aircrafts, to be received back in cash (net)	710,354,962	1,610,230,030
Restriction on transfer of funds from banks (*)	55,060,221	15,851,565
Receivables from training of captain candidates	28,526,223	9,382,173
Receivables from purchasing transactions abroad	7,779,605	7,813,311
Receivables from employees	2,808,754	1,321,982
Deposits and guarentees given	2,265,376	906,115
Receivables from foreign technical suppliers	1,049,534	1,656,654
Nontrading receivables from related parties (Note 37)	58,082	-
Other receivables	3,793,133	2,363,947
	<u>811,695,889</u>	<u>1,649,525,777</u>

(\*) As of 31 December 2011, the balance of this account is related to bank balances and blocked deposits in Bingazi, Entebbe, Johannesburg, Khartum, Taşkent and Tripoli.

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**11. OTHER RECEIVABLES AND PAYABLES**

Long-term other receivables are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Prepayments made for aircrafts, to be received back in cash (net)	409,666,323	166,510,045
Receivables from purchasing transactions abroad	65,136,878	7,306,887
Receivables from investment assistance (Note 2.7)	31,563,519	-
Interest swap agreement deposits	44,013,416	14,656,095
Receivables from employees	13,673,264	11,207,991
Deposits and guarantess given	9,232,914	6,234,707
Advance payments for operating leases	9,036,180	7,498,785
Receivables from Sita deposit certificates	1,484,013	1,222,478
	<b>583,806,507</b>	<b>214,636,988</b>

Short-term other payables are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Miscellaneous charge order advances	67,762,338	63,227,440
Social security premiums payable	55,938,507	32,540,402
Taxes and funds payable	34,707,756	32,434,572
Payables to insurance companies	24,514,696	16,448,096
Other advances received	24,359,807	13,314,559
Other advances received	5,256,463	1,001,100
Charter advances	2,202,096	1,124,749
Other liabilities	1,771,189	2,707,645
	<b>216,512,852</b>	<b>162,798,563</b>

Long-term other payables are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Deposits and guarantees received	11,439,394	9,831,914
	<b>11,439,394</b>	<b>9,831,914</b>

**12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS**

None (31 December 2010: None).

**13. INVENTORIES**

	<b>31 December 2011</b>	<b>31 December 2010</b>
Spare parts	224,154,746	150,027,358
Other inventories	45,186,647	36,417,572
	<b>269,341,394</b>	<b>186,444,930</b>
Provision for impairment (-)	(17,555,587)	(14,368,647)
	<b>251,785,807</b>	<b>172,076,283</b>

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**13. INVENTORIES (con'td)**

Movement in change of diminution in value of inventories for the periods ended 31 December 2011 and 2010.

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Provision at the beginning of the period	14,368,647	14,368,647
Foreign currency translation reserve	3,186,940	-
Provision at the end of the period	17,555,587	14,368,647

**14. BIOLOGICAL ASSETS**

None (31 December 2010: None).

**15. ASSETS FROM CONSTRUCTION CONTRACTS IN PROGRESS**

None (31 December 2010: None).

**16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

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

	<b>31 December 2011</b>	<b>31 December 2010</b>
Sun Ekspress	26,515,230	23,360,765
Turkish DO&CO	60,594,468	46,516,347
TEC	74,626,727	53,692,268
TGS	72,672,672	56,501,684
THY Opet	37,295,786	13,490,964
TCI	1,703,496	-
Türkbine Teknik Gaz Türbinleri Bakım Onarım	8,182,875	-
Goodrich	1,744,878	-
Air Bosna	11,574,460	-
Uçak Koltuk	50,000	-
	<b>294,960,592</b>	<b>193,562,028</b>

Financial information for Sun Express as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	714,361,841	574,856,563
Total liabilities	661,331,381	528,135,034
Shareholders' equity	53,030,460	46,721,529
Group's share in associate's shareholders' equity	26,515,230	23,360,765
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	1,519,249,857	994,879,582
Profit/ (loss) for the period	(5,563,201)	(3,810,100)
Group's share in profit/(loss) for the period	(2,781,600)	(1,905,050)

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**16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)**

Financial information for THY DO&CO Catering Services as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	212,403,249	154,372,009
Total liabilities	91,214,313	61,339,316
Shareholders'equity	121,188,936	93,032,693
Group's share in associate's shareholders' equity	60,594,468	46,516,347
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	410,959,134	332,540,555
Profit/ (loss) for the period	37,681,048	29,923,513
Group's share in profit/(loss) for the period	18,840,524	14,961,757

Financial information for P&W T.T Uçak Bakım Merkezi Ltd. Şti as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	225,887,983	221,389,592
Total liabilities	73,588,541	111,813,535
Shareholders'equity	152,299,442	109,576,057
Group's share in associate's shareholders' equity	74,626,727	53,692,268
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	170,833,111	115,968,274
Profit/ (loss) for the period	(58,227,661)	(50,544,335)
Group's share in profit/(loss) for the period	(28,531,554)	(24,766,724)

Financial information for Bosnia and Herzegovina Airlines as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	69,857,068	50,735,303
Total liabilities	46,235,721	58,714,113
Shareholders'equity	23,621,347	(7,978,810)
Group's share in associate's shareholders' equity	11,574,460	-
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	36,523,173	33,146,759
Profit/ (loss) for the period	(12,052,361)	(33,963,163)
Group's share in profit/(loss) for the period	(5,905,657)	(16,641,951)

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**16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)**

Financial information for TGS as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	191,800,346	199,967,385
Total liabilities	46,455,002	86,964,018
Shareholders'equity	145,345,344	113,003,367
Group's share in associate's shareholders' equity	72,672,672	56,501,684
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	304,587,085	159,317,791
Profit/ (loss) for the period	32,819,926	(13,960,968)
Group's share in profit/(loss) for the period	16,409,963	(6,980,484)

By the protocol and capital increase dated on 17 September 2009, 50 % of TGS' capital, which has a nominal value of 6.000.000 TL, was acquired by HAVAŞ for 119.000.000 TL and a share premium at an amount of 113.000.000 TL has arised in the TGS's capital. Because the share premium is related to the 5-year service contract between the Company and TGS, the Company's portion (50 %) of the share premium under the shareholders' equity of TGS was recognized as 'Deferred Income' (Note 26) to be amortized during the contract period.

Financial information for THY Opet Havacılık Yakıtları A.Ş. as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	415,486,059	190,798,801
Total liabilities	340,894,488	163,816,873
Shareholders'equity	74,591,571	26,981,928
Group's share in associate's shareholders' equity	37,295,786	13,490,964
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	2,271,152,114	431,015,063
Profit/ (loss) for the period	27,352,122	(2,937,036)
Group's share in profit/(loss) for the period	13,676,061	(1,468,518)

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**16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)**

Financial information for TCI Kabin İçi Sistemleri San. ve Tic. A.Ş. as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	5,693,147	-
Total liabilities	2,352,958	-
Shareholders'equity	3,340,189	-
Group's share in associate's shareholders' equity	1,703,496	-
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	593,771	-
Profit/ (loss) for the period	(402,477)	-
Group's share in profit/(loss) for the period	(205,262)	-

Financial information for Turkbine Teknik Gaz Turbinleri Bakım Onarım A.Ş. as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	16,714,081	-
Total liabilities	348,330	-
Shareholders'equity	16,365,751	-
shareholders' equity	8,182,875	-
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	304,185	-
Profit/ (loss) for the period	(558,554)	-
Group's share in profit/(loss) for the period	(279,277)	-

Financial information for Goodrich THY Teknik Servis Merkezi Ltd. Şti. as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total assets	5,489,742	-
Total liabilities	1,127,545	-
Shareholders'equity	4,362,197	-
Group's share in associate's shareholders' equity	1,744,878	-
	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Revenue	195,432	-
Profit/ (loss) for the period	(2,872,955)	-
Group's share in profit/(loss) for the period	(1,149,182)	-

**16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)**

Details of investments accounted for using the equity method as of 31 December 2011 are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Sun Ekspress	(2,781,600)	(1,905,050)
Turkish DO&CO	18,840,524	14,961,757
P&W T.T. Uçak	(28,531,554)	(24,766,724)
Bosnia and Herzegovina Airlines	(5,905,657)	(16,641,951)
TGS	16,409,963	(6,980,484)
THY Opet	13,676,061	(1,468,518)
TCI	(205,262)	-
Türkbine Teknik Gaz Türbinleri Bakım	(279,277)	-
Goodrich (*)	(1,149,182)	-
Total	<u>10,074,016</u>	<u>(36,800,970)</u>

**17. INVESTMENT PROPERTY**

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Opening balance	49,570,000	49,570,000
Foreign currency translation reserve	10,319,703	-
Additions	-	-
Loss due to the change in fair value	(5,169,703)	-
Closing balance	<u>54,720,000</u>	<u>49,570,000</u>

Fair values of Group's investment property were obtained from the valuation performed by an independent valuation firm, which is not a related party to Group. Valuation was performed by the independent valuation firm, which is authorized by Capital Markets Board with reference to market prices.

