05

TURKISH AIRLINES

Annual Report

Mission

The mission of Turkish Airlines, the flag carrier of Turkey, is to provide air transportation services for the following purposes:

- **Expand its network of long-haul flights, and reinforce its identity as a global airline company,**
- **Turn the technical maintenance unit into an important technical base in the region; and hence build on its attributes as a provider of technical maintenance services,**
- **Develop corporate identity as a provider of all kinds of civil aviation services with strategic significance including ground handling and flight training,**
- **Preserve its leadership in domestic air transportation,**
- **In cooperation with a global airline company that would complement the Turkish Airlines flight network, supply unfailing, high-quality flight services; cultivate its image abroad and through marketing channels,**
- **To make Istanbul an important a hub.**

Contents

Legal Status

1933

Turkish Airlines was established on 20 May 1933 by Law number 2186, bearing the name "The State Airline Enterprise", and commenced operations under the Ministry of National Defense.

1935

In 1935, it was tied to the Ministry of Public Works. Its name was changed in 1938 to the "State Airlines General Directorate", thereafter working as a department of the Ministry of Transportation.

1955

In 1955, Law number 6623 converted the enterprise into a company governed by special legal regulations, which then became Turkish Airlines Inc.

1984

The Decree-Law number 233 (published in the Official Gazette numbered 18570 on 9 November 1984) concerning certain public enterprises cited the company's status as a State Economic Enterprise.

1990

The Decree of the Council of Ministers number 90/822 (drawn up on 22 August 1990 and published in the Official Gazette number 20646 on 25 September) included the Company among the State Economic Enterprises listed for privatization in the context of law number 3291. The new Articles of Association of the Company were accepted by the 90/18 resolution of the Supreme Planning Board on 30 October 1990. Turkish Airlines was commercially registered on 5 November 1990.

1994-2005

The Company was placed within the scope of Law number 4046 (concerning the Regulation of Privatization Procedures and the Amendment of Certain Decree-Laws published in the Official Gazette number 22124 on 27 November 1994). According to article 35 of the aforementioned law, it again became a State Economic Enterprise under the Privatization Administration. According to article 20/a of the aforementioned law, the Company's Articles of Association were revised with the approval of the Privatization Administration (5 December 1996) in order to align it with the provisions of the aforementioned law; other amendments were approved by Decision No. 33/953 of the Capital Markets Board on 5 July 2002, and by Permission number 1006 of the Privatization Administration on 8 November 2002. These amendments were put into effect after the ratification of the Extraordinary General Assembly Meeting on 17 January 2003.

Milestones

20.05.1933
Established as "The State Airline Enterprise" under the Ministry of National Defense.

The first fleet included
- Two King Birds (five seats)
- Two Junkers F-13s (four seats)
- One ATH-9 (ten seats)

1935
Was tied to the Ministry of Public Works.

1938
Became a department of the Ministry of Transportation as "The State Airlines General Directorate".

1945
DC-3 planes were included in the fleet.

1947
The first international flight: Ankara-Istanbul-Athens.

01.03.1956
The Turkish Airlines Corporation was established with a capital of TL 60 million.

1958-1960
F-27 and VISCOUNT planes were bought.

1967
The first DC-9 plane hailed the age of jet planes.

1971
B-707s were leased.

1973
- F-27s were replaced by F-28s.
- DC-10s became part of the fleet.

1974
B-727s were added to the fleet.

1984
The capital was raised to TL 60 Billion. New status as a State Economic Enterprise.

1985
The fleet was extended by the new Airbus 310s.

1986
The Singapore route was opened in June, initiating flights to the Far East.

1987
The capital was increased to TL 150 billion in July.

1988
The New York route was opened in August (via Brussels).

1990
- Capital increased to TL 700 billion.
- Tied to the Public Participation Administration in September.

1991
- B-737s were purchased.
- Authorized capital declared TL 2 trillion in September.

1992
Authorized capital declared TL 2.5 trillion in December.

1993
- A-340-300s were added to the fleet in July.
- RJ-100s were acquired in July.
- The introduction of First Class seating in August in the A340-300 planes.
- THT A.Ş (Turkish Air Transportation) merged with Turkish Airlines Corporation in September.

1994
- Authorized capital was increased to TL 6 trillion in January.
- Direct flights to New York began in July.
- The exclusion of DC-9s from the fleet in September.
- Issued capital of the company stood at TL 5.5 trillion in November.

1995
- First Class seating was included in the A310-318s in February.
- Authorized capital was raised to TL 10 trillion in March.
- Three B727-200 planes were converted into cargo planes in July, September and November.

1996
- RJ70s were added to the fleet.
- Four B727-200s were retired from the fleet in April.
- Paid in capital was increased to TL 10 trillion in May.
- Authorized capital was posted at TL 50 trillion in December.



1997

On 31 October, A Block Space agreement was signed with Japan Airlines for the Istanbul-Osaka-Istanbul route.

1998

- At the end of March, a Block Space agreement was signed with Austrian Airlines for flights from Istanbul, Ankara and İzmir to Vienna.
- On 30 March, Turkish Airlines engaged in a new cooperation agreement with the top five European airlines under the name "The Qualiflyer Group".
- In June, issued capital of the company was raised to TL 30 trillion.
- In August, a Block Space agreement was signed with Swissair for flights from Istanbul to Zurich, Geneva and Basel and for flights from İzmir to Zurich.
- A Block Space Agreement was drawn up with Croatian Airlines for the Istanbul-Zagreb-Istanbul route in October.
- Yet another Block Space Agreement was signed with Japan Airlines for the Istanbul-Tokyo-Istanbul route in November.
- The first six of the 26 Next-Generation B737-800s ordered in November from Boeing joined the fleet.

1999

- Nine more B737-800 planes arrived.
- Maintenance Base II was put in use in January.
- In April, smoking was banned on all flights.
- A Code Share Agreement signed with Malaysian Airlines on the Istanbul-Kuala Lumpur-Istanbul route commenced in September.
- Authorized capital was raised to TL 175 trillion in November.

2000

- Seven B737-800s joined the fleet.
- A Block Space agreement was signed with Asiana Airlines for the Istanbul-Seoul-Istanbul route in May.
- The first commercial flight to Sydney in September for the Olympic Games.
- In October, Code Share flights were started as agreed with American Airlines at the end of February linking New York, Miami and Chicago to 10 domestic destinations in the US.
- Our new Frequent Flyer program Miles&Miles was launched in October.

Taking effect on 29 October, the following agreements came into force:

- Block Space agreement with Cathay Pacific Airlines for the Istanbul-Hong Kong-Istanbul route,
- Code Share agreement with Polish Airlines for the Istanbul-Warsaw-Istanbul route,
- Code Share agreement with Czech Airlines for the Istanbul-Prague-Istanbul route.

2001

- Two B737-800 planes were delivered.
- 6 A-310-200 planes were sold to Iran Air.
- A Code Share agreement was signed with Sunexpress for the Antalya-Frankfurt-Antalya route.
- On 29 January, flights began from Sabiha Gökçen Airport to Ankara.
- The Call Center for reservations began operating (444 0 THY/ 444 0 849).

2002

- Turkish Airlines took delivery of two B737-800 planes.
- The Pristina route was opened.

2003

- The Johannesburg-Cape Town route was closed on 29 March 2003.
- Because of the war in Iraq, flights to Bahrain and Kuwait were suspended on 17 March and 20 March, respectively. Flights to Kuwait, Bahrain and Riyadh were resumed on 1 May.
- Flights to Hong Kong, suspended due to SARS disease, were restored on 30 June.
- Flights to Beijing and Shanghai- suspended because of SARS

Milestones

disease on 18 April- were resumed on 16 July. By 29 July, they were raised from twice to thrice a week.
- The New Delhi route was opened on 18 September 2003.
- The Sivas route was opened on 17 October 2003.
- Flights on the İzmir Adana-İzmir route began on 2 October 2003.
- In the framework of the "Code Share" agreement between Turkish Airlines and Air India, flights on the Istanbul-New Delhi-Istanbul route are co-administered with Air India since 3 November 2003.
- In January, Turkish Airlines was ranked first among European Airlines baggage delivery performance.
- Electronic Ticketing or “ticket-free travel" was introduced on 9 December with the duty staff of the flight crew.

2004
- Planes were equipped with defibrillators, which are used to deliver an electroshock to the heart in case of heart attacks.
- In August, two A310 planes were leased from World Focus Airways until the delivery of the planes ordered from Airbus and Boeing.
- In September, American plane manufacturer Boeing chose the Turkish Airlines Maintenance Center among other alternatives in the area, and signed a 10-year Plane Maintenance Agreement. Another reputable manufacturer in the aviation industry, Honeywell, declared the Maintenance Center an authorized maintenance, repair and overhaul center for the fuel components of the CFM56-7B engines, a first in the world.
- Again in September, the "On-line Customer Relations Service" was made available at the address, www.turkishairlines.com.tr. It is an outlet for our customers to share their opinions and complaints with us.
- Flights to Karachi were increased from twice to four times a week. In turn, Pakistan Airlines scheduled flights between Islamabad and Istanbul three times a week. At the same time, Pakistan Airlines decided to enter into a technical cooperation agreement with Turkish Airlines for the maintenance and repair of its planes.
- The Consumer Report issued by the Association of European Airlines in December positioned Turkish Airlines second among all European airline companies in punctuality and baggage delivery performance.

2005
- Domestic flight fares were revised on 1 February. The differentiation of fares depending on the time of the flight, exercised during the winter schedule was maintained. In addition to existing discounts, other discounts of up to YTL 20 were introduced on a number of flights.
- The annual inspection of the US Federal Aviation Administration (FAA) on 14-18 February was very successful. According to the report zero (0) fault found in most workshops and units of the Turkish Airlines Maintenance Center.
- From 3 March to 3 June, Gaziantep Airport was out of order for maintenance and repair work. In order to avoid any inconvenience to passengers, daily flights to Gaziantep from Istanbul and Ankara were diverted to Adana.
- The Casablanca route was opened on 27 March.
- Assoc. Prof. Temel Kotil joined senior management on 18 April. Dr. Candan Karlıtekin was re-elected as Chairman of the Board.
- From 30 April on, flights began from Sabiha Gökçen Airport located on the Asian side of Istanbul.
- Lisbon route launched on 7 June.

- Joint flights from Istanbul and Antalya to the London Stansted Airport were scheduled on 14 June.
- On 1 June, Istanbul-Kuwait flights were increased from twice to four times a week.
- On 5 June, Istanbul-Karachi flights were increased from twice to four times a week.
- On 21 June, the Oslo route was opened.
- On 5 July, the Extraordinary General Assembly Meeting was held.
- Cargo services were extended to Almaty and New Delhi from 29 July onwards.
- On 22 August Istanbul-Konya flights were increased from once to twice a day.
- In August, all long-haul A340 planes were equipped with defibrillator (AED) devices to be used in cases of sudden heart attacks.
- Starting from August, Istanbul-Denizli flights were scheduled for every day of the week.
- In October, the presentation and service concept was re-fashioned. The "tulip" motif became the corporate emblem.
- Turkish Airlines sponsored the 42nd Antalya Golden Orange Film Festival.
- The Astana route was opened on 19 October.
- Turkish Airlines transported aid equipment to Pakistan for the earthquake disaster free of charge.
- The Chess Team of the Turkish Airlines Sports Club won the Turkey Chess Championship between Clubs held from 28 September to 3 October. The Chess Team rose to the Turkish Super League.
- In its "Aviation Safety Assessment", the World Aviation Authority JAA MAST reported that Turkish Airlines was operating with the highest performance in technical maintenance and repair.
- A new model for fares was adopted on 1 November to offer passengers different alternatives.
- In November, decisions were made to buy 59 new planes and open 23 new international routes.
- On 28 November, a decision was made to establish the companies THY Habom A.Ş. (Aviation Maintenance, Repair and Modification), THY Teknik (Technical) A.Ş. and THY Eğitim (Training) A.Ş.
- On 17 December, flights were launched on the routes Ankara-Samsun-Ankara and Istanbul-Kars-Istanbul.
- On 15 December, the first three of the 59 planes purchased from Airbus and Boeing; the Next-Generation Boeing 737-800, A320 and the first Airbus in Turkey the A330 were delivered to the fleet.
- On 15 December, counters at the Atatürk Airport were re-organized for easier movement of passengers, and to stave off any delays.
- The Domestic Flights (B) Terminal of the Esenboğa Airport had been out of service after the fire on 13 November. Maintenance, repair and renovation work was completed, and the building resumed services on 19 December.
- Turkish Airlines became a member of the IATA Fuel Quality Pool (IFQP) along with 50 international airline companies (Lufthansa, KLM, British Airways, Air France, Emirates, TAP, Austrian, UPS, TNT, Spanair, Air Canada, Japan Airlines, Qantas, Alitalia, Swiss, LTU, SAS, etc.) under the roof of IATA. While Turkish Airlines controlled only 28 domestic terminals at the start of 2005, following the IFQP membership, Turkish Airlines is now in position to receive feedback from about 800 international airports regarding fuel suppliers, fuel quality, operational safety and security issues in terms of fuel systems. In the event of any situation that threatens flight or aircraft safety in fuel quality or re-fuelling operations, at all destination airports, Turkish Airlines can impose sanctions together with other airlines. This membership has empowered Turkish Airlines.