The Group does not have any rent income from investment property.

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**18. TANGIBLE ASSETS**

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
<b><u>Cost</u></b>									
Opening balance at 1 January 2011	155,789,647	366,891,008	109,351,091	9,080,064,151	362,331,413	327,545,636	65,684,659	73,716,649	10,541,374,255
Foreign currency translation reserve	35,931,072	77,611,097	22,353,109	2,318,163,981	93,871,278	76,143,305	23,990,255	56,073,020	2,704,137,117
Additions	2,724,334	31,911,392	26,138,173	3,623,965,020	230,449,737	68,915,393	20,436,376	307,112,467	4,311,652,892
Disposals	-	(15,228,236)	(9,388,939)	(204,879,583)	(71,385,963)	(72,940,280)	(316,644)	-	(374,139,645)
Transfer to Assets held-for-sale	-	-	-	(1,953,802,761)	-	-	-	-	(1,953,802,761)
Other transfers	-	-	-	-	-	-	1,637,311	(1,637,311)	-
Closing balance at 31 December 2011	194,445,053	461,185,261	148,453,434	12,863,510,808	615,266,465	399,664,054	111,431,957	435,264,825	15,229,221,858
<b><u>Accumulated depreciation</u></b>									
Opening balance at 1 January 2011	50,832,184	263,568,628	60,901,609	3,419,063,346	114,334,463	152,551,380	36,685,410	-	4,097,937,020
Foreign currency translation reserve	10,808,549	53,927,571	157,035	747,360,282	31,613,763	38,423,601	13,384,734	-	895,675,535
Depreciation charge for the period	2,956,914	20,276,951	18,766,183	642,602,948	64,197,367	39,430,049	15,380,299	-	803,610,711
Disposals	-	(16,253,062)	(10,614,536)	(215,609,543)	(71,040,475)	(45,369,196)	(84,415)	-	(358,971,227)
Transfer to Assets held-for-sale	-	-	-	(1,301,625,053)	-	-	-	-	(1,301,625,053)
Closing balance 31 December 2011	64,597,647	321,520,088	69,210,291	3,291,791,980	139,105,118	185,035,834	65,366,028	-	4,136,626,986
Net book value 31 December 2011	129,847,406	139,665,173	79,243,143	9,571,718,828	476,161,347	214,628,220	46,065,929	435,264,825	11,092,594,872



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**18. TANGIBLE ASSETS (cont'd)**

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
<b><u>Cost</u></b>									
Opening balance at 1 January 2010	164,645,538	412,550,821	85,721,454	7,249,124,682	329,298,094	319,829,494	54,616,332	17,713,151	8,633,499,566
Additions	7,315,558	67,662,041	26,305,032	1,875,568,427	33,703,592	76,359,882	10,322,737	65,082,621	2,162,319,891
Disposals	(23,718,680)	(113,962,039)	(2,675,394)	(44,628,958)	(670,273)	(68,643,740)	(146,117)	-	(254,445,201)
Transfers	7,547,231	640,185	-	-	-	-	891,707	(9,079,123)	-
Closing balance 31 December 2010	155,789,647	366,891,008	109,351,091	9,080,064,151	362,331,413	327,545,636	65,684,659	73,716,649	10,541,374,255
<b><u>Accumulated depreciation</u></b>									
Opening balance at 1 January 2010	58,398,566	339,478,389	49,606,259	3,098,522,003	102,344,734	147,045,447	27,085,124	-	3,822,480,522
Depreciation charge for the period	5,287,256	15,702,036	13,675,105	352,087,287	15,014,904	42,340,502	9,641,439	-	453,748,529
Disposals	(12,853,638)	(92,260,928)	(2,379,755)	(38,984,407)	(294,141)	(36,834,569)	(41,153)	-	(183,648,591)
Real increase/(decrease) at impairment	-	649,131	-	7,438,463	(2,731,034)	-	-	-	5,356,560
Closing balance 31 December 2010	50,832,184	263,568,628	60,901,609	3,419,063,346	114,334,463	152,551,380	36,685,410	-	4,097,937,020
Net book value 31 December 2010	104,957,463	103,322,380	48,449,482	5,661,000,805	247,996,950	174,994,256	28,999,249	73,716,649	6,443,437,235

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**19. INTANGIBLE ASSETS**

	<b>Slot Rights</b>	<b>Other Rights</b>	<b>Total</b>
<b><u>Cost</u></b>			
Opening balance at 1 January 2011	20,007,450	87,477,119	107,484,569
Foreign currency translation reserve	4,437,616	15,444,865	19,882,481
Additions	-	13,284,156	13,284,156
Disposals	-	(2,466,016)	(2,466,016)
Closing balance at 31 December 2011	24,445,066	113,740,123	138,185,189
<b><u>Accumulated Depreciation</u></b>			
Opening balance at 1 January 2011	-	74,385,468	74,385,468
Foreign currency translation reserve	-	11,386,793	11,386,793
Amortization charge for the period	-	8,237,910	8,237,910
Disposals	-	(2,787,921)	(2,787,921)
Closing balance at 31 December 2011	-	91,222,250	91,222,250
Net book value 31 December 2011	24,445,066	22,517,873	46,962,939
	<b>Slot Rights</b>	<b>Other Rights</b>	<b>Total</b>
<b><u>Cost</u></b>			
Opening balance at 1 January 2010	-	80,264,956	80,264,956
Additions	20,007,450	7,212,811	27,220,261
Disposals	-	(648)	(648)
Closing balance at 31 December 2010	20,007,450	87,477,119	107,484,569
<b><u>Accumulated Depreciation</u></b>			
Opening balance at 1 January 2010	-	69,595,344	69,595,344
Amortization charge for the period	-	4,790,772	4,790,772
Disposals	-	(648)	(648)
Closing balance at 31 December 2010	-	74,385,468	74,385,468
Net book value 31 December 2010	20,007,450	13,091,651	33,099,101

The Group considers the slot rights as an intangible asset having infinitive useful life.

**20. GOODWILL**

None (31 December 2010: None).

**21. GOVERNMENT GRANTS AND INCENTIVES**

Incentive certificate no:28.12.2010 / 99256 was obtained from Turkish Treasury for financing the aircrafts planned for 2010-2015. According to this certificate, the Company will use the advantages for reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.7 for the accounting of the related investment assistance.

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**22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

Provisions for short-term liabilities are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Provisions for legal claims	26,224,798	20,480,602

Changes in the provisions for legal claims at 31 December 2011 and 2010 periods set out below:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Provision at the beginning of the period	20,480,602	7,287,354
Charge for the period	6,236,668	13,944,777
Provisions released	(581,703)	(751,529)
Foreign currency translation differences	89,231	
Provision at the end of the period	26,224,798	20,480,602

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

a) Guarantees/Pledge/Mortgage (“GPM”) given by the group: Amount of letter of guarantees given is TL 97.177.999 (31 December 2010: TL 94.785.952)

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>Foreign currency amount</b>	<b>TL equivalent</b>	<b>Foreign currency amount</b>	<b>TL equivalent</b>
A. Total amounts of GPM given on the behalf of its own legal entity	-	97,177,999	-	94,785,952
-Collaterals				
TL	10,419,036	10,419,036	6,035,525	6,035,525
EUR	7,536,458	18,417,595	5,550,118	11,372,746
USD	35,434,308	66,931,865	48,939,024	75,659,732
Other	-	1,409,503		1,717,949
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third partie debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
	97,177,999		94,785,952	

The other CPMs given by the Company constitute 0% of the Company’s equity as of 31 December 2011 (31 December 2010: %0).

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

b) The Group's discounted retirement pay provision is TL 191.632.448. The Group's liability for retirement pay would be approximately TL 371.727.853 as of 31 December 2011, if all employees were dismissed on that date.

c) The Competition Authority has ruled to run an investigation on the company's operations in its meeting held on 1 July 2010. The investigation is based on the Company's operations to determine whether it has involved any exclusive activities for its domestic and international passenger transportation services against other airline companies. As of the report date, The Competition Authority has rejected the investigation, but give right to appeal to Supreme Court.

**23. COMMITMENTS**

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

	<b>31 December 2011</b>	<b>31 December 2010</b>
Less than 1 year	335,010,923	357,740,489
Between 1 – 5 years	1,000,864,431	902,887,434
More than 5 years	218,425,929	319,073,603
	<b>1,554,301,283</b>	<b>1,579,701,526</b>

To be delivered between the years 2010-2015, the Group signed a contract for 89 aircrafts with a total value of 11,8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 10 of these aircrafts were delivered in 2010 and 29 of these aircrafts were delivered in 2011. The Group has made an advance payment of 598 million US Dollars relevant to these purchases as of 31 December 2011.