Message from the Chairman

Reaping the fruits of its investments in 2005, our Company has managed to become one of the airline companies that excel around Europe and the world in the aviation sector, where competition is rife.

For the first time in the history of our Company, the number of enplaned revenue passengers was boosted 18% from 2004 to 2005, passing the 14 million mark. Our Company became second among European airline companies with a 20.4% surge in scheduled passengers.

Figures of the year 2005 underpin the decisions made by our Company towards further growth.

Taking into account all passengers boarded since our foundation date of 1933, in 2005 the 200 millionth passenger traveled with Turkish Airlines.

With enhanced service quality and a widening flight network, our Company offers more traveling opportunities to passengers both in the domestic and foreign market. The 39% growth in the Turkish market of domestic flights is estimated to simmer to sustainable levels in the coming years to a rate of 15-20%.

In 2005, our Company added Casablanca, Lisbon, Oslo and Astana to its international flight destinations. It has now been flying to a second airport in London, the Stansted. With the resumption of flights to Kahramanmaraş and Adıyaman in the same year, our domestic flight destinations reached 28. By the end of April 2005, flights were launched from the Sabiha Gökçen Airport to Ankara, İzmir, Adana, Antalya, Bodrum, Van, Erzurum and Diyarbakır.

The two critical factors that cloud the profitability of our Company are the jumps in fuel prices and the appreciation of the Turkish currency, as our foreign currency revenues are higher than our foreign currency expenditures.

I would also like to point out our goals and other important services apart from passenger and cargo transportation.

Our Company has one of the largest and most reliable technical maintenance centers in its area and a

Turkish Airlines has achieved success in Europe and in the world in the face of a fiercely competitive aviation sector, thanks to its excellent service quality, its flight network, a flexible fleet, and by applying the latest technology.

Flight Training Center fitted with state of the art equipment. These centers serve other domestic and foreign airline companies besides Turkish airlines aircraft and staff.

In its Aviation Safety Assessment in Turkey in September, the Aviation Authority JAA MAST (JAA Maintenance Standardization) verified that "Turkish Airlines operates with the highest performance in technical maintenance and repair."

Bearing in mind the status of our country as one of the sizeable economies of the world, its advantageous location for seaside, cultural and congress tourism, our Company aims to make Istanbul a transit gateway between the Far East/Middle East and Europe/America. The new acquisition of the long-haul A330 planes will facilitate this goal, contributing to the sustained work of our Company to take part in the economic and social development of our country.

With the new purchases, our fleet will be one of the youngest in Europe. The 23 new routes planned for 2006 will highlight our identity as the "global airline company".

Planning to draw on the opportunities to arise parallel to Turkey's EU process, our Company has been the center of attention for global airline alliances both by virtue of its frequency increases in current routes and its broadening flight network.

Our work in 2005 gives us ample reasons to view 2006 with hope. We will carry on with our profitability, watch our costs vigilantly while opening new routes, and keep on investing in the future.

Our goal is to raise the stakes for Turkish Airlines. By the addition of new aircraft to our fleet, we are on our way to become one of the foremost companies in Europe and around the world in flight safety, passengers enplaned, quality of service and credibility.

Dr. Candan KARLITEKİN

On behalf of the Board of Directors

Board of Directors, Board of Auditors

from left to right: Prof. Dr. Oğuz Borat, Prof. Dr. Ateş Vuran, Assoc. Prof. Temel Kotil, Mehmet Büyükekşi, Dr. Candan Karlıtekin, Hamdi Topçu, Dr. Hasan Gül, İsmail Gerçek, Hüseyin Atilla Öksüz.

Board of Directors

Dr. Candan KARLITEKİN
Chairman

Hamdi TOPÇU
Vice-Chairman

Assoc. Prof. Temel KOTİL
Board Member and General Manager

Atilla ÖKSÜZ
Board Member

Prof. Dr. Cemal ŞANLI
Board Member

Prof. Dr. Oğuz BORAT
Board Member

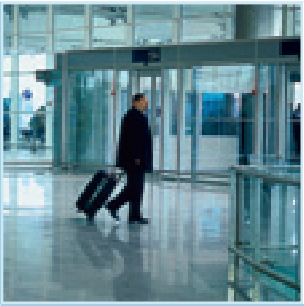
Mehmet BÜYÜKEKŞİ
Board Member

Board of Auditors

İsmail GERÇEK
Board Memberi

Dr. Hasan GÜL
Board Member

Prof. Dr. Ateş VURAN
Board Member



Traffic Results

Overall Traffic Results

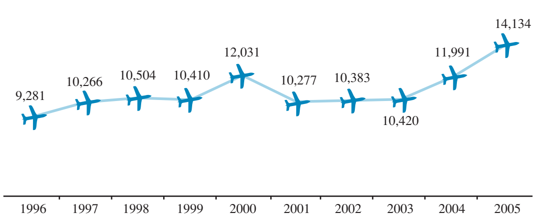
	2001	2002	2003	2004	2005
Number of Landings	109,028	102,607	100,807	106,493	127,137
Kilometers Flown (000)	143,616	138,059	137,392	147,492	168,901
Available Seat Kilometers (million)	24,890	24,071	24,040	26,481	29,805
Revenue Passenger Kilometers (million)	15,679	16,594	16,112	18,594	21,317
Passenger Load Factor (%)	63.0	68.9	67.0	70.2	71.5
Available Ton Kilometers (million)	3,574	3,285	3,229	3,556	3,986
Revenue Ton Kilometers (million)	1,968	2,118	2,055	2,333	2,590
Overall Load Factor (%)	55.1	64.5	63.6	65.6	65.0
Revenue Passengers (000)	10,277	10,383	10,420	11,991	14,134
Cargo (tons)	104,778	118,906	117,923	129,984	140,559
Mail (tons)	4,648	5,999	4,899	4,867	4,415
Excess Baggage (tons)	2,524	2,187	2,515	2,783	3,714
Total Staff (Year's End)	11,242	10,984	10,239	10,956	11,121

Turkish Airlines continues to work on improving service quality.

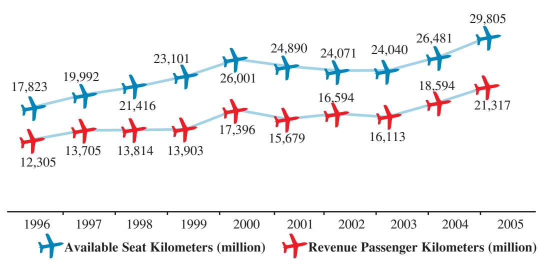
Turkish Airlines aims to increase the importance of Istanbul as a transit point between the Far East - Middle East and Europe-America through its wide body, long distance A330 aircraft which have recently joined the fleet.

10 Year Indicators

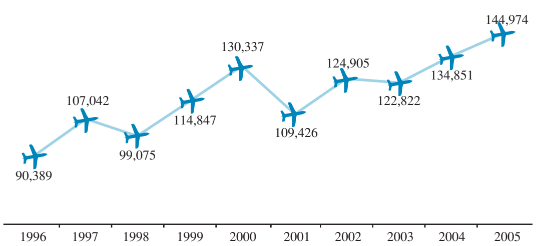
Revenue Passengers (000)



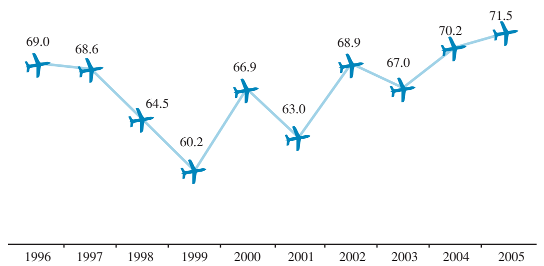
Available Seat Kilometers
Revenue Passenger Kilometers Development



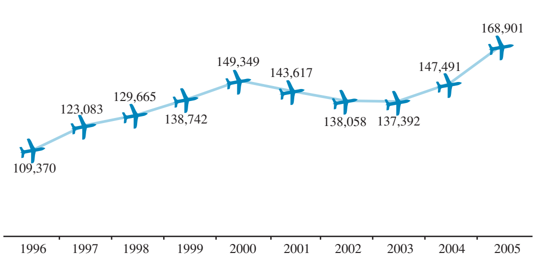
Cargo and Mail Development (tons)



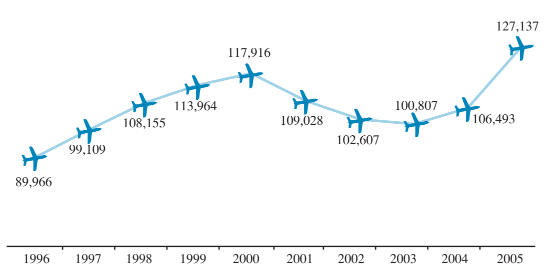
Passenger Load Factor (%)



Kilometers Flown (000)



Number of Landings



Operations in 20

05

Figures of the year 2005 underpin the decisions made by our Company towards further growth.

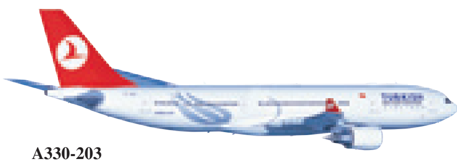
ns in 2005

Operations in 2005

Our Fleet

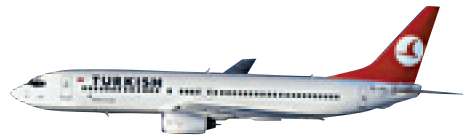
A-340-300

Number of Planes	: 7
Age of Fleet	: 9.54
Total Seat Capacity	: 1,897
Total Hours Flown	: 37,066
Total Kms. Flown	: 26,974,330
Daily Average Flying Hours	: 14:30
Maximum Range	: 11,952 km
Maximum Cargo Capacity	: 44,836 kg / 152.80 m^3



A330-203

Number of Planes	: 2
Age of Fleet	: 0.04
Total Seat Capacity	: 500
Total Hours Flown	: 183
Total Kms. Flown	: 95,904
Daily Average Flying Hours	: 02:57
Maximum Range	: 12,300 km
Maximum Cargo Capacity	: 37,500 kg / 109.00 m^3



B-737-800

Number of Planes	: 27
Age of Fleet	: 5.9
Total Seat Capacity	: 4,455
Total Hours Flown	: 117,818
Total Kms. Flown	: 69,048,736
Daily Average Flying Hours	: 12:33
Maximum Range	: 4,755 km
Maximum Cargo Capacity	: 8,408 kg / 45.05 m^3

B-737-400

Number of Planes	: 17
Age of Fleet	: 13.44
Total Seat Capacity	: 2,548
Total Hours Flown	: 56,092
Total Kms. Flown	: 25,983,654
Daily Average Flying Hours	: 09:02
Maximum Range	: 3,550 km
Maximum Cargo Capacity	: 7,491 kg / 39.22 m^3

A320

Number of Planes	: 14
Age of Fleet	: 6.27
Total Seat Capacity	: 2,181
Total Hours Flown	: 36,762
Total Kms. Flown	: 18,561,482
Daily Average Flying Hours	: 08:56
Maximum Range	: 3,350 km
Maximum Cargo Capacity	: 9,435 kg / 37.42 m^3

A321

Number of Planes	: 7
Age of Fleet	: 7.18
Total Seat Capacity	: 1,346
Total Hours Flown	: 17,426
Total Kms. Flown	: 9,016,234
Daily Average Flying Hours	: 09:12
Maximum Range	: 2,250 km / 3,200 km
Maximum Cargo Capacity	: 12,837 kg - 11,548 kg / 58 m^3 - 46.49 m^3

A-310-300

Number of Planes	: 6
Age of Fleet	: 17.8
Total Seat Capacity	: 1,294
Total Hours Flown	: 19,289
Total Kms. Flown	: 11,988,751
Ortalama Günlük Uçuş Saati	: 09:45
Maximum Range	: 8,100 km / 8,980 km
Maximum Cargo Capacity	: 24,995 kg - 21,820 kg / 68.20 m^3 - 54.16 m^3

RJ-100

Number of Planes	: 2
Age of Fleet	: 12.09
Total Seat Capacity	: 198
Total Hours Flown	: 6,696
Total Kms. Flown	: 2,794,031
Ortalama Günlük Uçuş Saati	: 03:30
Maximum Range	: 2,259 km
Maximum Cargo Capacity	: 3,800 kg / 22.99 m^3

A310-304

Number of Planes	: 1
Age of Fleet	: 16.61
Total Hours Flown	: 3,693
Total Kms. Flown	: 2,325,398
Ortalama Günlük Uçuş Saati	: 10:10
Maximum Range	: 6,200 km
Maximum Cargo Capacity	: 36,000 kg / 200 m^3

The fleet was diversified with the Next-Generation Boeing 737-800, A320 and Turkey's first Airbus A330 bought from Airbus and Boeing.

Flight and Traffic Development

Flight Operations

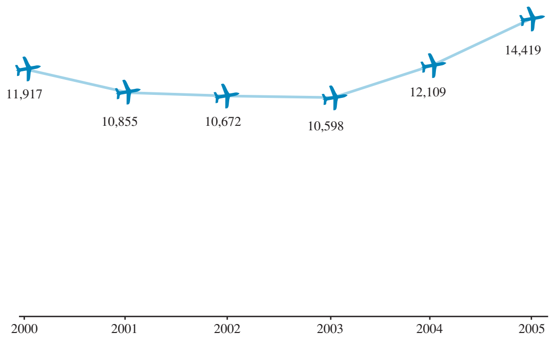
In December, the fleet was diversified with the Next-Generation Boeing 737-800, A320 and Turkey's first Airbus A330 bought from Airbus and Boeing. The fleet now comprises 82 passenger and 1 cargo planes, a total of 83 planes. Seat capacity has reached 14,419.