The Group also has operational lease agreement for 20 years related with the aircraft shed land which is still under construction. The liabilities of the Group related with this lease agreements are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Less than 1 year	1,934,734	1,187,021
Between 1 – 5 years	12,572,518	8,704,819
More than 5 years	58,055,544	50,669,488
	<b>72,562,796</b>	<b>60,561,328</b>

**24. EMPLOYEE BENEFITS**

Short-term employee benefits are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Salary accruals	129,494,899	50,239,944
Labor union agreement accrual (*)	106,364,433	37,574,079
Provisions for unused vacation	11,914,374	13,859,404
Due to personnel	3,525,186	541,330
	<b>251,298,892</b>	<b>102,214,757</b>

(\*)23. Labor Union Agreement negotiations started at 2 February 2012 between the Group and Turkey Civil Aviation Labor Union (Hava-İş). As of 19 March 2012, the parties could not agree on 42 clauses and signed dispute minute. The negotiations will continue with a supervisor. The Group has calculated and booked a provision of TL 106.364.433 for salary increases attained to Labor Union Agreement for the period between 1 January 2011 and 31 December 2011.

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**24. EMPLOYEE BENEFITS (cont'd)**

Provision for long-term retirement pay liability is comprised of the following:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Provisions for retirement pay liability	191,632,448	170,505,529

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

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

Retirement pay liability is subject to an upper limit of monthly TL 2.805 as of 1 January 2012 (1 January 2010: TL 2.623 TL).

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

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

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying financial statements as of 31 December 2011 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 5,00% annual inflation rate (31 December 2010: 5,10%) and 9,5% discount rate. (31 December 2010: 10%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 2.13% (31 December 2010: 2.17%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 2.805 which is in effect since 1 January 2012 is used in the calculation of Group's provision for retirement pay liability.

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

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Provisions at the beginning of the period	170,505,529	151,875,562
Foreign Exchange Translation Reserves	5,024,708	-
Charge for the period	32,271,975	29,993,375
Interest charges	6,220,836	8,990,304
Actuarial gain /(loss)	5,219,823	9,503,082
Payments	(27,610,423)	(29,856,794)
Provisions at the end of the period	191,632,448	170,505,529

**25. RETIREMENT BENEFITS**

None (31 December 2010: None).

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**26. OTHER ASSETS AND LIABILITIES**

Details of other current assets are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Deferred VAT	48,561,653	6,062,222
Technical maintenance income accruals	47,204,715	42,533,116
Prepaid sales commissions	18,467,423	10,456,293
Other prepaid expenses	18,297,778	12,178,549
Prepaid operating lease expenses	17,968,896	19,457,461
VAT to be refunded	12,815,278	11,091,767
Prepaid taxes and funds	12,807,153	59,670,760
Advances given for orders	12,040,036	1,680,460
Prepaid insurance expenses	8,693,312	7,697,001
Advances for business purposes	4,764,395	1,368,189
Interline passenger income accruals	3,359,270	2,554,403
Income accruals on withholding tax return	911,899	-
Advances given to personnel	779,083	982,743
Credit note accruals for received aircrafts and simulators	-	18,743,129
Other current assets	80,894	69,609
	<b>206,751,785</b>	<b>194,545,702</b>

Other non-current assets are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Advances given for fixed asset purchases	116,072,898	169,283,390
Maintenance reserves for engines	90,967,384	35,285,248
Prepaid aircraft financing expenses	30,613,937	12,735,035
Income accruals on withholding tax return	13,918,869	-
Prepaid operating lease expenses	2,516,897	2,455,512
Prepaid expenses	2,289,548	810,338
Prepaid Eximbank guarantee and exposure fee	227,816	482,667
	<b>256,607,349</b>	<b>221,052,190</b>

Other short-term liabilities are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Accruals for maintenance expense	392,633,037	231,895,137
Unearned revenue from share transfer of TGS (Note 16)	13,806,320	11,300,000
Incentive premium accruals	4,473,928	17,466,706
Unearned revenue accruals	3,751,411	6,360,139
Credit note for received aircrafts and simulators	1,034,502	12,495,245
Accruals for other expenses	8,284,231	9,058,900
Other liabilities	1,170,627	160,683
	<b>425,154,056</b>	<b>288,736,810</b>

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**26. OTHER ASSETS AND LIABILITIES**

Other long-term liabilities are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Gross manufacturer's credits	49,451,906	40,474,695
Accumulated depreciations of manufacturer's credit	(22,930,646)	(15,301,108)
Unearned revenue from share transfer of TGS (Note 16)	27,612,639	33,900,000
Unearned revenue accruals	-	904,107
	<u>54,133,899</u>	<u>59,977,694</u>

Passenger flight liabilities are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Flight liability generating from ticket sales	689,801,850	342,348,911
Frequent flyer program liability	192,757,250	131,606,808
Flight liability generating from mileage sales	194,039,517	199,888,160
	<u>1,076,598,617</u>	<u>673,843,879</u>

**27. SHAREHOLDERS' EQUITY**

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

	<b>Type</b>	<b>%</b>	<b>31 December 2011</b>	<b>%</b>	<b>31 December 2010</b>
Republic of Turkey Prime Ministry Privatization Adm.(*)	A, C	49,12	589.465.086	49,12	491.218.308
Other (Publicly held)	A	50,88	610.534.914	50,88	508.781.692
Paid-in capital			1.200.000.000		1.000.000.000
Restatement difference			1.123.808.032		1.123.808.032
Restated capital			<u>2.323.808.032</u>		<u>2.123.808.032</u>

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

As of 31 December 2011, the Group's issued and paid-in share capital consists of 119.999.999.999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

Articles of Association 10: The Board of Directors consists of 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:

**27. SHAREHOLDERS' EQUITY (cont'd)**

- a) As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- b) Suggesting change in the Articles of Association at General Assembly,
- c) Increasing share capital,
- d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- e) Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),
- 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.

**Restricted Reserves Assorted from Profit**

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

**Foreign Currency Translation Differences**

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

**Distribution of Dividends**

Companies whose shares are traded at Istanbul Stock Exchange (ISE) are subject to the following dividend rules determined by Capital Markets Board:

According to the Serial:IV No:27 Communiqué of Capital Markets Board, depending on the decision made in shareholders' meeting, the profit distribution can be made either by giving bonus shares to shareholders which are issued either in cash or by adding dividend to capital or giving some amount of cash and some amount of bonus shares to shareholders. If the primary dividend amount determined is less than 5% of the paid-in capital, the decision gives the option of not to distribute the related amount as to keep within the equity.



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**27. SHAREHOLDERS' EQUITY (cont'd)****Distribution of Dividends (cont'd)**

In accordance with the Capital Markets Board's (the "Board") Decree issued as of 27 January 2010 and numbered 02/51,

In relation to the profit distribution of earnings derived from the operations, minimum profit distribution is not required for listed companies, and accordingly, profit distribution should be made based on the requirements set out in the Board's Communiqué Serial:IV No: 27 "Principles of Dividend Advance Distribution of Companies That Are Subject To The Capital Markets Board Regulations", terms of articles of corporations and profit distribution policies publicly disclosed by the companies;

Furthermore, based on the afore-mentioned decree, companies that are required to prepare consolidated financial statements should calculate their net distributable profits, to the extent that they can be recovered from equity in their statutory records, by considering the net profit for the period in the consolidated financial statements which are prepared and disclosed in accordance with the Communiqué Serial: XI, No: 29;

Within the frame of Communiqué Series: XI, No: 29, amount disclosed in notes to financial statements; following the deduction of companies' retained earnings, total of remaining profit for the period and other total resources that may apply to profit distribution;

Within the frame of 6th bulletin of Communiqué Series: IV No: 27, application of related period about profit distribution time;

a) If all dividends are distributed in cash, dividends made to continue the adoption of distributing until the end of following fifth month of the fiscal period.

b) If dividends are distributed as share, the Entity should apply for Capital Markets Board until the end of following fifth month of the fiscal period and finish profit distribution until the end of following sixth month of the fiscal period as the purpose of exported shares are recorded by Capital Markets Board.

c) In the case of combination of the options "a" and "b", it was decided that operations described earlier should be performed separately but within the time that referred to in subparagraph

The items of shareholders' equity of the Company in the statutory accounts as of 31 December 2011 as the dividends distributed not reflected are as follows:

Paid-in capital	1.200.000.000
Share premium	181.185
Legal reserves	55.692.565
Extraordinary reserves (*)	198.959.553
Other profit reserves	9
Special funds	17.063.705
Retained earnings (*)	806.615
Net profit for the period (*)	(1.040.827.727)
Total shareholders' equity	<u>431.875.905</u>

\* Per legal records there is no amount which will be subject to distribution of dividends.