The Fleet by Year-end 2005

Type of Aircraft	Number	Age of Fleet (Year-end)	Total Seat Capacity (Seat)
Passenger			
A-340-300	7	9.54	1,897
A332	2	0.04	500
A-310-300	6	17.80	1,294
B-737-400	17	13.44	2,548
B-737-800	27	5.90	4,455
A320	14	6.27	2,181
A321	7	7.18	1,346
RJ-100	2	12.09	198
Cargo			
A310-304	1	16.61	
Total	83	8.92	14,419

* Two RJ100 planes placed under maintenance for delivery, are excluded from this table.

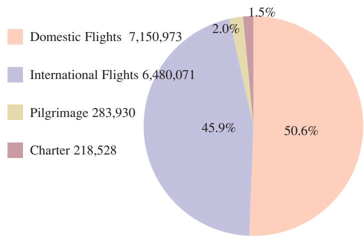
Total Seat Capacity (Year End)



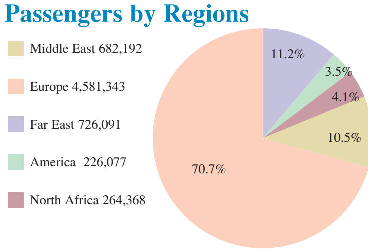
Operations in 2005

Turkish Airlines carried a total of 14.1 million passengers in 2005, comprising 7.15 million scheduled domestic passengers and 6.48 million scheduled international passengers.

Total Distribution of Passengers



Distribution of Scheduled International Passengers by Regions



Traffic Development

Turkish Airlines carried a total of 14.1 million passengers in 2005, comprising 7.15 million scheduled domestic passengers and 6.48 million scheduled international passengers. Among the passengers carried were 284,000 Hadj and Umrah pilgrims and 218,000 charter flights. Taking into account the total traffic, available seat kilometers (ASK) increased by 12.6% while revenue passenger kilometers (RPK) increased by 14.6%. As a result, the passenger load factor increased by 1.3 percentage points to 71.5%, the highest ever figure in the Company's history.

By the end of 2005, Turkish Airlines' route network encompassed 107 destinations, 28 of which were domestic and 79 of which were international points in 56 countries.

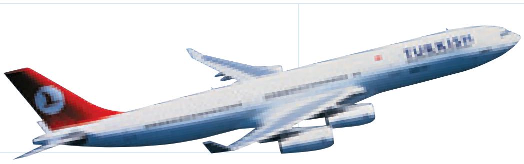
Traffic Results

Domestic Flights

	2001	2002	2003	2004	2005
Number of Landings	58,239	51,542	49,959	51,557	65,448
Kilometers Flown (000)	32,298	28,782	28,087	28,734	36,049
Available Seat Kilometers (million)	4,333	3,858	3,863	4,253	5,457
Revenue Passenger Kilometers (million)	2,876	2,732	2,790	3,236	4,016
Passenger Load Factor (%)	66.4	70.8	72.2	76.1	73.6
Available Ton Kilometers (million)	778	468	478	515	647
Revenue Ton Kilometers (million)	292	278	283	325	394
Overall Load Factor (%)	37.5	59.4	59.2	63.1	60.9
Revenue Passengers (000)	5,189	4,970	5,031	5,850	7,197
Cargo (tons)	24,627	26,346	26,628	28,800	29,233
Mail (tons)	1,771	1,759	1,289	1,323	1,088
Excess Baggage (tons)	801	896	1,077	999	1,490

International Flights

	2001	2002	2003	2004	2005
Number of Landings	50,789	51,065	50,848	54,936	61,689
Kilometers Flown (000)	111,318	109,276	109,305	118,758	132,852
Available Seat Kilometers (million)	20,557	20,213	20,177	22,228	24,348
Revenue Passenger Kilometers (million)	12,803	13,862	13,322	15,358	17,301
Passenger Load Factor (%)	62.3	68.6	66.0	69.1	71.1
Available Ton Kilometers (million)	2,796	2,817	2,751	3,041	3,339
Revenue Ton Kilometers (million)	1,676	1,840	1,772	2,008	2,196
Overall Load Factor (%)	59.9	65.3	64.4	66.0	65.8
Revenue Passengers ('000)	5,088	5,413	5,389	6,141	6,937
Cargo (tons)	80,151	92,560	91,295	101,184	111,326
Mail (tons)	2,877	4,240	3,610	3,544	3,327
Excess Baggage (tons)	1,723	1,291	1,438	1,784	2,224



Operations in 2005

Flight Network - Schedule Structure

The raging competition in international markets as well as the domestic market coerces airline companies to establish a stronger network. In 2005, Turkish Airlines launched direct flights to new flight destinations that would enrich its flight network. Another step in the same direction has been the frequency increases in some of the existing routes.

Starting from 30 April 2005, Turkish Airlines scheduled domestic flights from the Sabiha Gökçen Airport on the Asian side of Istanbul. This allayed transportation difficulties experienced by passengers from the Asian side. For passengers on the European side of the city, the Sabiha Gökçen Airport has become another alternative reached via links through two motorways. This airport is particularly convenient for transportation from districts on the Asian side of Istanbul and for neighboring cities such as İzmit, Yalova and Adapazarı. Direct flights were scheduled daily from the airport first to İzmir, Trabzon, Adana and Antalya; and in the next phase to Ankara, Kayseri, Diyarbakır and Bodrum. Eventually, underperforming flights to Kayseri and Samsun were stopped in 2005, while direct flights were scheduled to Erzurum and Van in response to passenger demand.

Besides the new flights from the Sabiha Gökçen airport in 2005, Turkish Airlines put on flights from Ankara to Adıyaman and Kahramanmaraş within the bounds of its regional fleet. By using the links between schedules in the Ankara Esenboğa Airport, travel opportunities (in transit) are offered to many points on the flight network. On another note, flights from Ankara to Bursa, which had commenced in 2004, were canceled in 2005 due to low demand.

New points were added to the flight network also in international flights. Direct flights were launched from Istanbul to Casablanca (27 March), Lisbon (07 June), Oslo (21 June) and Astana (19 October). To cope with increasing demand, weekly flights from Istanbul to Milan, Chicago, Paris, Prague, Pristina, Simferepol,

Bosnia, Moscow, Strasbourg, Tirana and Berlin were increased. Again in 2005, direct flights were scheduled to the Stansted Airport, which has since become the second destination in London, after years of flights to Heathrow.

Scheduled Flights

From 2004 to 2005, there has been a 28.7% capacity increase and 24.6% traffic increase in domestic flights. As a result, the Passenger Load Factor declined by 2.4 percentage points to 73.5%. 7.15 million passengers boarded Turkish Airline planes in 2005 (up by 23%). 30,000 tons of cargo and mail was carried in Turkish Airlines cargo planes.

There has been an 11% capacity increase and 15.2% traffic increase in international flights. As a result, the Passenger Load Factor has shifted up 2.7 percentage points to 71.9%. 6.5 million passengers boarded Turkish Airline planes (up by 16%). 115,000 tons of cargo and mail was carried in Turkish Airlines cargo planes (up by 9.5%).

The percentage (%) change in traffic results from 2004 to 2005 in scheduled domestic and international (distribution by regions) flights is illustrated in the table below:

		Available Seats Kilometers Change (%)	Revenue Passengers Kilometers Change (%)	Passenger Load Factor Change (%) (P)	Revenue Passengers Change (%)	Cargo (Passenger+Cargo Flights) Change (%)
Scheduled Domestic Flights		28.7	24.6	-2.4	23.0	0.7
Scheduled International Flights		11.0	15.2	2.7	16.0	9.4
INTERNATIONAL	Middle East	10.3	17.0	4.1	14.9	27.4
INTERNATIONAL	Europe	16.7	19.0	1.4	17.8	11.8
INTERNATIONAL	Far East	4.2	11.6	5.0	12.0	2.0
INTERNATIONAL	America	0.4	7.5	5.0	7.5	-13.6
INTERNATIONAL	North Africa	26.1	17.6	-5.1	8.2	79.8

In 2005, Turkish Airlines launched direct flights to new flight destinations that would enrich its flight network. Another step in the same direction has been the frequency increases in some of the existing routes.

Operations in 2005

The upturn in the domestic and global economy in 2005 and the flourishing international trade volume gave a fillip to the air cargo sector, inflating cargo traffic by 7.0%.

Charter Flights

In 2005, there was a 45.1% fall in special charter flights. There were 1,309 landings in this category of flights, 1,032 international and 277 domestic. Special international flights were directed to Europe (72.3%), the Middle East (12.8%), North Africa (8%) and the Far East (6.9%).

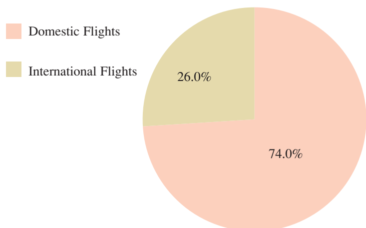
Pilgrimage Flights (Hajj and Umrah)

283,930 passengers were carried on hajj flights. Departures concentrated on 3 December-25 December and arrivals on 13 January-14 February.

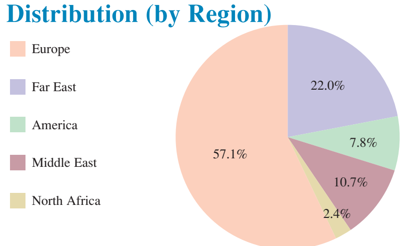
There have been a total of 659 hajj flights: 282 from Turkey to Jeddah, 45 from Turkey to Medina, 292 from Jeddah to Turkey and 40 from Medina to Turkey. 81,758 passengers boarded hajj departure flights and 83,418 passengers boarded hajj arrival flights.

Umrah flights take place in the 10 months that remain outside the hajj period. In 2005, Turkish Airlines carried 51% more umrah passengers in 577 flights. There were 48,050 passengers in 300 flights from Turkey to Jeddah and 43,936 passengers in 277 flights from Jeddah to Turkey, total of 91,986 passengers.

2005 Cargo (Tons) Distribution



2005 International Flights Cargo Distribution (by Region)



Cargo Services

The upturn in the domestic and global economy in 2005 and the flourishing international trade volume gave a fillip to the air cargo sector, inflating cargo traffic by 7.0%.

The current cargo capacity was employed primarily for high-revenue cargo operations. Next, a flexible price policy was followed in line with the changes in demand from the market. Cargo revenue grew by 11.5%.

The A310-304 type Cargo plane, included in the fleet on 30 October 2004, has been running scheduled flights to Maastricht (four flights weekly), Frankfurt (three flights weekly), London-Gatwick (two flights weekly), Tel Aviv (two flights weekly) and since July 2005, to Almaty and Delhi (one flight weekly each).

In 2005, 140,559 tons of cargo was carried, turning out a revenue of $ 209,404,000.

Cargo revenues from domestic flights rose 5.8% to $ 10,424,000, and cargo revenues from international flights rose 11.8% to $ 178,679,000. 112,592 tons of cargo were carried in 2005 on passenger planes; 29,233 in domestic flights and 83,359 tons in international flights.

The busiest cargo routes both passenger and cargo planes in 2005 were Maastricht, Frankfurt, Tel Aviv, London and New York.

Cargo Traffic Development

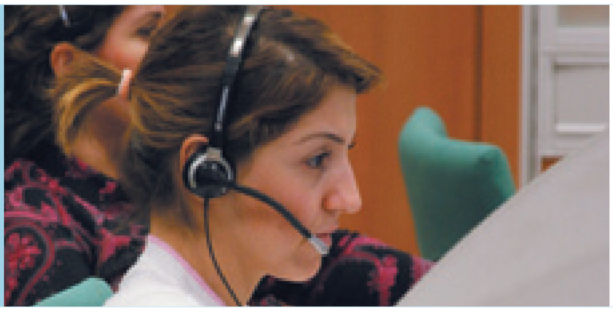
In 2005, cargo planes carried 27,967 tons of cargo on scheduled and charter flights generating $ 36,323,000 of revenue. Aside from scheduled flights, six cargo charter flights were operated to Tripoli (four), Benghazi and Constantine (Algeria). 204 tons of cargo was transported to these points making $ 274,810.

In the wake of the devastating earthquake in Pakistan, five flights were organized to Islamabad where cargo planes transported 156 tons of aid materials immediately after the unfortunate event.

	2004	2005	05/04 (Change %)
Number of Landings	106,495	127,137	19.4
Passenger Flights	106,079	125,992	18.8
Cargo Flights	416	1,145	175.2
Cargo + Mail (Tons)	136,325	144,974	6.3
Passenger Flights (Tons)	123,585	112,592	-5.3
Cargo Flights (Tons)	12,740	27,989	119.7
Cargo + Mail Revenue (000 USD)	187,814	209,404	11.5
Passenger Flights (000 USD)	171,489	173,081	0.9
Cargo Flights (000 USD)	16,325	36,323	122.5

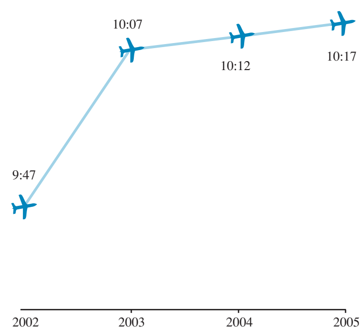
In 2005, 140,559 tons of cargo was carried, turning out a revenue of $ 209,404,000.