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**27. SHAREHOLDERS' EQUITY (cont'd)****Hedge Fund against the Cash Flow Risk**

Hedge fund against cash flow risk arises from the accounting under shareholders' equity for the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows. Total of deferred gain/loss arising from hedging against financial risk are accounted when the effect of the hedged item goes into the income statement.

**28. SALES AND COST OF SALES**

Details of gross profit are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Scheduled flights		
Passenger	10,259,401,917	7,387,449,566
Cargo and mail	966,114,928	626,771,496
Total scheduled flights	11,225,516,845	8,014,221,062
Unscheduled flights	138,603,969	68,549,374
Other revenue	451,303,913	340,000,704
Net sales	11,815,424,727	8,422,771,140
Cost of sales (-)	(9,787,529,272)	(6,652,115,477)
Gross profit	2,027,895,455	1,770,655,663

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

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
- Europe	3,823,409,344	2,889,916,772
- Far East	2,412,184,832	1,493,066,719
- Middle East	1,530,241,615	1,036,566,346
- America	952,638,688	523,157,884
- Africa	707,902,793	521,520,175
Total international flights	9,426,377,272	6,464,227,896
Domestic flights	1,799,139,573	1,549,993,166
Total revenue	11,225,516,845	8,014,221,062

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**28. SALES AND COST OF SALES (Cont'd)**

The details of the cost of sales are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Fuel expense	3,984,326,099	2,161,733,716
Personnel expense	1,640,829,647	1,300,526,286
Landing and navigation expense	888,159,416	610,543,663
Ground services expenses	785,500,939	523,017,629
Depreciation expenses	764,523,411	426,492,568
Passenger service and catering expenses	512,939,146	419,134,868
Operating lease expenses	396,538,392	367,477,243
Maintenance expenses	384,995,476	505,364,905
Other airlines' seat rents	158,170,704	134,361,438
Insurance expenses	56,258,201	41,858,518
Service expenses	49,738,978	22,276,927
Other rent expenses	35,903,438	30,682,204
Short term leasing expenses	24,062,482	42,235,496
Aircraft finance administrative fees	17,414,308	13,239,816
Tax expenses	9,577,799	7,456,084
Utility expenses	9,470,581	8,234,983
Transportation expenses	8,621,090	6,682,619
Cost of other sales	60,499,165	30,796,514
	<b>9,787,529,272</b>	<b>6,652,115,477</b>

**29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES**

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Marketing, sales and distribution expenses	1,304,775,986	980,877,520
Administrative expenses	384,604,722	327,017,860
	<b>1,689,380,708</b>	<b>1,307,895,380</b>

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**29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (Cont'd)**

Marketing, sales and distribution expenses are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Personnel expenses	378,990,790	277,956,963
Commissions and incentive expenses	337,844,291	263,302,642
Reservation systems expense	220,889,868	165,359,495
Advertising expenses	146,497,444	124,418,782
Special passenger program	43,582,812	25,995,372
Service expenses	34,719,604	25,974,923
Rent expenses	22,029,930	17,740,737
Communication expense	15,438,177	12,843,288
Transportation expense	14,953,929	11,341,558
Membership fees	11,640,656	8,810,512
Tax Expenses	10,102,599	8,334,247
Utility expenses	4,587,680	3,753,851
Maintenance expenses	2,881,519	2,364,886
Depreciation expense	2,165,732	1,006,904
Fuel expense	1,587,250	757,054
Insurance expenses	1,065,909	776,036
Other sales and marketing expenses	55,797,796	30,140,270
	<u>1,304,775,986</u>	<u>980,877,520</u>

General administrative expenses are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Personnel expenses	216,908,569	185,591,789
Depreciation expenses	45,159,478	31,039,829
Service expenses	17,524,775	16,485,952
Rent expenses	17,283,307	13,727,308
Fuel expense	15,174,366	11,352,455
Communication expense	11,717,857	16,301,068
Tax expenses	7,218,867	16,789,756
Insurance expenses	5,752,145	627,991
Utility expenses	4,781,641	2,756,973
Other administrative expenses	43,083,717	32,344,739
	<u>384,604,722</u>	<u>327,017,860</u>

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**30. EXPENSES ACCORDING TO CATEGORIES**

Expenses according to categories are explained in Notes 28 and 29.

**31. OTHER OPERATING INCOME / EXPENSES**

Other operating income / expense consist of the following:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Income from investment assistance (Note 2.7)	43,866,276	-
Discounts received from maintenance spare parts suppliers	25,096,497	17,329,148
Insurance, indemnities, penalties income	15,521,333	25,624,334
Provisions no longer required	13,653,379	11,888,331
TGS share premium (Note:16)	11,354,928	11,300,000
Returns and discounts received from services	8,991,457	-
Fixes asset sales gain	5,400,013	45,206,644
Banks protocol revenue	5,020,748	5,000,000
Purchase discounts	4,294,173	4,287,088
Star Alliance membership revenue	3,687,065	3,945,375
Other operating income	22,870,682	16,998,614
	<u>159,756,551</u>	<u>141,579,534</u>

**31. OTHER OPERATING INCOME / EXPENSES (Cont'd)**

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Real decrease in provision on assets held-for-sale and impairment of fixed assets (2011,Note: 34; 2010, Note:18 )	329,671,432	5,356,560
Provision expenses	31,969,921	51,434,653
Indemnity and penalty expense	11,775,618	-
Valuation differences from investment property (Note:17)	5,169,703	-
Collective agreement payment differences	-	51,130,281
Other operating expense	18,595,808	14,229,717
	<u>397,182,482</u>	<u>122,151,211</u>

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**32. FINANCIAL INCOME**

Financial income consists of the following:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Foreign exchange rate income (*)	180,838,908	38,397,854
Interest income	90,492,295	21,142,242
Rediscount interest income	6,122,349	13,311,167
	<u>277,453,552</u>	<u>72,851,263</u>

(\*) For 2011, it is composed of currency translation differences in income and expense.(Note:2.1)

**33. FINANCIAL EXPENSES**

Finance expenses are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2011</b>
Finance lease interest expense	217,312,422	120,231,843
Rediscount interest expense	9,779,121	3,252,322
Cost of ETB interest	6,220,836	8,990,304
The fair value of derivatives exchange expense	8,879,487	5,787,041
Financial liabilities foreign exchange loss	-	386,332
Finance lease foreign exchange rate expense	-	12,876,525
Other financial expense	535,526	1,025,179
	<u>242,727,392</u>	<u>152,549,546</u>

**34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

The Group has decided to dispose of seven A340-type aircrafts and had negotiations with several companies interested in this subject. These assets, which are expected to be sold within twelve months, are classified as non-current assets held for sale as of 31 December 2011.

Since proceeds from sale are expected to remain below the book value of the assets, the company has made provision for decrease in value at amount of TL 329.671.432 for the assets held for sale.

The movement of the provision for decrease in value is as follows:

	<b>31 December 2011</b>
Net book value of non-current assets held- for-sale (Note 18)	652,177,708
Provision for decrease in value (Note 31)	(329,671,431)
Foreign currency translation differences	(43,034,077)
Adjusted net book value of non-current assets held-for-sale	<u>279,472,200</u>

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**35. TAX ASSETS AND LIABILITIES**

Tax liability for the current profit is as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Provisions for corporate tax	18,956,251	10,387,347
Prepaid taxes and funds	(13,587,608)	(70,058,107)
(Tax asset) / tax liability (*)	<u>5,368,643</u>	<u>(59,670,760)</u>

(\*) Prepaid taxes, excess part of corporate taxes to be paid as at 31 December 2010, are shown under other current assets.

Tax liability consists of the following items:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Current period tax expense	16,770,183	8,213,633
Change in corporate tax for the year 2009	-	2,173,714
Deferred tax expense	110,602,177	68,858,645
Tax expense	<u>127,372,360</u>	<u>79,245,992</u>

Tax effect regarding other comprehensive income is as follows:

	<b>1 January - 31 December 2011</b>		
	<b>Amount before tax</b>	<b>Tax (expense) /income</b>	<b>Amount after tax</b>
Foreign currency translation differences	795,001,243	-	795,001,243
Change in cash flow hedge fund	( 77,496,523)	15,499,305	( 61,997,218)
Other comprehensive income for the period	<u>717,504,720</u>	<u>15,499,305</u>	<u>733,004,025</u>

Change in translation differences of foreign currency that is included in other comprehensive income, is TL 795.001.243 for the period 1 January – 31 December 2011 (1 January – 31 December 2010: TL 1.051.704). In addition, the effect on taxation does not exist for the period.

**Corporate Tax**

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

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

The effective tax rate in 2011 is 20% (2010: 20%).

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**35. TAX ASSETS AND TAX LIABILITIES (cont'd)**

*Corporate Tax (cont'd)*

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2011 is 20% (2010: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

*Income Withholding Tax*

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

*Deferred Tax*

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

For calculation of deferred tax asset and liabilities, the rate of 20% (2010: 20%) is used.