Operations in 2005



The technological upgrading and the refurbishing had a positive impact on employee motivation. Keeping customer satisfaction at the fore, additional services are being modeled.

Daily Aircraft Utilization



Commercial Performance

Aircraft Utilization-Increase in Efficiency

Using upgraded software, schedules were optimized for more efficient utilization of the fleet. In 2005, daily aircraft utilization surpassed the previous year by 3%. As aircraft flew longer hours, unit costs of aircraft acquisition dropped. This has strengthened the company's hand to compete against carriers in the sector that operate at low costs.

Network Structure

The intense global competition in the aviation sector compels Turkish Airlines to become a global network carrier operating in world markets rather than transporting local passengers.

One of the goals is “to serve as a bridge connecting the Turkic Republics in Central Asia, the Balkans and the Middle East with the Far East, America and European countries”. For this purpose, Turkish Airlines has been striving for tighter links between these areas, which would turn Istanbul into a major international hub of aviation.

Call Center

The Turkish Airlines Call Center, the main marketing and sales channel of the company, received 5,473,775 calls in 2005. 4,442,267 calls were returned. Since November 2005, the call center has been selling e-tickets by asking credit card numbers of passengers on the phone. Passengers who buy electronic tickets can directly proceed to check-in without stopping at the sales office. Electronic ticketing not only saves time but raises customer satisfaction, too. The service was inaugurated on 9 November only on weekdays from

09:00-17:00; then from 1 December 24/7, as a trial period. 11,075 e-tickets were issued.

Since 2005, passengers can book tickets by sending e-mails to the address callcenter@thy.com. 23,138 e-mails were received and replied.

639 tickets were issued in 2005 from internet sales offices in the Call Center, and were sent to the addresses of passengers.

The Call Center was renovated as part of a capacity expansion plan. Office space was enlarged, and office furniture was refurbished so that 238 members of staff are on hand to provide service at the same time. The technological upgrading and the refurbishing had a positive impact on employee motivation. Keeping customer satisfaction at the fore, additional services are being modeled.

Technical Services

There are two multi-purpose maintenance hangars at the Turkish Airlines Maintenance Center in Atatürk Airport.

The two hangars stretch over 51,000 m2 on Maintenance Base I, and 80,000 m2 on Maintenance Base II. In these hangars, it is possible to offer maintenance service to two A340s, two A310 planes, five B737s or one B737 and three RJ planes at the same time.

Domestic and international air transportation companies receive technical services in these hangars from the same staff. Technical equipment is sold, as well.

The conversion of three A321-200, five 320-200, two B737-800, one CESNA 172 and two A330-200 type planes was completed.

The delivery of three RJ70 and one RJ100 planes was accepted following the required maintenance work.

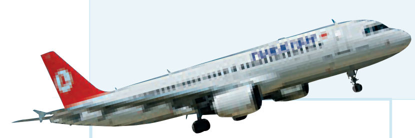
$ 32.6 million of revenue was made from maintenance services for body parts, engines and components.

An ETOPS flight certificate was obtained from the Directorate General of Civil Aviation for an A330 TC-JNA plane.

Approval was received from the Directorate General of Civil Aviation regarding the “Base” maintenance authorization for A319/320 and 321 type planes and the “Line” maintenance authorization for A330s.

The TC-JFG plane was decorated with a tulip motif for the first time.

$ 200 million of orders were placed for body parts, engine parts and components of aircraft in the Turkish Airlines fleet.



Operations in 2005

"The Aviation Maintenance, Repair and Modification Center" will operate in maintenance of aircraft, engines and components.

HABOM Project

HABOM is the International "Aviation Maintenance, Repair and Modification Center" Project, slated to be established by Turkish Airlines at the Kurtköy Sabiha Gökçen Airport.

"The Aviation Maintenance, Repair and Modification Center" will operate in maintenance of aircraft, engines and components.

The HABOM Project was devised to take a greater share from the repair/maintenance market which has become more attractive after the rapid growth of the Turkish Airlines fleet as well as that of the domestic and foreign markets.

Due to the strategic importance of its location, the HABOM Project will principally serve the geographic junction of Europe, the Middle East, Africa and Asia.

HABOM aims to become a center of excellence for engine and component maintenance of the B737 NG (Next Generation) and the A320 family fleets. It will also be responsible for the body parts, engine and component maintenance of other types of planes in the Turkish Airlines fleet.

The total cost of investment for the HABOM Project will be around $ 200 million. $ 500 million/annum of revenue is the target for the year 2010. Over 2,000 employees will work at the facility.

Other objectives of the HABOM Project are:

- The employment of qualified labor,
- The establishment of a competitive technical maintenance/repair center,
- The increase of technical revenues.

The HABOM Project will welcome the partnership of local or foreign companies or ventures. For this reason, Turkish Airlines spent 2005 negotiating with numerous local and foreign companies. On 16 June 2005, a goodwill agreement was signed with a Singaporean company, Singapore Technologies Aerospace.

In addition, preliminary field work was initiated for construction. Cartographic studies, geotechnical research and the environmental impact assessment were completed in 2005.

The service of engineering design for the project will be contracted early next year with a tender. The specifics are being fleshed out.

Human Resources

The total number of Turkish Airlines employees stood at 10,956 at the end of 2004. With a 1.5% increase, it has become 11,121 in 2005.

The number of passengers per employee escalated by 16%, which means that production per employee and efficiency were improved.

Turkish Airlines operates on a global scale with its rich and diverse human resources embodying employees from a variety of cultures at 78 points in 56 countries.

Operations in 2005

2001- 2005 Employee Efficiency Development

Years	Number of Passengers Per Employee	Number of Employees Per Aircraft
2001	922	163
2002	958	166
2003	1,022	158
2004	1,095	150
2005	1,271	134

Distribution of Employees by Year in Turkey and Abroad

	Turkey	Abroad
2001	10,353	889
2002	10,136	848
2003	9,495	744
2004	10,194	762
2005	10,338	783

Distribution of Employees by Units as at 31.12.2005

Units Directly Under the General Manager	515
Vice-Presidency (Human Resources)	268
Vice-Presidency (Finance)	317
Vice-Presidency (Commercial)	2,332
Vice-Presidency (Flight Operations)	3,055
Vice-Presidency (Ground Operations)	2,199
Vice-Presidency (Technical)	2,435
Total	11,121

Distribution of Employees by Title as at 31.12.2005

Title	
Administrator	686
Pilot	900
Cabin Crew	1,847
Information Technologies Staff	189
Foreign Office	783
Engineer, Lawyer, Doctor	304
Specialist, Dispatch, Trainer	622
Technician	1,866
Officer	2,921
Worker	1,003
Total	11,121

Turkish Airlines operates on a global scale with its rich and diverse human resources embodying employees from a variety of cultures at 78 points in 56 countries.

Training

One source of revenue is training courses on engine conversion, body conversion and avionics systems for local and foreign airline companies; training for agencies on sales and booking tickets; training for cargo agencies on cargo sales and dangerous goods; behavioral and quality training upon demand.

Authorized by the Directorate General of Civil Aviation, Turkish Airlines holds licensing exams in exchange for a certain fee.

Flight Training Center

The Flight Training Center consists of two divisions: cockpit training and cabin training. For cockpit training, there is one Full Flight Simulator for each model of B737- 400, RJ and B737-800. In the cabin training building, there are: an A340 First Class cabin service trainer (mock-up), a B737 “Economy Class” cabin service trainer, a B737/A310/A340 mobile emergency evacuation simulator and one A310 overwing exit trainer (mock-up).

Agreements were signed in 2005 for three C172 initial flight training planes to be bought by the Turkish Airlines Flight Training Center. The foundation of the Center was completed in 2005. After inspections by the Ministry of Education and the Directorate General of Civil Aviation, a Flight Training Organization authorization certificate was received. Training activities are to start at the outset of 2006 with 14 would-be pilots.

Cabin and Cockpit Ground Training
01.01.2005 - 31.12.2005

Turkish Airlines

	Hours of Course	Number of Groups	Employees Trained
Cabin Training	3,507	114	2,157
Cockpit Ground Training	11,446	177	1,307
Total	14,953	291	3,464

Foreign Airline Companies

	Hours of Course	Number of Groups	Employees Trained
Cabin Training	972	122	1,713
Cockpit Ground Training	1,322	20	109
Total	2,294	142	1,822

Simulator Use
01.01.2005 - 31.12.2005

Turkish Airlines	5,880	Hours
Other	6,971	Hours
Total	12,851	Hours

Operations in 2005

To relieve the shortage of pilots, Turkish Airlines has entered into agreements with the Anadolu University Civil Aviation Vocational School and the Turkish Aeronautical Association Flight Training School. These institutions will be training pilots for Turkish Airlines. Accordingly, in the Anadolu University Civil Aviation Vocational School:

- The ongoing 2005 training of 10 candidates in the first group will be completed in April 2006. They will start conversion training at the Turkish Airlines Flight Training Center.
- 15 more candidates in the second group were enrolled in the same school for training in October 2005.

In the Turkish Aeronautical Association Flight Training School:

- The ongoing 2005 training of 25 candidates in the first group will be completed in March 2006. They will start conversion training at the Turkish Airlines Flight Training Center.
- 30 more candidates in the second group were selected for training in 2005. They will start at the same school at the beginning of 2006.

As part of the deal for the purchase of A320/A330 planes, in 2005, 56 pilots were trained in the training facilities of Airbus.

Cabin, cockpit and simulator training was provided to Turkish Airlines, local and foreign aviation bodies by the Flight Training Directorate.

Furthermore, the Flight Training Directorate was inspected by local and foreign aviation authorities on many issues that directly influence certification, flight safety, insurance costs and international relations. The Directorate passed each and every inspection successfully.

Services

On-line Services

On the Turkish Airlines web site, static pages, where provision of information is crucial, are updated continuously. All information on departures-arrivals, baggage tracking, cargo tracking, Miles&Smiles transactions and scheduled queries are within the scope of the on-line services available.

The Turkish Airlines web site won the second prize in the Golden Spider Contest in the category of travel and tourism.

The on-line ticket service allows Turkish Airlines to use its web-site as a distribution channel. Passengers can book their tickets and pay for them through the web site.

The electronic ticketing service has made it easier to sell tickets through the web site. All reservations and flight records can be saved

The special passenger program Miles&Miles multiplied its services and benefits under the brand Miles&Smiles in order to provide members with more satisfactory service at a higher quality.

electronically, so passengers with e-tickets can directly go to the check-in counter, receiving reliable, easy and fast service. In 2005, sales from the web soared by 215% and the number of tickets sold surged by 263%.

As the availability of the on-line check-in service is improved, web site services are becoming better integrated.

Miles&Smiles Special Passenger Program

The Miles&Miles Program is a special passenger program for Turkish Airlines which offers frequently flying passengers free tickets, companion tickets and upgrades in exchange for miles earned from flights (with partner airline companies), hotel accommodation expenses, car rentals and expenses made with Shop&Miles (the co-branded credit card developed together with Garanti Bank).

In 2005, the number of members in the Miles&Miles Program climbed 15% to 769,000. 3% of them are elite members.

The special passenger program Miles&Miles multiplied its services and benefits under the brand Miles&Smiles in order to provide members with more satisfactory service at a higher quality. Preparations were made in 2005 for a program where members can enjoy more privileges without changing membership numbers and retaining earned rights. The new program will be effective in 2006.

On-line Check-in

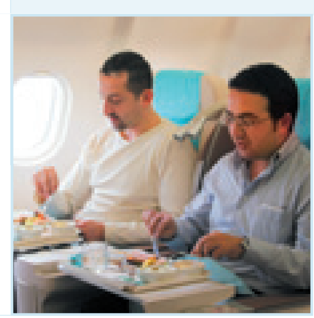
The on-line check-in service allows passengers to carry out their check-in procedure on the Internet starting from 24 hours in advance of the flight until 90 minutes before the flight. Since 21 April 2003, the service has been at the disposal of passengers who bought on-line tickets at six domestic stations. The service will soon be extended to all DCS on-line stations. The company is committed to creating more opportunities for passengers.

In the same context, the number of stations where on-line check-in services are available was raised to 66 (in Turkey and abroad). The number of on-line check-ins carried out from the Turkish Airlines web site almost tripled from 117,582 in 2004 to 322,389 in 2005.

Self Check-in Kiosk

This project involves the use of self check-in machines- already common in many airline companies around the world- by Turkish Airlines, as well. The machines were installed first in the Istanbul station, then in the Bodrum, Antalya, İzmir and Dalaman stations.

In the self check-in kiosk terminals, passengers can do their check-in using their M&S cards or credit cards, and then by selecting their flights. Check-in procedures will be in use for



Operations in 2005

the domestic flights' passengers who have on-line ticket, electronic ticket and paper ticket.. Fares of passengers with paper tickets are checked by the system; unless there are differences in the fare, passengers can self check-in, and proceed to boarding gates.

Bag Manager

The baggage matching system was made more practical and reliable after some changes. A program was developed for Gate BSM and was adapted to Bag Manager. Now, loading authorization will be given for the baggage of passengers boarded instead of passengers checked in. Hence, the "separation of the baggage of passengers who do not board" will not be a cause of delay anymore.