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



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**35. TAX ASSETS AND TAX LIABILITIES (cont'd)**

*Deferred Tax (cont'd)*

The deferred tax assets and liabilities as of 31 December 2011 and 31 December 2010 are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Fixed assets	(901,848,053)	(525,486,010)
Provisions for ticket sales advance	(56,547,535)	(57,133,510)
Adjustment on inventories	(42,833,609)	(19,172,440)
Accumulated loss	207,976,984	19,490,674
Accruals for expenses	119,292,064	70,912,827
Provisions for ETB	38,326,490	33,895,715
Income and expense for future periods	14,950,671	(1,420,257)
Long-term lease obligations	13,141,314	19,236,155
Labor union accruals	12,041,158	-
Short-term lease obligations	7,288,257	13,647,501
Allowance for doubtful receivables	6,360,975	4,352,313
Provisions for unused vacation	2,382,874	2,771,881
Provisions for impairment in inventories	2,873,729	2,873,729
Other	1,914,838	645,897
Deferred tax assets/ (liabilities)	<b>(574,679,843)</b>	<b>(435,385,525)</b>

The changes of deferred tax liability as of 31 December 2011 and 2010 are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Opening balance at 1 January	435,385,525	362,243,105
Deferred tax expense	110,602,177	68,858,645
Hedge fund tax income	(15,499,305)	4,283,775
Foreign currency translation differences	44,191,446	0
Closing balance at 31 June	<b>574,679,843</b>	<b>435,385,525</b>

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Reconciliation of provision for taxes:		
Profit /(loss) from operations before tax	145,888,992	365,689,353

Domestic income tax rate of 20%	29,177,798	73,137,871
Taxation effects on:		
- income from investment assistance	(8,802,684)	-
- non-deductible expenses	3,547,754	4,029,468
- effect of change in corporate tax for the year 2009	-	2,173,714
-foreignn exchange rate translation gain/loss	116,073,387	-
-equity method	(6,539,544)	1,318,913
-other	(6,084,351)	( 1,413,974)
Tax charge / (benefit) in the income statement	<b>127,372,360</b>	<b>79,245,992</b>

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**36. EARNINGS PER SHARE**

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

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus 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.

Number of total shares and calculation of earnings per share at 31 December 2011 and 2010:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Number of shares outstanding at 1 January (in full)	100,000,000,000	87,500,000,000
New shares issued (in full)	20,000,000,000	12,500,000,000
Number of shares outstanding at 30 September (in full)	120,000,000,000	100,000,000,000
Weighted average number of shares outstanding during the year (in full)	120,000,000,000	120,000,000,000
Net profit / (loss) for period	18,516,632	286,443,361
(Loss) / earnings per share (Kr) (*)	0.02	0.24

(\*) The earnings/(loss) per share with par value of TL 1 is TL 0,02 for the period 1 January-31 December 2011, and TL 0,24 for the period 1 January-31 December 2010.

**37. RELATED PARTY TRANSACTIONS**

Short-term trade receivables from related parties that are valued by equity method (Note 10) are

	<b>31 December 2011</b>	<b>31 December 2010</b>
Sun Express	5,072,047	1,174,893
Bosnia Herzegovina Airlines	1,526,276	2,737,156
Türkbine Teknik Gaz Türbinleri Bakım	312,350	-
TCI	58,387	-
P & W T.T Uçak Bakım Merkezi Ltd. Şti.	-	30,114,504
Allowance for doubtful receivables (-)	-	(2,737,156)
	<b>6,969,060</b>	<b>31,289,397</b>

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

	<b>31 December 2011</b>	<b>31 December 2010</b>
Goodrich Thy Teknik Servis	38,638	-
TCI Kabinici Sistemleri A.Ş.	7,959	-
Türkbine Teknik Gaz Türbinleri Bakım	9,671	-
Uçak Koltuk Üretimi San.ve Tic.A.Ş.	1,814	-
	<b>58,082</b>	<b>-</b>

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**37. RELATED PARTY TRANSACTIONS (cont'd)**

Short-term trade payables to related parties that are valued by equity method (Note 10) are as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
THY Opet Havacılık Yakıtları A.Ş.	127,045,062	25,999,690
TGS	21,907,112	29,890,972
THY DO&CO İkrâm Hizmetleri A.Ş.	25,136,455	5,618,464
P & W T.T Uçak Bakım Merkezi Ltd. Şti.	6,855,313	-
	<b>180,943,942</b>	<b>61,509,126</b>

Transactions with related parties that are valued by equity method for the period ended as of 31 December 2011 are as follows:

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Services rendered to Sun Express	29,723,737	15,084,575
Service rendered to P&W T.T.	25,540,358	52,748,735
Service rendered to TGS	12,182,732	52,018,689
Services rendered to Bosnia Herzegovina Airlines	9,652,699	10,564,680
Services rendered to Turkbine	7,408,796	-
Services rendered to Turkish DO&CO	1,939,830	1,743,035
Services rendered to THY Opet	432,893	81,993
Services rendered to TCI	218,619	-
Services rendered to Goodrich	-	-
	<b>87,099,664</b>	<b>132,241,707</b>

	<b>1 January - 31 December 2011</b>	<b>1 January - 31 December 2010</b>
Services received from THY OPET	2,074,655,627	424,790,209
Services received from THY DO&CO	349,856,592	280,173,198
Services received from TGS	302,633,375	162,827,775
Services received from P&W T.T Uçak Bakım Merkezi	150,531,810	99,494,701
Services received from Bosnia Herzegovina Airlines	10,003,326	7,935,222
Services received from Sun Express	459,142	29,470,829
Services received from Goodrich	273,226	-
	<b>2,888,413,098</b>	<b>1,004,691,934</b>

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**37. RELATED PARTY TRANSACTIONS (cont'd)**

Transactions between the Group and Sun Express and Bosnia Herzegovina Airlines seat rental operations; transactions between the Group and Turkish DO&CO are catering services and loan financing, transactions between the Group and TGS are ground services, transactions between the Group and P&W T.T are engine maintenance services and the transactions between the Group and THY OPET is the supply of aircraft fuel. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Chairman and the Members of Board of Directors, General Manager, General Coordinator and Deputy General Managers are TL 4.528.973 (31 December 2010: TL 4.220.465).

**38. NATURE AND LEVEL OF RISKS DERIVING FROM 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 the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 8, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Group remains the same since the year 2010.

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total debts	9,072,976,046	4,977,703,728
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(1,683,057,811)	(813,936,552)
Net debt	7,389,918,235	4,163,767,176
Total shareholders' equity	44,498,927,641	3,747,406,984
Total capital stock	11,888,845,876	7,911,174,160
Net debt/total capital stock ratio	0.62	0.53

**(b) Financial Risk Factors**

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from different financial risks.

Risk management, in line with policies approved by the Board of Directors, is carried out. According to risk policy, financial risk is identified and assessed. By working together with Group's operational units, relevant instruments are used to reduce the risk.

### **38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)**

#### **(b) Financial Risk Factors (cont'd)**

##### ***b.1) Credit Risk Management***

#### **Credit risk of financial instruments**

Credit risk of financial instruments	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
31 December 2011	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of balance sheet date (*)	6,969,060	753,427,869	58,082	1,395,444,314	1,639,073,653	80,366,577
The part of maximum risk under guarantee with collateral etc. (**)	-	5,168,078	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	6,969,060	577,633,964	58,082	1,395,444,314	1,639,073,653	80,366,577
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	175,793,905	-	-	-	-
-The part under guarantee with collateral etc.	-	2,847,053	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	77,167,221	-	-	-	-
-Impairment(-)	-	(77,167,221)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(\*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(\*\*)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers

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

#### (b) Financial Risk Factors (cont'd)

##### b.1) Credit Risk Management (cont'd)

#### Credit risk of financial instruments

Credit risk of financial instruments	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party		
31 December 2010						
Maximum credit risk as of balance sheet date (*)	31,289,397	546,333,417	-	1,864,162,765	778,851,808	84,070,372
The part of maximum risk under guarantee with collateral etc. (**)	-	6,903,023				
A. Net book value of financial assets that are neither past due nor impaired	31,289,397	459,996,786	-	1,864,162,765	778,851,808	84,070,372
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	86,336,631	-	-	-	-
-The part under guarantee with collateral etc.	-	2,447,478	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	2,737,156	64,893,287	-	-	-	-
-Impairment(-)	(2,737,156)	(64,893,287)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(\*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(\*\*)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers

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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management (cont'd)*

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

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.

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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management (cont'd)*

The aging of past due receivables as of 31 December 2011 are as follows:

31 December 2011	<u>Receivables</u>		<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>	<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>				
Past due 1-30 days	154,588,150	-	-	-	-	154,588,150
Past due 1-3 month	22,320,528	-	-	-	-	22,320,528
Past due 3-12 months	61,015,941	-	-	-	-	61,015,941
Past due 1-5 years	14,317,716	-	-	-	-	14,317,716
Past due more than 5 years	718,791					718,791
Total past due receivables	252,961,126	-	-	-	-	252,961,126
The part under guarantee with collateral etc	2,847,053	-	-	-	-	2,847,053



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

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management (cont'd)*

The aging of past due receivables as of 31 December 2010 are as follows:

**Receivables**

<b>31 December 2010</b>	<b><u>Trade Receivables</u></b>	<b><u>Other Receivables</u></b>	<b><u>Deposits in Banks</u></b>	<b><u>Derivative Instruments</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
Past due 1-30 days	48,905,501	-	-	-	-	48,905,501
Past due 1-3 month	46,738,115	-	-	-	-	46,738,115
Past due 3-12 months	49,262,290	-	-	-	-	49,262,290
Past due 1-5 years	8,696,618	-	-	-	-	8,696,618
Past due more than 5 years	364,550	-	-	-	-	364,550
Total past due receivables	153,967,074	-	-	-	-	153,967,074
The part under guarantee with collateral etc	2,447,478	-	-	-	-	2,447,478

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**38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)****(b) Financial Risk Factors (cont'd)*****b.1) Credit risk management (cont'd)***

As of balance sheet date, total amount of cash collateral and letter of guarantee, which is received by Group for past due not impaired receivable, is TL 2.847.053 (31 December 2010: TL 2.447.478).

As of the balance sheet date, Group has no guarantee for past due receivables for which provisions were recognized.

***b.2) Liquidity risk management***

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management for short, medium and long term funding and liquidity necessities of the Group 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.

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. The adjustment column shows the item which causes possible cash flow in the future periods. The item in question is included in the maturity analysis and is not included balance sheet amount of financial liabilities in the balance sheet.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities..

**Liquidity risk table:****31 December 2011**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Finance lease obligations	7,912,882,833	9,063,046,374	229,775,641	734,536,609	3,599,737,058	4,498,997,066
Trade payables	1,001,609,621	1,006,176,118	869,723,250	136,452,868	-	-
Other financial liabilities	3,612,510	3,612,510	3,612,510	-	-	-
<b>Total</b>	<b>8,918,104,964</b>	<b>10,072,835,002</b>	<b>1,103,111,401</b>	<b>870,989,477</b>	<b>3,599,737,058</b>	<b>4,498,997,066</b>

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**38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS**

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management (cont'd)*

**Liquidity risk table (cont'd):**

**31 December 2010**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	14,696,729	15,022,192	-	15,022,192	-	-
Finance lease obligations	4,163,382,650	4,684,090,226	131,528,838	442,641,794	1,904,550,140	2,205,369,454
Trade payables	735,874,026	749,280,248	662,394,432	86,885,816	-	-
Other financial liabilities	1,117,687	1,117,687	1,117,687	-	-	-
<b>Total</b>	<b>4,915,071,092</b>	<b>5,449,510,353</b>	<b>795,040,957</b>	<b>544,549,802</b>	<b>1,904,550,140</b>	<b>2,205,369,454</b>

**31 December 2011**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial liabilities</b>						
Derivative cash inflows outflows, net	(74,504,505)	(56,835,471)	10,220,246	(13,597,247)	(43,600,906)	(9,857,564)
<b>Total</b>	<b>(74,504,505)</b>	<b>(56,835,471)</b>	<b>10,220,246</b>	<b>(13,597,247)</b>	<b>(43,600,906)</b>	<b>(9,857,564)</b>

**31 December 2010**

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial liabilities</b>						
Derivative cash inflows outflows, net	21,437,736	(49,353,951)	4,171,751	(1,634,342)	(46,158,411)	(5,732,949)
<b>Total</b>	<b>21,437,736</b>	<b>(49,353,951)</b>	<b>4,171,751</b>	<b>(1,634,342)</b>	<b>(46,158,411)</b>	<b>(5,732,949)</b>

*b.3) Market risk management*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

*b.3.1) Foreign currency risk management*

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

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

(b) Financial Risk Factors (cont'd)

*b.3) Market risk management (cont'd)*

*b.3.1) Foreign currency risk management (cont'd)*

	31 December 2011				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	552,043,752	185,113,977	109,556,908	20,855,509	236,517,358
2a.Monetary financial assets	1,379,232,996	355,589,247	827,874,879	1,037,973	194,730,897
2b.Non monetary financial assets	-	-	-	-	-
3.Other	783,280,900	777,111,536	3,880,392	911,868	1,377,104
<b>4.Current assets (1+2+3)</b>	<b>2,714,557,648</b>	<b>1,317,814,760</b>	<b>941,312,179</b>	<b>22,805,350</b>	<b>432,625,359</b>
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	-	-	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	12,669,299	634,694	7,647,026	270,045	4,117,534
<b>8.Non current asstes (5+6+7)</b>	<b>12,669,299</b>	<b>634,694</b>	<b>7,647,026</b>	<b>270,045</b>	<b>4,117,534</b>
<b>9.Total assets (4+8)</b>	<b>2,727,226,947</b>	<b>1,318,449,454</b>	<b>948,959,205</b>	<b>23,075,395</b>	<b>436,742,893</b>
10.Trade payables	724,967,077	339,514,208	250,583,484	9,038,313	125,831,072
11.Financial liabilities	445,023,191	524,414	444,498,777	-	-
12a.Other liabilities, monetary	39,346,934	27,913,536	7,516,665	394,154	3,522,579
12b.Other liabilities, non monetary	632,032	620,338	11,694	-	-
<b>13.Current liabilities (10+11+12)</b>	<b>1,209,969,234</b>	<b>368,572,496</b>	<b>702,610,620</b>	<b>9,432,467</b>	<b>129,353,651</b>
14.Trade payables	-	-	-	-	-
15.Financial liabilities	3,286,402,558	-	3,286,402,558	-	-
16a.Other liabilities, monetary	34,330,826	26,521,260	4,790,822	-	3,018,744
16b.Other liabilities, non monetary	-	-	-	-	-
<b>17.Non current liabilities (14+15+16)</b>	<b>3,320,733,384</b>	<b>26,521,260</b>	<b>3,291,193,380</b>	<b>-</b>	<b>3,018,744</b>
<b>18.Total liabilities (13+17)</b>	<b>4,530,702,618</b>	<b>395,093,756</b>	<b>3,993,804,000</b>	<b>9,432,467</b>	<b>132,372,395</b>
<b>19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)</b>	<b>-</b>	<b>-</b>	<b>254,424,060</b>	<b>-</b>	<b>-</b>
19a.Off-balance sheet foreign currency derivative assets	-	-	254,424,060	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(1,803,475,671)</b>	<b>923,355,698</b>	<b>(2,790,420,735)</b>	<b>13,642,928</b>	<b>304,370,498</b>
<b>21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(2,598,793,838)</b>	<b>146,229,806</b>	<b>(3,056,360,519)</b>	<b>12,461,015</b>	<b>298,875,860</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.Hedged foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>25.Exports</b>	<b>11,305,317,391</b>	<b>2,570,894,658</b>	<b>2,815,171,973</b>	<b>262,108,817</b>	<b>5,657,141,943</b>
<b>26.Imports</b>	<b>4,091,338,689</b>	<b>2,682,995,840</b>	<b>910,380,714</b>	<b>37,519,114</b>	<b>460,443,020</b>

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

(b) Financial Risk Factors (cont'd)