Transit baggage is included in the sortation system, used for internal baggage in international flights. In this way, all baggage to be sent to international routes are automatically sorted.

The system has a number of benefits for passengers and effective operation of the flight:

- Dependable tracking of the sortation of unknown baggage or baggage of passengers who do not board. As a bonus for safer execution of the flight, this contributes positively to the image of the Company.
- During flights, baggage tags are read by scanners, and baggage is loaded before boarding is completed. Since there is no need to screen baggage, time loss is minimized.
- The system diminishes the number of lost baggage through backtrack archiving.

Visa-Passport Checks

Effort is spent on adjusting visa-passport checks prior to international flights to rule out any problems for passengers when they arrive at their destinations. The "Ant Project", saving flight records in a digital environment, entered in force on 15 March 2005. Through this project, all operational activities can be examined on a daily basis and all processes can be tracked. Passenger statistics can be tallied, employee performance is assessed monthly to meet targets and possible visa/passport problems (likely to occur when passengers arrive at their destinations) are solved before the flight.

In order to forestall passport/visa frauds and enhance flight safety, a "blacklist" program was developed. The program compiles serial numbers of fake and stolen passports/visas or stolen papers obtained from Consulates. Passenger information

collected from various resources is also entered in the blacklist program.

Turkish Airlines Istanbul International Flights Terminal on 26 December 2005, the Turkish Airlines Istanbul International Flights counters were re-located to a new area to style a new concept of Turkish Airlines.

By this re-organization;

- Turkish Airlines was isolated from other areas, providing more room for mobility.
- Flows were increased since the new area is closer to the passport control area.
- All offices were gathered in the same area raising the efficiency of the staff.

In the same context, gangways around the area were placed at our disposal in an effort to minimize the distance to be traveled by Turkish Airlines passengers.

The brand new concept of the isolated International Flights Terminal offers our passengers a more privileged and comfortable journey.

Extending the Departure Control System (DCS)

A DCS on-line station means faster and safer passenger procedures. In this system, operational procedures like check-in, weight&balance and post-flight messages are automatically carried out within a central command mechanism.

All details such as information that may be needed about Turkish Airlines procedures during check-in or weight&balance; TIMATIC information; fares for excess baggage, reservation records, plane details, etc. can be viewed instantly by staff on the terminals before them so that passengers can receive accurate information.

Compared to stations using systems of handling companies, DCS on-line stations have the opportunity to alter system functions corresponding to their needs. Passenger services can be extended in parallel.

DCS with Through check-in
In this service, the check-in procedures of transit passengers (who use on-line stations) cover the whole journey until their final destination, so that they will not need to re-check in as they are transferred from one plane to another. Through check-in allays the work load of stations noticeably.

For a station to become DCS on-line, the necessary permits must be issued from authorities and the station infrastructure should be appropriate for the system. In 2005, six more of our stations were made DCS on-line. In total, 23 domestic and 48 foreign stations came on-line.

Operations in 2005

Many new facilities were opened for public use in 2005 within the framework of the "Electronic Ticketing Project" for passengers.

Information Technologies Projects

Some of the projects carried off in 2005 by the Information Technologies Directorate-in charge of all the company information system-can be found in the Services section of the Annual Report. Other projects are listed below.

Electronic Ticketing Project

The most advanced ticketing technology in the aviation sector, the "Electronic Ticketing Project" was implemented in Turkey for the first time by the Information Technologies Directorate. In 2005, many additional functions to the project were put in use.

As a result of follow-up work on the project, electronic tickets can now be issued interline between Turkish Airlines and American Airlines, thanks to the existent Code Share agreement.

Electronic ticketing was launched first on 9 December 2003, and then in DCS on-line stations in 2005 (all domestic flight routes except Batman, Mardin and Kars where Turkish Airlines provides service with the GSA). In addition, the stages of transition to electronic ticketing were completed on 31 international flight routes.

APIS (Advanced Passenger Information System)

For flights to the US, a new web-based system was developed. The system collects all passport, visa and address information that has to be submitted to the American customs before the flight, and relays it to the US. With this system, the APIS (Advanced Passenger Information System) information of passengers is collected both before check-in and afterwards, as the passengers move ahead towards the boarding gate

Call Center -Ticket Sales Project

The web-based GUI (Graphical User Interface) project was developed so that our call center staff are able to conduct sales without being familiar with the Troya booking system, fare or ticket commands. Using this web-based system, call center staff can book tickets, calculate fares, direct customers to enter their credit card information by using the keys of the telephone, and hence sell e-tickets. The system has shortened the user training period to a large extent.

Passenger Oriented Internet Applications

In the framework of the electronic ticketing project that is becoming widespread in Turkish Airlines and around the world, programs were developed and put in use for passengers to be able to buy electronic tickets on the Turkish Airlines Internet site. Passengers can buy their electronic tickets by credit cards or EFT/bank transfer, check-in, and select their seats on the web-site. Then, they can directly head to the airport to catch their plane. On the Internet, passengers can buy electronic tickets either by paying the fare or by using up their Miles&Miles

Operations in 2005

award tickets. The obligation of Internet membership was canceled to provide faster and better service to Turkish Airlines passengers.

On the page showing the seating chart of the plane, the changes in the program of domestic flights and the cheapest fare for that particular flight are also shown.

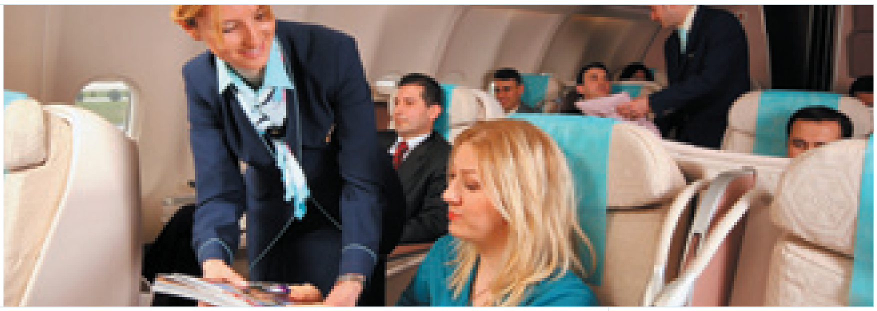
THY Intranet - Portal - "info.thy.com" The Turkish Airlines Intranet portal can be accessed at the address "info.thy.com". The Turkish Airlines staff (both in Turkey and abroad) can use the portal to log on to all information technology services concerning Turkish Airlines, all corporate practices, statistical reports, regulations and other information. Data can be entered into the portal by the Information Technologies Directorate or by other directorates. All the information is at the finger tips of users from Turkey and abroad.

Corporate Data Warehouse Project

The most comprehensive reports on flights and sales figures of the current year can be viewed on-line from the Turkish Airlines portal. By these reports, information is provided on our flight/sales operations and statistics are presented for interpretation.

ACARS Project

The ACARS project uses the ACARS messaging system developed to ensure the communication of data between planes on air and operational units. Messages pertaining to technical information of the aircraft and flight information produced automatically by the systems installed on the aircraft are transmitted to ground computer systems. Similarly, messages are communicated from the ground to the aircraft with regard the flight operation. The start-up phase has been completed, and ACARS messages are in flow for defined aircraft.



Now, the transmission of data between the ground and the aircraft is guaranteed in the context of ACARS. The messages on flight and technical information are automatically produced from the systems installed on the aircraft, and relayed to relevant systems and users.

Revenue Management System

The Airmax Revenue Management Release 4 system has been in use since 1997.

The Airmax Revenue Management Decision Support System analyzes statistical information from past flights. Based on passenger and revenue information by reservation class, it generates projections of passenger numbers and seat capacity. In this respect, the system is a helpful tool for matters such as seat capacity planning, schedule planning and improvement in the scale of fares.

However, increased competition and some of the drawbacks faced during the operation of the system reveal the necessity of new functions.

In order to adapt to changing competitive conditions, an agreement was signed with Sabre for the transition to the Airmax Revenue Manager Release 6 system, upgraded with the latest optimization techniques. In the framework of re-structuring the group assessment process, the Airmax Group Manager Release 6 system was included in the agreement.

Catering Automation System

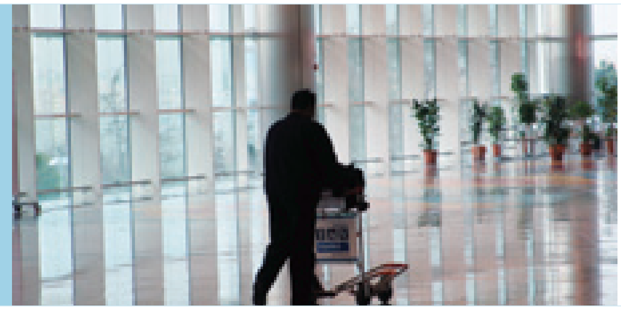
In search of ways to facilitate catering operations and prepare the budget for catering materials, plans for loading the planes included in the Catering Automation System were made through the intranet with the help of the newly developed Graphic User Interface.

The GALILEO Reservation System

The Galileo Reservation System is one of the most sophisticated systems in the world that is based on computer reservations for plane, hotel, car and ship journeys. In 116 countries , travel agencies use the system for scheduling, fare information, booking and printing tickets. Turkish Airlines is the distributor of the system in Turkey with 562 airlines, 43 rent-a-car companies and 63,000 hotels as members. As the Turkish representative of Galileo, our vision comprises showing agencies different income potentials and products developed with advanced technology in line with market conditions, training agencies to be able to offer consulting services, and hence both prepare them for the future and raise their profit.

The agencies that use the Galileo System went up from 179 in 2004 to 190 in 2005. In the Turkish market, 707,700 airline, hotel and car rental reservations were made with the

Turkish Airlines is the distributor of the system in Turkey with 562 airlines, 43 rent-a-car companies and 63,000 hotels as members.



Operations in 2005

Today, when domestic and international competition has peaked in the aviation sector, with the new aircraft added to our fleet, we aspire to "leap forward from our current status in Europe and the world with enhanced quality".

Galileo System. In comparison with 2004, there has been a 9% growth in production of reservations. The total revenue earned between 01 January-31 December 2005 is estimated to be around $ 2 million.

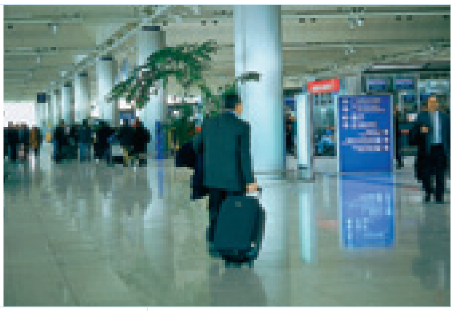
Maintenance Center Information Systems Project

With the Maintenance Planning and Charting System, the time and people-hours spent for maintenance planning will be cut and aircraft maintenance will be monitored visually (on TAMES- the current maintenance program). Various maintenance scenarios can be defined on the system. Other aims of the project are: immediate identification and evaluation of the impact of changes, long-term (five years or longer) maintenance plans, visual screening of human resources needs and the current capacity, efficient and productive utilization of human resources.

A Maintenance Cards System was set up to track the maintenance applied on customer aircraft. Customer maintenance packages were uploaded on the system and application data were entered. This is a way to calculate costs of materials spent on customer aircraft and costs of people-hours free of errors.

There are certain tolerance times for the standard periods used in planning aircraft maintenance. When a period expires, the next maintenance cycle, the period is calculated as short as the tolerance time used. This new system called Pay-Back was enforced on maintenance estimation programs activated on TAMES.

The wireless computer network in both hangars was upgraded to 54 Mbps. This served to enter maintenance application information on the application field so that the Maintenance Cards System can fulfill its function. 12 mobile board tables



were equipped with computers having wireless network connections.

The "Engine Tracking and Invoice System" (ETIS), is being developed. The system will monitor, report and invoice all maintenance and repair work done at the Engine Revision Workshop on engines of Turkish Airlines or customer aircraft. The "Customer Accounts and Invoices" and "Inspection" modules were completed and put in use.

Data and Sound Network

For greater efficiency in data network, the whole domestic and foreign data communication was adapted to the IP protocol. The first phase of the voice over IP project on the same data communication network is complete. The Call Center System in London was integrated with the Istanbul Call Center by VOIP technology, and then the Frankfurt sales office was included in this international data communication network. Other foreign offices are to follow suit soon. Another project which will span Turkish Airlines domestic offices was launched under the title of the Istanbul Based Call Center Project.

Document Flows and The Electronic Archive System

Today, when domestic and international competition has peaked in the aviation sector, with the new aircraft added to our fleet, we aspire to "leap forward from our current status in Europe and the world with enhanced quality". One way to attain this goal is to plan job timing well and use it accordingly.

The basic purpose of the Document Flow and Electronic Archive System is to boost efficiency.

The system will carry out the creation, modifications, copying, saving, searching, printing, archiving and deleting of all documents and job orders containing written texts (throughout their life cycles) on the computer through a central command system which works on a single copy.

The goal of Turkish Airlines in this project is to ensure document flows without using papers; consider employee performance; possession about time, paper and archives

Compliance with Corporate Governance

1. Declaration of Compliance with Corporate Governance Principles

Turkish Airlines has implemented Corporate Governance Principles adopted by the Turkish Capital Markets Board (CMB) with a view toward promoting Turkey and the Turkish aviation sector on an international platform reliably and transparently. A description of related practices is given below.