*b.3) Market risk management (cont'd)*

*b.3.1) Foreign currency risk management (cont'd)*

	31 December 2010				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	401,348,898	145,176,463	87,020,463	12,210,604	156,941,368
2a.Monetary financial assets	2,316,370,081	2,098,839,409	110,826,542	612,421	106,091,709
2b.Non monetary financial assets	-	-	-	-	-
3.Other	66,293,167	61,852,539	2,598,539	144,937	1,697,152
<b>4.Current assets (1+2+3)</b>	<b>2,784,012,146</b>	<b>2,305,868,411</b>	<b>200,445,544</b>	<b>12,967,962</b>	<b>264,730,229</b>
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	(166,510,045)	(166,510,045)	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	180,292,325	144,001,412	29,331,543	888,663	6,070,707
<b>8.Non current asstes (5+6+7)</b>	<b>13,782,280</b>	<b>(22,508,633)</b>	<b>29,331,543</b>	<b>888,663</b>	<b>6,070,707</b>
<b>9.Total assets (4+8)</b>	<b>2,797,794,426</b>	<b>2,283,359,778</b>	<b>229,777,087</b>	<b>13,856,625</b>	<b>270,800,936</b>
10.Trade payables	348,866,521	84,844,541	165,949,619	8,686,835	89,385,526
11.Financial liabilities	631,463,497	379,137,239	252,326,258	-	-
12a.Other liabilities, monetary	(4,731,681)	2,198,278	(10,958,333)	243,455	3,784,919
12b.Other liabilities, non monetary	489,632	56,367	433,265	-	-
<b>13.Current liabilities (10+11+12)</b>	<b>976,087,969</b>	<b>466,236,425</b>	<b>407,750,809</b>	<b>8,930,290</b>	<b>93,170,445</b>
14.Trade payables	-	-	-	-	-
15.Financial liabilities	3,781,139,557	1,801,134,839	1,980,004,718	-	-
16a.Other liabilities, monetary	9,829,695	3,453,108	5,418,972	2,604	955,011
16b.Other liabilities, non monetary	-	-	-	-	-
<b>17.Non current liabilities (14+15+16)</b>	<b>3,790,969,252</b>	<b>1,804,587,947</b>	<b>1,985,423,690</b>	<b>2,604</b>	<b>955,011</b>
<b>18.Total liabilities (13+17)</b>	<b>4,767,057,221</b>	<b>2,270,824,372</b>	<b>2,393,174,499</b>	<b>8,932,894</b>	<b>94,125,456</b>
<b>19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)</b>	<b>(2,281,685)</b>	<b>(244,025,867)</b>	<b>241,744,182</b>	-	-
19a.Off-balance sheet foreign currency derivative assets	241,744,182	-	241,744,182	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	244,025,867	244,025,867	-	-	-
<b>20.Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(1,971,544,480)</b>	<b>(231,490,461)</b>	<b>(1,921,653,230)</b>	<b>4,923,731</b>	<b>176,675,480</b>
<b>21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(2,215,358,655)</b>	<b>(193,262,178)</b>	<b>(2,194,894,229)</b>	<b>3,890,131</b>	<b>168,907,621</b>
<b>22.Fair value of foreign currency hedged financial assets</b>	-	-	-	-	-
<b>23.Hedged foreign currency assets</b>	-	-	-	-	-
<b>24.Hedged foreign currency liabilities</b>	-	-	-	-	-
<b>25.Exports</b>	<b>6,528,219,249</b>	<b>924,361,219</b>	<b>2,349,790,637</b>	<b>153,310,525</b>	<b>3,100,756,868</b>
<b>26.Imports</b>	<b>2,634,053,757</b>	<b>1,771,619,115</b>	<b>599,994,315</b>	<b>30,330,811</b>	<b>232,109,516</b>

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

(b) Financial Risk Factors (cont'd)

*b.3) Market risk management (cont'd)*

*b.3.1) Foreign currency risk management (cont'd)*

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from US dollar, Euro and GBP. The following table details the Group's sensitivity to a 10% increase and decrease in US Dollars, Euro and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss.

	<b>31 December 2011</b>	
	<b>Profit / (Loss) Before Tax</b>	
	<b>If foreign currency appreciated against TL by 10%</b>	<b>If foreign currency depppreciated against TL by 10%</b>
1 - Turkish Lira net asset / liability	92,335,570	(92,335,570)
2- Part of hedged from Turkish Lira risk (-)	-	-
3- Turkish Lira net effect (1 +2)	92,335,570	(92,335,570)
4 - Euro net asset / liability	(279,042,074)	279,042,074
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(279,042,074)	279,042,074
7 - GBP net asset / liability	1,364,293	(1,364,293)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	1,364,293	(1,364,293)
10 - Other foreign currency net asset / liability	30,437,050	(30,437,050)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	30,437,050	(30,437,050)
<b>TOTAL (3 + 6 + 9 + 12)</b>	<b>(154,905,161)</b>	<b>154,905,161</b>

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

(b) Financial Risk Factors (cont'd)

*b.3) Market risk management (cont'd)*

*b.3.1) Foreign currency risk management (cont'd)*

Foreign currency sensitivity (cont'd)

	<b>31 December 2010</b>	
	<b>Profit / (Loss) Before Tax</b>	
	<b>If foreign currency appreciated against TL by 10%</b>	<b>If foreign currency depppreciated against TL by 10%</b>
1 - US Dollar net asset / liability	(23,149,046)	23,149,046
2- Part of hedged from US Dollar risk (-)	-	-
3- US Dollar net effect (1 +2)	(23,149,046)	23,149,046
4 - Euro net asset / liability	(192,165,323)	192,165,323
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(192,165,323)	192,165,323
7 - GBP net asset / liability	492,373	(492,373)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	492,373	(492,373)
10 - Other foreign currency net asset / liability	17,667,548	(17,667,548)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	17,667,548	(17,667,548)
<b>TOTAL (3 + 6 + 9 + 12)</b>	<b>(197,154,448)</b>	<b>197,154,448</b>

*b.3.2) Interest rate risk management*

Group has been borrowing over fixed and variable interest rates. Considering the interest types of the current borrowings, borrowings with variable interest rates have the majority but in financing of aircrafts performed in the last years, Group tries to create a partial balance between borrowings with fixed and variable interest rates by increasing the weight of the borrowings with fixed interest rate in condition of the suitability of the cost. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, dependency to local risks is low .

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**38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)****(b) Financial Risk Factors (cont'd)*****b.3) Market risk management (cont'd)*****Interest Rate Position Table**

	<b><u>31 December 2011</u></b>	<b><u>31 December 2010</u></b>
<b>Instruments with fixed interest rate</b>		
<b>Financial Liabilities</b>	3,928,078,910	2,206,737,240
<b>Financial Instruments with Variable Interest Rate</b>		
<b>Financial Liabilities</b>	3,984,803,923	1,971,342,139
<b>Interest Swap Agreements not subject to</b>		
Hedge accounting (Net)	(59,611)	7,569,719
<b>Interest swap agreements subject to</b>		
Hedge accounting (Net)	(62,888,643)	(27,153,795)

As indicated in Note 39, the Group as of 31 December 2011 fixed the interest rate for TL 726.845.750 of floating-interest-rated financial liabilities via an interest rate swap contract.

**Interest rate sensitivity**

The following sensitivity analysis is determined according to the interest rate exposure in the reporting date and possible changes on this rate and it is fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the interest rates of the borrowings with variable interest rates, fluctuate 0,5% and reports these to the top management.

In condition that 0,5% increase in Libor and Euribor interest rate and all other variables being constant:

Loss before tax of the Group, which belongs to the twelve-month-period, will increase by TL 19.924.020 TL (as of 31 December 2010 profit before tax will decrease by TL 9.856.711). In contrast, if Libor and Euribor interest rate decreases 0,5%, loss before tax for the six-month-period will decrease by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in case of a 0,5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by TL 13.823.126 without the deferred tax effect. In case of a 0,5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amount without the deferred tax effect.

***b.3.3) Fuel prices sensitivity***

As explained in Note 39, Group made forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases beginning from 2009. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by TL 15.916.711 excluding the deferred tax effect. In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 40.606.258 excluding the deferred tax effect.



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**39. FINANCIAL INSTRUMENTS**

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- In standard maturities and conditions, fair values of financial assets and liabilities which are traded in an active market are determined as quoted market prices.
- Fair values of derivative instruments are calculated by using quoted prices. In absence of prices, discounted cash flows analysis is used through applicable yield curve for maturities of derivative instruments (forward and swaps).

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**39. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

31 December 2011 Balance Sheet	Loans and <u>Receivables</u>	Derivative instruments which are reflected at fair <u>value in shareholders' equity</u>	Derivative instruments which are reflected <u>fair value profit/(loss)</u>	Investments available for sale <u>at cost value</u>	Financial liabilities <u>at amortized cost</u>	<u>Book Value</u>	<u>Note</u>
<u>Financial Assets</u>							
Cash and cash equivalents	1,549,524,710	-	-	-	-	1,549,524,710	6
Financial investments	133,533,101	6,796,870	73,569,707	1,767,872	-	215,667,550	7
Trade receivables	760,396,929	-	-	-	-	760,396,929	10
Other receivables	1,395,502,396	-	-	-	-	1,395,502,396	11
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	7,912,882,833	7,912,882,833	8
Other financial liabilities	-	70,753,275	84,117,807	-	3,612,510	158,483,592	9
Trade payables	-	-	-	-	1,001,609,621	1,001,609,621	10
31 December 2010 Balance Sheet	Loans and <u>Receivables</u>	Derivative instruments which are reflected at fair <u>value in shareholders' equity</u>	Derivative instruments which are reflected <u>fair value profit/(loss)</u>	Investments available for sale <u>at cost value</u>	Financial liabilities <u>at amortized cost</u>	<u>Book Value</u>	<u>Note</u>
<u>Financial Assets</u>							
Cash and cash equivalents	813,936,552	-	-	-	-	813,936,552	6
Financial investments	-	44,396,158	39,674,214	1,750,943	-	85,821,315	7
Trade receivables	577,622,814	-	-	-	-	577,622,814	10
Other receivables	1,864,162,765	-	-	-	-	1,864,162,765	11
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	14,696,729	14,696,729	8
Finance lease obligations	-	-	-	-	4,163,382,650	4,163,382,650	8
Other financial liabilities	-	22,537,592	40,095,044	-	1,117,687	63,750,323	9
Trade payables	-	-	-	-	735,874,026	735,874,026	10

The Group considers the book values for financial assets approximate their fair values.

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**39. FINANCIAL INSTRUMENTS (cont'd)**

Fair Values of Financial Instruments (cont'd)

Fair values of financial assets and liabilities are determined as follows:

- First level: Financial assets and liabilities, are valued with the stock exchange prices in the active market for the assets and liabilities same with each other.
- Second level: Financial assets and liabilities are valued with input obtained while finding the stock exchange price of the relevant asset or liability mentioned in the first level and the direct or indirect observation of price in the market.
- Third level: Financial assets and liabilities are valued by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets and liabilities, which are presented in their fair values, level reclassifications are as follows:

		Fair value level as of the reporting date		
		Level 1	Level 2	Level 3
		TL	TL	TL
<b>Financial assets</b>	<b>31 December 2011</b>			
Financial assets at fair value through profit or loss				
Derivative instruments	73,569,707	-	73,569,707	-
Financial assets subject to hedge accounting				
Derivative instruments	6,796,870	-	6,796,870	-
<b>Total</b>	<b>80,366,577</b>	<b>-</b>	<b>80,366,577</b>	<b>-</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
Derivative instruments	84,117,807	-	84,117,807	-
Financial liabilities subject to hedge accounting				
Derivative instruments	70,753,275	-	70,753,275	-
<b>Total</b>	<b>154,871,082</b>	<b>-</b>	<b>154,871,082</b>	<b>-</b>

**39. FINANCIAL INSTRUMENTS (cont'd)**

Derivative Instruments and Hedging Transactions

In order to hedge important operations and cash flows in the future against financial risks, Group made interest rate swap contracts to convert some of the fixed-rate finance lease liabilities into floating rate and cross-currency swap contracts to convert Euro-denominated finance lease liabilities into US Dollars. The changes in the fair values of those derivative instruments are directly accounted in the income statement for the period.

The floating-rate financial liabilities of the Group are explained in Note 38 (b.3.2). Beginning from June 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group made fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities whose maturities are after the second half of 2010 and account for approximately 26% of floating rate USD and Euro denominated liabilities. Effective part of the change in the fair values of those derivative instruments which are subject to hedge accounting for cash flows risks of floating-rate finance lease liabilities are accounted in cash flow hedge fund under the shareholders' equity.

At January 2010, in order to control risk arising from fluctuations in price of fuel which is approximately 37% of cost of sales as of 31 December 2010 and to lessen the effects of fluctuations in oil prices on fuel expenses, the Group began hedging transactions for approximately 20% of annual jet fuel consumption in 2010. For this purpose, the Group made forward fuel purchase contracts settled on cash basis. In accordance with the Company's BOD resolution issued on 21 January 2011, hedging rate which corresponds to 20% of the currently applied monthly consumption rate will be applied as 50% after 12 months and this rate will be gradually increased by 2,5% in each month. In addition, the Company started to use zero cost 4 way collars in 2011 instead of forward fuel purchase contracts to hedge cash flow risk of fuel prices. The effective portion of fair value hedge of derivative instruments that are subject to cash flow hedge accounting due to future fuel purchases is recognized under hedge accounting fund in equity.

Group's derivative instruments arisen from transactions stated above and their balances as of 31 December 2011 and 31 December 2010 are as follows:

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**39. FINANCIAL INSTRUMENTS (cont'd)**

**Derivative Instruments and Hedging Transactions (cont'd)**

<b>31 December 2011</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(62,888,643)	(62,888,643)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	6,796,870	-	6,796,870
4 way collar contracts for hedging against cash flow risk of fuel prices	-	(7,864,632)	(7,864,632)
Fair values of derivative instruments for hedging purposes	6,796,870	(70,753,275)	(63,956,405)
Cross-currency swap contracts not subject to hedge accounting	43,169,453	(61,992,542)	(18,823,089)
Interest rate swap contracts not subject to hedge accounting	20,717,103	(20,776,714)	(59,611)
Fair values of derivative instruments not for hedging purposes	9,683,151	(1,348,551)	8,334,600
	73,569,707	(84,117,807)	(10,548,100)
Total	80,366,577	(154,871,082)	(74,504,505)

<b>31 December 2010</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Total</b>
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(22,537,592)	(22,537,592)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	44,396,158	-	44,396,158
Fair values of derivative instruments for hedging purposes	44,396,158	(22,537,592)	21,858,566
Cross-currency swap contracts not subject to hedge accounting	7,675,593	(11,049,940)	(3,374,347)
Interest rate swap contracts not subject to hedge accounting	31,998,621	(29,045,104)	2,953,517
Fair values of derivative instruments not for hedging purposes	39,674,214	(40,095,044)	(420,830)
Total	84,070,372	(62,632,636)	21,437,736

**39. FINANCIAL INSTRUMENTS (cont'd)**

Derivative Instruments and Hedging Transactions (cont'd)

	<b>Hedging against fuel risk</b>	<b>Hedging against interest risk</b>	<b>Total</b>
Increase/(decrease) in fair values of derivative instruments for hedging purposes	(1,067,762)	(62,888,643)	(63,956,405)
The amount of financial expenses inside hedge funds		(1,232,013)	(1,232,013)
Reclassified amount for ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	7,708,590	-	7,708,590
Total	<u>(13,139)</u>	<u>(773,840)</u>	<u>(786,979)</u>
Deferred tax	6,627,689	(64,894,496)	(58,266,807)
Hedge fund as of 31 December 2011	<u>(1,325,538)</u>	<u>12,978,899</u>	<u>11,653,361</u>
	<u>5,302,151</u>	<u>(51,915,597)</u>	<u>(46,613,446)</u>

**40. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

23. Labor Union Agreement negotiations started at 2 February 2012 between the Group and Turkey Civil Aviation Labor Union (Hava-İş). As of 19 March 2012, the parties could not agree on 42 clauses and signed dispute minute. The negotiations will continue with a supervisor.

The tender to renew the cooperation aggrement of Miles&Smiles FFP Co-Branded Credit Card which ended on 31 March 2012 has resulted. The Company decided that T.Garanti Bankası A.Ş will issue and deliver Co-Branded Credit Card for the members of Frequent Flyer Program Miles&Smiles for the next five years.

The Board of Directors has authorized Executive Committee to conduct a preliminary examination to comprehend privatization process and invesment potentials regarding Polish national airline company LOT.

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

As there is a change in the presentation and classification of the Group's financial statement items, prior financial statements are reclassified accordingly to maintain comparability. This reclassification has no effect over the prior period's equity and net profit/ (loss) accounts. Significant reclassifications in the financial statements include:

Out of TL 6.805.187 of communication expenses which was stated under "Cost of sales " in the period between 1 January – 31 December 2010, is now classified under "Genel administrative expenses".

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

Out of TL 8.089.723 of maintenance expenses presented under cost of sales, TL 7.411.203 of it was net off with maintenance expenses received from leasing companies presented under other operating income, and the remaining TL 678.520 was net off with drawbacks and discounts from services presented under other operating income.

TL 19.419.918 part of the 'insurance expenses' item, which was stated under "General administrative expenses" in the interim period between 1 January – 31 December 2010, is now classified under "Cost of sales".

TL 13.239.816 part of the 'aircraft finance administrative expenses' item, which was stated under "General administrative expenses" in the interim period between 1 January – 31 December 2010, is now classified under "Cost of sales".

TL 6.192.781 part of the 'Expense for the passengers without a visa' item, which was stated under "Other operating expense" in the interim period between 1 January – 31 December 2010, is now classified under "Cost of sales".

TL 18.893.343 part of the 'Passengers service and catering expense' item, which was stated under "Marketing and sale expense" in the interim period between 1 January – 31 December 2010, is now classified under "Cost of sales".

TL 22.951.558 which was stated under "Cost of sale as other" in the interim period between 1 January – 31 December 2010, is now classified under "Maintenance expenses".

**31 December 2010**

	Reported in the previous period	Reclassified amount	Reported in the current period
Cost of sales (-)	(6,609,264,529)	(42,850,948)	( 6,652,115,477)
Marketing and sales expenses (-)	( 999,770,863)	18,893,343	( 980,877,520)
General administrative expenses (-)	( 352,872,407)	25,854,547	( 327,017,860)
Other operating income	149,669,257	( 8,089,723)	141,579,534
Other operating expenses (-)	( 128,343,992)	6,192,781	( 122,151,211)
Total	( 7,940,582,534)	-	( 7,940,582,534)