2. Shareholder Relations Unit

An Investor Relations Department that reports to the Executive Vice President in charge of Financial Affairs has been established. This department will provide investors with prompt and accurate information, manage relations with capital market auditors, facilitate the flow of information, monitor capital increases and public offerings and organize presentations and meetings for both domestic and international investors. The contact information for Investor Relations Manager Suna Çelebi: Phone +90 212 468 70 30, Fax +90 212 465 23 07; E-mail ir@thy.com.

3. The Use of Shareholders' Right to Obtain Information

24.82% of THY shares are traded publicly. During the 2005 fiscal year, four individuals and institutions demanded information about shareholding issues (capital increases) and for disclosures concerning publicly available financial statements. In addition, fifteen individually and instituionally written applications were received and all queries were answered. Several investors and shareholders also requested information by telephone or email; all inquiries were responded to with equal diligence. At the same time, to ensure that shareholders exercise their rights effectively to obtain information, a special page for Investor Relations was created on the Turkish Airlines website for this purpose.

4. General Meeting

In accordance with Article 6 of the Articles of Association, all shares of the Company are registered shares divided into Class A and Class C. There is only one Class C share which is owned by the Turkish Privatization Administration. Should the Privatization Administration transfer its authority, the Class C share shall be owned by the enterprise to whom these authorities have been transferred. At present, 75.18% of Class A shares belong to the Privatization Administration, and 24.82% have been offered to the public. A regular General Shareholders Meeting and an extraordinary General Shareholders Meeting were held on 18 April 2005 and 04 July 2005, respectively to review accounts and operations in 2004.

Shareholders representing the YTL 135,542,013-portion of the increased capital of YTL 175 million attended regular General Shareholders Meeting and shareholders representing YTL 139,032,002-portion of the paid in capital attended the extraordinary General Shareholders Meeting.

Several media organizations were present and news features on the general meeting were published.

Invitation to the meeting was publicly announced through the Commercial Registry Gazette and a newspaper with nationwide circulation. Additionally, the meeting was also announced on the Company's web site.

Article 29 of the Articles of Association stipulates that shareholders holding publicly traded shares are not required to be notified of the date of the meeting by registered mail.

No specific registration deadline was determined to ensure participation of shareholders holding registered shares. Other related terms are set forth in Article 7 of the Articles of Association, as shown below:

Share transfers are subject to the provisions of the Turkish Commercial Code, the Capital Markets Legislation and the Civil Aviation Legislation.

The transfer of registered shares must be recorded in the share ledger for the transfer to be recognized by the Company. Before such a record is made in the share ledger, holders of registered shares must document their identities and nationalities and, if applicable, their foreign references as specified in Article 6, preparing this in the form determined by the Board of Directors. If a share transfer has not been recorded in the share ledger, the shareholder recognized by the Company shall be the individual whose name appears in the ledger. The entry of share transfers into the share ledger is undertaken by a decision of the Board of Directors. The Board of Directors may refuse to record the transfer of a share in the share ledger in cases violating the Articles of Association or the law or without specifying a reason.

As set forth in Article 6 above, share transfers violating share restrictions applicable to foreigners may not be recorded in the share ledger. The Board of Directors is obliged to refuse the recording of such share transfers in the ledger. Share transfers that are not recorded in the share ledger by the Board of Directors shall not be recognized by the Company and the concerned party shall not assume the position of shareholder. The approval of a share transfer by the Board of Directors and the resolution to record the transfer in the share ledger requires the vote of the Board Member representing Class C share. The Class C share may be transferred to another Turkish state enterprise that is equipped with the powers granted to the Privatization Administration under Law No. 4046. In the event such a transfer takes place, the transfer shall immediately be recorded in the share ledger without recourse to a Board resolution.

The Board of Directors is obligated to restrict the transfer of shares to foreign parties to comply with the limitations set forth in the civil aviation legislation and/or other pertinent regulations and the Company's Articles of Association and to avoid jeopardizing the traffic and cabotage rights of the Company.

Proposals in connection with Article 362 of the Turkish Commercial Code regarding profit and loss accounts, financial statements, annual reports and the distribution of the net profit shall be made available to shareholders at Company headquarters at least 15 days before the ordinary General Shareholders Meeting, along with the report to be submitted by the auditors.

It is customary at general shareholders meetings to answer shareholders' questions verbally and prepare written responses to more comprehensive queries. Because no questions requiring a written answer were presented, only verbal explanations were provided.

The powers of the General Shareholders Meeting have been set forth in Article 27 of the Articles of Association. Accordingly, the General Meeting is the decision-making body authorized by the Turkish Commercial Code and other pertinent legislation. Outside of this article, there are no provisions in the Articles of Association that make it imperative for important decisions to be taken at the General Meeting.
However, since the majority of the Company's shares are owned by the Privatization Administration and since Law No. 4046 authorizes that agency to make decisions on important matters such as spin-offs and the sale or leasing of material assets, there has been no need to separately include this provision in the Articles of Association.

On the other hand, according to Article 14 of the Articles of Association, the validity of the decisions to be taken by the Board of Directors on the following matters is dependent upon the presence and affirmative vote of the Board Member representing the Class C share at the meeting during which the decision was taken.

- Decisions that would clearly and adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Proposals made to the General Meeting for an amendment to the Articles of Association;
- Capital increases;
- Approval of the transfer of registered shares and the recording of this in the share ledger;
- All transactions and decisions concerning direct or indirect commitments on behalf of the Company for more than 5% of the total assets appearing in the last year's financial statement submitted by the Company to the Capital Markets Board per contract (this provision shall be automatically annulled when state-owned shares fall below 20% of the Company's capital);
- The merger of the Company with other companies, its termination or liquidation;
- With the exception of those destinations that cannot cover even its operational costs under exclusive market conditions or with other resources, decisions concerning the termination of a destination or a significant reduction in the number of flights.

The privileges of Class C share may only be restricted by the Supreme Privatization Board or a state agency that has taken over its duties. The minutes of the General Shareholders Meeting are at all times available to shareholders and are sent upon request. Starting from 2005, the minutes for the General Shareholders Meetings of the last two years will be made available on the Investor Relations webpage.

5. Voting Rights and Minority Rights

1- Voting Rights are regulated in Article 31 of the Articles of Association:

"The provisions of Paragraph 6/d of these Articles of Association remaining reserved, each shareholder or shareholder's representative present at ordinary and extraordinary General Shareholders Meetings shall have one vote for each share."

Compliance with Corporate Governance

2- According to Article 14, Paragraph 5 of the Articles of Association;

the validity of Board decisions on the following matters is dependent upon the presence and affirmative vote of the Board Member representing Class C share at the meeting during which the decision was taken:

- Decisions that would clearly and adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Proposals made to the General Meeting for an amendment to the Articles of Association;
- Capital increases;
- Approval of the transfer of registered shares and the recording of this in the share ledger;
- All transactions and decisions concerning direct or indirect commitments on behalf of the Company for more than 5% of the total assets appearing in the last year's financial statement submitted by the Company to the Capital Markets Board per contract (this provision shall be automatically annulled when state-owned shares fall below 20% of the Company's capital);
- The merger of the Company with other companies, its termination or liquidation,
- With the exception of those destinations that cannot cover even its operational costs under exclusive market conditions or with other resources, decisions concerning the termination of a destination or a significant reduction in the number of flights.

Privileges of the Class C share may only be restricted by the Supreme Privatization Board or a state agency that has taken over this Board's duties.

3- According to Article 10 of the Articles of Association;

the Board of Directors shall be comprised of seven members elected by the General Shareholders Meeting. Six Board Members shall be selected from among candidates receiving the highest number of votes in the election carried out by Class A shareholders, and one member shall be nominated by the Class C shareholder.

Candidates to the Board of Directors from Class A shareholders shall be determined in line with the following principles:

a) In the event the percentage of the Company's publicly-traded shares is 15% (15% including), the right to nominate a candidate for one of the six positions representing Class A shares shall belong to the shareholders holding publicly-traded Class A shares.

b) In the event the percentage of the Company's publicly-traded shares is 35% or more, the right to nominate two of the candidates for the six positions on the Board representing Class A shares shall belong to the shareholders holding publicly-traded Class A shares.

c) Shareholders holding publicly-traded Class A shares may nominate a candidate to the Board of Directors provided they have represented at least 2% of the total paid in capital by being present at the General Meeting in which Board of Directors elections had been held. Only publicly-traded Class A shares shall be considered in calculating this 2%. Shareholders holding publicly-traded Class A shares shall determine their candidates for Board Membership at a meeting they shall hold among themselves. The right to nominate a candidate at this meeting shall belong to the holders of publicly-traded Class A shares that are not owned by the state. In the event the holders of publicly-traded Class A shares do not represent 2% of the capital at the General Meeting, these shareholders' rights to nominate a candidate for Board Membership shall be exercised by those shareholders holding Class A shares that are not publicly traded, in accordance with the Turkish Commercial Code and the Capital Market regulations.

d) In the event of a vacancy on the Board of Directors due to the death, resignation, dismissal of one of its members or otherwise, the vacant position shall be filled by means of an election to be held by the Board of Directors in accordance with Article 315 of the Turkish Commercial Code.

In the event of a vacancy on the Board of Directors due to one of the reasons stated above, the shareholders holding shares that grant the right to nominate a candidate to replace the member who has left shall have the right to nominate a candidate for the vacant position and the Board of Directors shall elect this candidate to fill the vacant position on the Board of Directors. If the holders of publicly-traded Class A shares have not nominated a candidate for the vacant position on the Board of Directors, the right to nominate a candidate shall be transferred to Class C Shareholders. If a Class C share has been converted into a Class A share, the right to nominate shall belong to the shareholders holding Class A shares that are not publicly traded. In such an election carried out to fill the vacant position of the candidate nominated by shareholders holding publicly-traded Class A shares, the percentages of 15%, 35% and 2% mentioned in paragraphs a, b and c above shall not be taken into consideration. The election for the successor of the Board Member shall be submitted to the first General Shareholders Meeting for approval. The Board Member approved by the General Meeting shall serve for the remaining term of the Board Member who has vacated the position.

e) In the event it is announced that a Board Member representing a particular legal entity has terminated relations with that entity, or in the event that a particular legal entity has transferred its shares to a third party, that entity shall be considered to have resigned from its position as a Board Member and thereafter, the provisions of paragraph d of this article on nominating a candidate for a vacant position on the Board shall prevail.

f) In the event these Articles of Association are later amended or new share classes are created, paragraphs a and b above defining the right of shareholders holding publicly traded Class A shares to determine two board members shall not be annulled or modified, unless such modification has been approved by shareholders representing 65% of the paid in capital.

4- No cross-shareholding exists with any Company.

5- The representation of minority shares in management is carried out in accordance with Article 10 of the Articles of Association, as stated above.

6- The Articles of Association does not provision cumulative voting.

6. Dividend Policies; Timing of Distributions

Issues related to the determination of the Company's profit and its distribution have been formulated in Article 36 of the Articles of Association, as explained below.

After the deduction of amounts such as the general overhead of the Company or various depreciation costs that must be paid or set aside by the Company and taxes that must be paid out by the Company, from the income determined at the end of the year, the balance, and if applicable the net profit on the annual financial statement, shall be deducted from the total amount of losses from previous years and distributed in the following way:

a) 5% statutory reserves shall be set aside (as defined here, reserves are the statutory reserves set aside each year by the Company at 5% of net profit shall continue to be set aside until it amounts to 20% of the Company's capital). The provisions of Article 466 of the Turkish Commercial Code are reserved. If statutory reserves should, for any reason, fall below 20% of the Company's capital, statutory reserves shall continue to be set aside until this proportion is reached.

b) From the balance, a first dividend in the amount to be determined by the Capital Markets Board shall be set aside.

c) The General Meeting shall be authorized to distribute as dividends or set aside as extraordinary reserves the balance remaining after the amounts mentioned in paragraphs a and b are deducted.

d) After a dividend equal to 5% of outstanding capital has been deducted from the portion of the profit that has been set aside for distribution to shareholders and others who shall participate in the profit, one tenth of the remaining amount shall be set aside as a second reserve, as stipulated in Paragraph 3, Part 2, Article 466 of the Turkish Commercial Code.

e) Unless statutory reserves and the first dividend specified in the Articles of Association have been set aside, no decision may be made to set aside further reserves or to forward the profit to the following year. Unless the first dividend is paid out in cash and/or in the form of shares, no decision may be made for the participation of holders of preferred shares in dividends or for the distribution of dividends to holders of founders' shares or ordinary bonus shares, to Board Members, employees and workers, or to foundations established for various purposes, or to such persons and/or organizations.

The timing and terms and conditions applicable to dividends shall be decided by the General Shareholders Meeting in accordance with the Communiqués of the Capital Markets Board.

7. Transfer of Shares

Article 6 of the Articles of Association:

Shareholding Structure:

Shares held by foreign shareholders may not exceed 40% of the Company's total outstanding capital. The calculation of shares held by foreign shareholders shall also include the foreign proportion of Class A shares that are not publicly traded.

The term "foreign shareholder" shall mean:
- natural and legal persons that are of foreign nationality;
- Turkish companies in which foreign parties own a more than 49% interest;
- Turkish companies with a majority of administrative and representative bodies comprised of non-Turkish people and according to their articles of association, where the majority of votes belong to non-Turkish partners;
- Turkish companies that are under the actual control of any one of the above.

To ensure the compliance of the above limitations concerning foreign shareholders with the provisions of the Articles of Association, the Company shall keep a separate record of foreign shareholders when recording shareholders and share transfers in its share ledger.

All share purchases and sales involving 1% or more of the Company's outstanding capital must be immediately reported to the Company. In addition, shareholders who have reached or exceeded the maximum foreign shareholding limits set forth in the Articles of Association are required to notify the Company as soon as they become aware of this. The purpose of this notification is to monitor foreign shareholding and important share transactions and to provide an opportunity for the Board of Directors to exercise its rights. A notification that has not been recorded in the share ledger shall not create a shareholder's right; only share ledger records shall constitute valid shareholding. In cases where it has been revealed, through notifications or otherwise, that total shares belonging to foreign parties have exceeded 40% of the Company's outstanding capital, the Board of Directors shall, at the latest within seven days, be required to notify the shareholders concerned that they must sell the shares exceeding the foreign shareholding limit, starting with the most recent share transfers, and to inform them that in the event of a failure to do so, the Company shall have the right to implement one of the measures set forth below. Foreign shareholders who are notified that their surplus shares must be sold shall, within the timeframe specified in the notification, sell the shares over and above the foreign shareholding limit, in accordance with the Articles of Association, to a person who is not defined to be a foreign shareholder. If the said shares are not sold despite notification, the Board of Directors is required to take the following measures regarding the shares that have exceeded the limit, within three days:

(i)Redeem the shares exceeding the foreign shareholding limit that are held by the foreign shareholder on the basis of the nominal price of the share and by reducing capital. The Company will issue notification that it will first redeem the shares over and above the foreign shareholding limit. If such notification cannot be made, the Company shall make a public announcement in two newspapers in circulation in the area in which the Company's headquarters are located. Expenses related to the redemption shall be set off against the redemption fee and collected from the shareholder responsible for the redemption.

(ii) When the total share of foreign shareholders exceeds the limit set forth in the Articles of Association, the Board of Directors may increase the capital to reduce the proportion of shares that exceed the foreign shareholding limit. In this case, new shares may be issued by restricting the preemptive rights of current shareholders, in accordance with Capital Markets Board regulations.

If the foreign shareholding limit is exceeded as set forth in this article, the authority to determine the method to be used to reduce shareholding percentages to the required level shall belong to the Board of Directors.

Grounds for the Article:

Grounds for the regulations in this article have been set down in the last paragraph of Article 7 of the Articles of Association. In the paragraph that follows, an additional explanation can be found concerning the regulations to which the Company is subject as an airline company.

a) According to Articles 31 and 49 of the Turkish Civil Aviation Law No. 2920, an airline company that cannot be qualified as Turkish cannot obtain an operating license. Even if such a company already holds an operating license, such license shall be cancelled if the company loses its qualification as being Turkish due to the shares of the airline being transferred, sold or because the majority of the Board of Directors is foreign, etc.

b) Flying from one country to another or having international air traffic rights require, according to bilateral air traffic treaties that must be signed by countries before they exercise these rights, that the majority ownership of the airlines be designated by the Turkish State and its control belongs to Turks (natural or legal persons), the Turkish nationality criterion is the sine qua non condition of being granted air traffic rights as set forth by bilateral air traffic agreements signed by the Company and other nations.

For this reason and since an airline company located in Turkey must have the majority of its shares or its effective control in the hands of Turkish citizens or companies in order to be granted traffic rights, and further since the loss of an airline company's Turkish identity (or its failure to prove that it has not lost its identity or in the event other bilateral-agreement countries cannot be brought to conclude that this is not the case) would mean that the airline company in question would lose its traffic rights, the nationality criterion is of major importance for an airline company.

For this reason, in order to secure Turkish Airlines' airline operations license and international air traffic rights, Article 6 of the Articles of Association contains a clause on foreign shareholding. For the same reason, a restriction based on the criterion of nationality has been placed on foreign shareholding as a means of protecting the company's traffic rights.

Article 7 of the Articles of Association

(Share Transfer)

Share transfers are subject to the Turkish Commercial Code, to capital markets legislation and to civil aviation regulations.

In order for transfers of registered shares to be recognized by the Company, these must have been recorded in the share ledger. Before such a record is made in the share ledger, holders of registered shares must document their identities and nationalities and, if applicable, their foreign references as specified in Article 6, in the form specified by the Board of Directors. If a share transfer is not recorded in the share ledger, the shareholder recognized by the Company shall be the individual whose name is indicated in the ledger. The recording of share transfers in the share ledger shall be undertaken by a decision of the Board of Directors. The Board of Directors may refuse to record the transfer of a share in the share ledger due to the violation of the Articles of Association or the law or without specifying any reason.

As set forth in Article 6 above, share transfers that violate the share restrictions applicable to foreigners may not be recorded in the share ledger. The Board of Directors is obligated to refuse the recording of such share transfers in the ledger. Share transfers that are not recorded in the share ledger by the Board of Directors shall not be recognized by the Company and the party concerned shall not assume the status of a shareholder of the Company. The approval of a share transfer by the Board of Directors and the resolution to record the transfer in the share ledger requires the affirmative vote of the Board Member representing the Class C share. Class C share may be transferred to another Turkish State enterprise that enjoys the powers granted to the Privatization Administration by Law No. 4046. In the event such a transfer takes place, the transfer shall immediately be recorded in the share ledger without recourse to a Board decision.

The Board of Directors is obligated to restrict the transfer of shares to foreign parties in order to comply with the limitations stipulated in the civil aviation legislation and/or other applicable regulations and the Company's Articles of Association and to avoid jeopardizing the traffic and cabotage rights of the Company.

8. Disclosure Policies

In addition to those required by law, the Company uses methods such as press releases and media to disclose non-confidential information to the public.

9. Material Disclosures

In accordance with the CMB's Communiqué on Material Disclosures to the Public Series VIII, No. 39, in addition to the disclosure of its financial statements and explanations on the financial statements during 2005, the Company has made 73 Material Disclosures. The CMB and the Istanbul Stock Exchange (ISE) have not requested any additional information on those disclosures. The Company has made every effort to make these material disclosures comprehensible, accurate, interpretable, complete and promptly available to investors and other related organizations. Since the Company has not failed to make a material disclosure on time, no sanction has been imposed by the CMB and the ISE. On the other hand, since the Company's shares are not traded on foreign stock exchanges, there have been no material disclosures made to such exchanges.

10. The Company's Website and its Contents

The Company's website at www.thy.com.tr contains a link to the Investor Relations page. An English version of the Investor Relations page is currently available. The Investor Relations page contains information on the Company's shareholding structure, minutes of the General Meetings of the last three years, a sample Proxy Statement, Annual Reports, Financial Statements, data on commercial operations, information about the Board of Directors and Material Disclosures.

11. Announcement of Individuals Who Are Ultimate Controlling Shareholders

There are no individuals who are ultimate controlling shareholders.

12. Announcement of Persons Who Have Access to Inside Information

The Company's Board of Directors, Auditors, Assistant General Managers, Secretary General, Investor Relations Manager, Press Consultant, Accounting Director, Finance Director, Investment Management Director, Promotion and Public Relations Director, as well as all personnel employed in these units and all other natural and legal persons who have access to information about the Company by virtue of their profession or activities have been prohibited from using this information for their own benefit or for the benefit of third parties.

13. Disclosures to Stakeholders

In addition to information required to be disclosed to the public by law and the material disclosures made in accordance with the CMB's Communiqué on Material Disclosures to the Public, Series VIII, No. 39, the Company has promptly made available information which could be of interest to stakeholders and the public, using appropriate means of communication.

14. Human Resources Policies

The Company has Human Resources Regulations in place that were drawn up by the Board of Directors and all procedures and communications concerning functional subdivisions and personnel are carried out in compliance with Labor Law No. 4857. On the other hand, Company personnel are members of a trade union and therefore the Company employs personnel under a Collective Bargaining Agreement. All personnel issues and matters concerning the Collective Bargaining Agreement are discussed in detail with trade union representatives as set forth in Article 34 of Law No. 2821 on Labor Unions. All employees receive training. No complaints have been made by employees regarding discrimination.

15. Relations with Customers and Suppliers

Since the Company is an IATA member, ticket sales are subject to certain rules and regulations determined by IATA. In addition, forms for complaints and suggestions are made available to customers on board and at all airports and these are evaluated in an effort to improve customer satisfaction. Other efforts geared toward customer satisfaction include the practice of allowing a commitment and penalty-free 24-hour option for changes or cancellations on reservations made over phone, assistance provided to passengers with special needs or with disabilities, meeting basic passenger needs at times when flights are grounded during delays, taking the necessary measures to facilitate check-in. Customer satisfaction principles adopted by the Company in direct passenger relations form the basis of the agreements signed with agencies. Only agencies that comply with these principles are allowed to work with Turkish Airlines. Agencies that do not comply with the rules are issued the necessary warnings and the business relationship is terminated in the event of repeated violations.

The Company engages in the purchase of goods and services in accordance with the Purchasing/Sale Regulations that have been drawn up with the resolution of the Company's Board of Directors and revised regularly since 1952 as well as based on the relevant articles of Law No. 4734 on Public Tenders. The Company works with several suppliers, both domestic and international. Announcements for tenders for special purchases are made in at least two newspapers published nationwide within the timeframes set forth by law, and also announced on the websites www.kik.gov.tr and www.thy.com.tr.

16. Social Responsibility

The Company continued to operate by its service quality and social responsibility philosophy, keeping its leading position both in the country and abroad. No lawsuits have been filed against the Company in Turkey on the ground of causing environmental damage.

17. Structure of the Board of Directors, its Formation and Independent Members

The Board of Directors is comprised of seven members elected by the General Assembly. Six Board Members are required to be elected from among the candidates receiving the highest number of votes in the election held by Class A shareholders. The other member is nominated by the Class C shareholder. At least five Board Members, including the Board Member representing the Class C share, must be Turkish citizens. The term of office for Board members is two years. The General Assembly may terminate the membership of a Board Member before the end of his/her term. Board Members whose term has expired may be reelected.

Current Board Members:

Dr. Candan KARLITEKİN
Chairman
Hamdi TOPÇU
Vice-Chairman
Assoc. Prof. Temel KOTİL
Member and General Manager
Atilla ÖKSÜZ
Member
Prof. Cemal ŞANLI
Member
Prof. Oğuz BORAT
Member
Mehmet BÜYÜKEKŞİ
Member

18. Qualifications of Board Members

The criteria for Board membership are specified in Article 11 of the Company's Articles of Association. In addition, Article 4/i of Law No. 4046 stipulates that in organizations to be privatized, Board Members shall be graduates of four-year higher education programs. Care is taken to comply with the provisions of Articles 3.1.1, 3.1.2 and 3.1.5 of Section IV of the Corporate Governance Principles concerning the appointment of Board Members. Qualifications of the Company's Board Members are in accord with these articles. Article 11 and Provisional Article 1/c of the Articles of Association are quoted below.

ARTICLE 11

Persons to be elected to the Board shall not have been placed under legal restraint; a Company where they owned an interest or worked as a manager shall not have been declared bankrupt or insolvent; they shall be a shareholder of the Company and shall not have been convicted of an infamous crime or any other crime specified in the Civil Aviation Law. If a member who is not a shareholder is elected, that individual may only assume duties after having become a shareholder.

The General Meeting may grant permission for the cases defined in Articles 334 and 335 of the Turkish Commercial Code.

Board Members representing Class C shares and at least five members (including those who represent Class C shares) must be Turkish citizens.

Provisional Article 1/c
With the exception of the provisions outlined in the Paragraph "d" below concerning elections to be held among candidates nominated by Class A shareholders in accordance with Law No. 4046, the Chairman of the Board of Directors, Board Members, Auditors and the General Manager shall be appointed upon the proposal of the Privatization Administration or the approval of the authorized Minister. This is carried out on the condition that they can satisfy the conditions set forth in the Law, and that the state's stake in the Company does not fall to below 50%.

19. Mission, Vision and Strategic Targets

The Board of Directors shall approve the strategic targets set out by the management and continuously and effectively monitor these targets, the activities of the Company and its past performance. In doing so, the Board shall strive to ensure compliance with international standards and wherever necessary, take action before problems arise. The mission of the Company as it appears in Article 3 of the Articles of Association is indicated below:

a) To strengthen the Company's position as a global airline by expanding its long-distance flight network,
b) To position the Company as a technical services provider by transforming its maintenance unit into a leading maintenance base for the region,
c) To promote the Company's identity as a service provider in all areas of strategic civil aviation, including handling and flight training,

d) To maintain the Company's leading status in domestic air transportation,
e) To provide seamless, high-quality air transportation services by collaborating with a global airline alliance that complements its network in order to further improve the Company's image abroad and increase marketing opportunities and
f) To make Istanbul an important hub.

20. Risk Management and Internal Control

The Company has an internal control mechanism in place that is implemented by the relevant units. Matters such as the correct pricing of tickets sold by employees or agencies, the compliance of foreign offices' accounting records with the Company's regulations and the correct and prompt fulfillment of tax obligations are all matters dealt with in this scope. The Company makes every effort to ensure that all records are accurate according to the Company regulations and directives. The Company is, in addition, subject to annual inspections by the Prime Ministry's Supreme Inspection Board.

Separately, the Company is being audited by three auditors appointed in the General Meeting:

İsmail GERÇEK
Member of Auditing Board
Dr. Hasan GÜL
Member of Auditing Board
Prof. Dr. Ateş VURAN
Member of Auditing Board

Two auditors shall be elected from among Class A shareholders and one auditor shall be the candidate nominated by the Class C shareholder. The auditors have a one year term of office. An auditor whose term has expired may be reelected.

Class A Auditors shall be determined in the following manner:

a) In the event that the proportion of publicly traded shares is 35% or more, the rights granted to Class A shareholders to elect two auditors shall belong to shareholders holding publicly-traded Class A shares.
b) Shareholders holding publicly traded Class A shares may nominate a candidate for membership of the Board of Auditors, provided they represent at least 2% of the total increased capital by attending the General Meeting in which the election of the Board of Directors elections took place. Only publicly traded Class A shares shall be considered in the calculation of this 2%. Shareholders holding publicly traded Class A shares shall determine their candidates for Board of Auditors membership in a meeting held between themselves. The right to nominate a candidate in this meeting shall belong to the holders of Class A shares which are publicly traded but not owned by the state. In the event that the holders of publicly traded Class A shares do not represent 2% at the General Meeting, these shareholders' rights to nominate candidates for Board of Auditors membership shall be exercised by those shareholders holding Class A shares which are not publicly traded, in accordance with the Turkish Commercial Code and Capital Markets Board Regulations.
c) In the event of a vacancy on the Board of Auditors due to the death, resignation or dismissal of one of its members or otherwise, the vacant position shall be filled by means of an election to be held by the Board of Auditors in accordance with Article 351 of the Turkish Commercial Code. If the holders of publicly traded Class A shares have not nominated a candidate for the vacant position on the Board of Auditors, the right to nominate a candidate shall belong to the Class C Shareholder. If the Class C share has been converted into a Class A share, the right to nominate shall belong to the shareholders holding Class A shares that are not publicly traded. In such an election carried out to fill the position vacated by the candidate nominated by shareholders holding publicly traded Class A shares, the percentages of 15%, 35% and 2% as referenced in paragraphs “a”, “b” and “c” shall not be taken into consideration.
d) In the event that these Articles of Association are later amended or new share classes created, paragraphs “a” and “b” above defining the right of shareholders holding publicly traded Class A shares to determine two auditors shall not be annulled or modified, unless such modification has been approved by shareholders representing at least 65% of the capital.

The duties of the Auditors are to examine the Company's general transactions and budget and assume the responsibilities stipulated in the Turkish Commercial Code. Auditors are authorized and assume the responsibility to submit proposals to the Board of Directors, to ensure that the Company is managed efficiently and its interests protected, call a general meeting in the event of vital and urgent matters, determine the agenda of such a meeting and draw up the report specified in Article 354 of the Turkish Commercial Code. Auditors are responsible for fulfilling the duties assigned to them by law and the Articles of Association in a satisfactory manner.

21. Responsibilities of Board Members and Directors

Article 15 of the Articles of Association defines the power and responsibilities of the Board of Directors and Article 19 defines the power and responsibilities of the General Manager.

Article 15. The Board of Directors represents and manages the Company. The Board of Directors is responsible for all tasks that are not assigned in the General Meeting by law, as well as the duties laid out in the Articles of Association, and it is granted all authority which these duties may require.

As set out in Article 319 of the Turkish Commercial Code, the Board of Directors may assign all or part of its management and representation powers to one or more of its members, to a general manager, assistant general manager, a manager or managers who are not members of the Board, or may form executive committees comprising of Board Members or non-members to exercise its powers and fulfill its duties. All financial and other information required for the Board of Directors to fulfill its duties as well as Board proposals and attachments shall be submitted in a timely manner.

All financial and other information needed for the Board of Directors to fulfill its duties as well as Board proposals and attachments shall be submitted in a timely manner.

Article 19. The duties and powers of the General Manager shall be determined by the Board of Directors. The General Manager is required to be diligent in fulfilling his or her duties, and shall be held responsible for any behavior or actions which contravene this duty.

22. Activities of the Board of Directors

The activities of the Company's Board of Directors, specified in Article 14 of the Articles of Association, are as follows:

The Board of Directors shall meet whenever necessary and at least once a month. The meeting venue will be at Company headquarters; other venues may be chosen by a Board decision.

Matters to be discussed at Board meetings shall be specified in an agenda that will be communicated to Board Members prior to the meeting.

Invitations to Board meetings shall be made at least three days before the actual meeting.

The quorum for Board meetings is five members. Board decisions shall be taken with the affirmative vote of at least four members. A member who has failed to attend four consecutive Board meetings without a valid reason, or has not participated in six meetings over the course of a year shall be considered to have resigned.

Unless one of the members has requested a meeting, Board decisions may also be taken following the proposal of one of the members regarding a specific issue and with the written approval of all members. The validity of Board decisions is contingent on their having been set out in writing and signed. Failure to reach a quorum for a decision on any issue shall be treated as a rejection of the proposal in question.

The validity of the decisions to be taken by the Board of Directors on the following matters requires the presence and affirmative vote of the Board Member representing Class C shares at the meeting during which the decision was taken.

- Decisions that would clearly adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Proposals to the General Meeting for an amendment to the Articles of Association;
- Capital increases;
- Approval of the transfer of registered shares and the recording of this in the share ledger;
- All transactions and decisions concerning direct or indirect commitments on behalf of the Company for more than 5% of the total assets appearing in the previous year's financial statements submitted by the Company to the Capital Markets Board per each contract (this provision shall be automatically annulled when state-owned shares fall below 20% of the Company's capital);
- The merger of the Company with other companies, its termination or liquidation;

- With the exception of those routes which are exclusively affected by market conditions, or those that cannot cover their operational costs with other resources, decisions concerning the termination of a route or a significant reduction in the number of flights.

The privileges of the Class C share may only be restricted by the Supreme Privatization Board or a state agency that has taken over its duties.

In 2004, the Board held 44 meetings and made 278 decisions. The validity of Board decisions is subject to their having been written up and signed. The organization and communication of Board activities, the determination of the number of Board meetings, the following up of proposals made to the Board and the drawing up of agendas are all duties of the General Secretariat.

23. Prohibited Dealings and Competition with the Company

During the reporting period, Board Members were prohibited from dealing and competing with the Company in accordance with Articles 334 and 335 of the Turkish Commercial Code. In addition to these prohibitions, there are also rules set out in Section 11 of THY's Human Resources Regulations No. 07-001, which prohibits Company personnel from providing services to other organizations.

24. Rules of Ethics

The Company is committed to the following Rules of Ethics:

- To act in accordance with the obligations specified in national and international regulations, and with all agreements to which the Company is a party.
- To be diligent and to act responsibly while representing the Company vis-à-vis third parties.
- To fulfill the duties in the best manner within the framework of the duties, authorizations and responsibilities specified in the job description.
- To honor the principles of confidentiality regarding sensitive information.
- To expend utmost effort in putting the Company's assets and resources to their best use.
- To expend utmost effort in protecting shareholders' rights and interests.
- To record and safeguard all information, documentation and files in an orderly and complete manner.
- To act appropriately to the Company's customers, passengers first and foremost, and to all customers in general. Further to adhering to these regulations, to refrain from impolite and incorrect behavior and to remind others of this responsibility when necessary.
- To report mistakes made during the performance of duties to the appropriate offices and to take measures to prevent any repetition of these errors.
- To work in accordance with the objectives and strategies of the relevant department and to provide a maximum contribution to help the Company reach its targets and achieve its vision.
- To refuse any material benefit arising during the course of general activities, and to refrain from prioritizing any person or organization.
- To create a fair and safe work environment.
- To act in accordance with the rules of domestic and international competition.
- To support those in charge of controlling activities and to provide the necessary means and assistance in their work.
- To be honest and trustworthy, and meticulous in preserving moral values.

25. The number, structure, and independency of the Board Committees

The Board of Directors' Financial Audit Committee is comprised of Mr. Hamdi TOPÇU and Mr. Atilla ÖKSÜZ. The Corporate Governance Committee, which audits the implications regarding the corporate governance principles, is comprised of Mr. Mehmet BÜYÜKEK and Mr. Cemal ŞANLI.

26. Remuneration Paid to Board Members

Board Member remuneration is set by the General Assembly. Board Members may not obtain any loan or debt from the Company.

TÜRK HAVA YOLLARI A.O.
FINANCIAL REVIEW

Profit/Loss (YTL)
According to Accounting Standards of Capital Markets Board

	2005	2004
Sales Revenues (net)	2.953.354.162	2.592.697.139
Cost of Sales (-)	(2.435.869.117)	(2.084.379.054)
Other Revenues from Main Operations	153.717.446	200.688.807
Gross Operating Profit	671.202.491	709.006.892
Operating Expenses (-)	(577.630.482)	(566.458.446)
Net Operating Profit	93.572.009	142.548.446
Income from Other Operations	425.430.333	371.382.815
Losses from Other Operations (-)	(277.165.588)	(248.497.343)
Financial Expenses/(Net)	(60.042.012)	(42.347.448)
Operating Profit	181.794.742	223.086.470
Net Monetary Gain (Loss)/(Net)	-	(113.210.018)
Profit/(Loss) Before Taxation	181.794.742	109.876.452
Taxes	(43.566.905)	(2.818.011)
Net Profit	138.227.837	107.058.441

Profit/Loss (YTL)
According to IFRS at December 31, 2005 prices

	2005	2004	2003	2002	2001	2000
Operating Revenues	3.139.178.553	2.920.341.113	2.975.106.587	3.511.559.014	3.655.647.061	3.659.088.321
Operating Expenses (-)	(3.054.728.897)	(2.771.314.056)	(2.588.169.612)	(3.055.817.764)	(3.773.005.339)	(4.001.892.770)
Main Operating Profit/(Loss)	84.449.656	149.027.057	386.936.975	455.741.250	(117.358.278)	(342.804.449)
Income from Other Operations	111.015.890	66.327.837	107.051.510	52.008.819	263.774.024	132.264.825
Loss from Other Operations (-)	(27.159.903)	(16.588.649)	(12.712.777)	(9.700.299)	(52.703.626)	(35.902.559)
Operating Profit	168.305.643	198.766.246	481.275.708	498.049.770	93.712.120	(246.442.183)
Financial Income (Expense)/(Net)	(57.286.976)	34.459.166	309.122.314	(522.307.500)	(2.697.280.720)	(862.042.801)
Monetary Gain (Loss)/(Net)	28.073.365	(118.355.242)	(448.533.763)	570.237.932	2.306.813.287	954.959.670
Profit/(Loss) Before Taxation	139.092.032	114.870.170	341.864.259	545.980.202	(296.755.313)	(153.525.314)
Taxation Charge	(45.868.744)	(2.946.085)	(87.340.865)	(132.388.776)	66.420.003	3.437.594
Net Profit/(Loss)	93.223.288	111.924.085	254.523.394	413.591.426	(230.335.310)	(150.087.720)
Minority Shares	-	-	-	-	-	7.133.445
Net Profit/(Loss)	93.223.288	111.924.085	254.523.394	413.591.426	(230.335.310)	(142.954.275)

Profit/Loss (YTL)
According to the Uniform Accounting System

	2005	2004	2003	2002	2001	2000
Operating Revenues	3.106.452.581	2.643.173.007	2.390.842.395	2.171.619.433	1.665.236.226	959.662.893
Operating Expenses	(3.152.160.261)	(2.572.894.319)	(2.208.871.203)	(2.152.412.536)	(1.837.236.504)	(1.087.205.111)
Operating Profit/(Loss)	(45.707.680)	70.278.688	181.971.192	19.206.897	(172.000.278)	(127.542.218)
Income from Other Operations	241.730.358	251.292.273	260.294.470	196.467.307	159.125.631	35.728.573
Loss from Other Operations (-)	(212.796.912)	(271.566.283)	(223.934.191)	(131.755.070)	(31.845.838)	(8.719.398)
Financial Expenses (-)	(6.042.797)	(6.183.398)	(2.223.214)	(249.208)	(21.417.159)	(11.957.025)
Ordinary Profit/(Loss)	(22.817.031)	43.821.280	216.108.257	83.669.926	(66.137.644)	(112.490.068)
Extraordinary Income	29.694.155	22.614.842	45.769.987	24.093.063	111.054.387	61.312.556
Extraordinary Expenses (-)	(11.655.869)	(6.122.586)	(9.368.673)	(7.961.281)	(24.973.439)	(12.856.882)
Taxation Charge	-	-	(78.990.691)	(32.398.092)	-	-
Net Profit (Loss)	(4.778.745)	60.313.536	173.518.880	67.403.616	19.943.304	(64.034.394)
Year-End Exchange Rate (US$ 1)	1,3418	1,3421	1,3958	1,6345	1,4396	0,6718
Average Exchange Rate (US$ 1)	1,3405	1,4223	1,4953	1,5046	1,2228	0,6059

Financial statements prepared in accordance with the Uniform Accounting System have been prepared in accordance with the regulations of the Turkish Commercial Code and the Tax Procedure Law, taking as their basis the organization's statutory books.

TÜRK HAVA YOLLARI A.O.
CAPITAL REVIEW

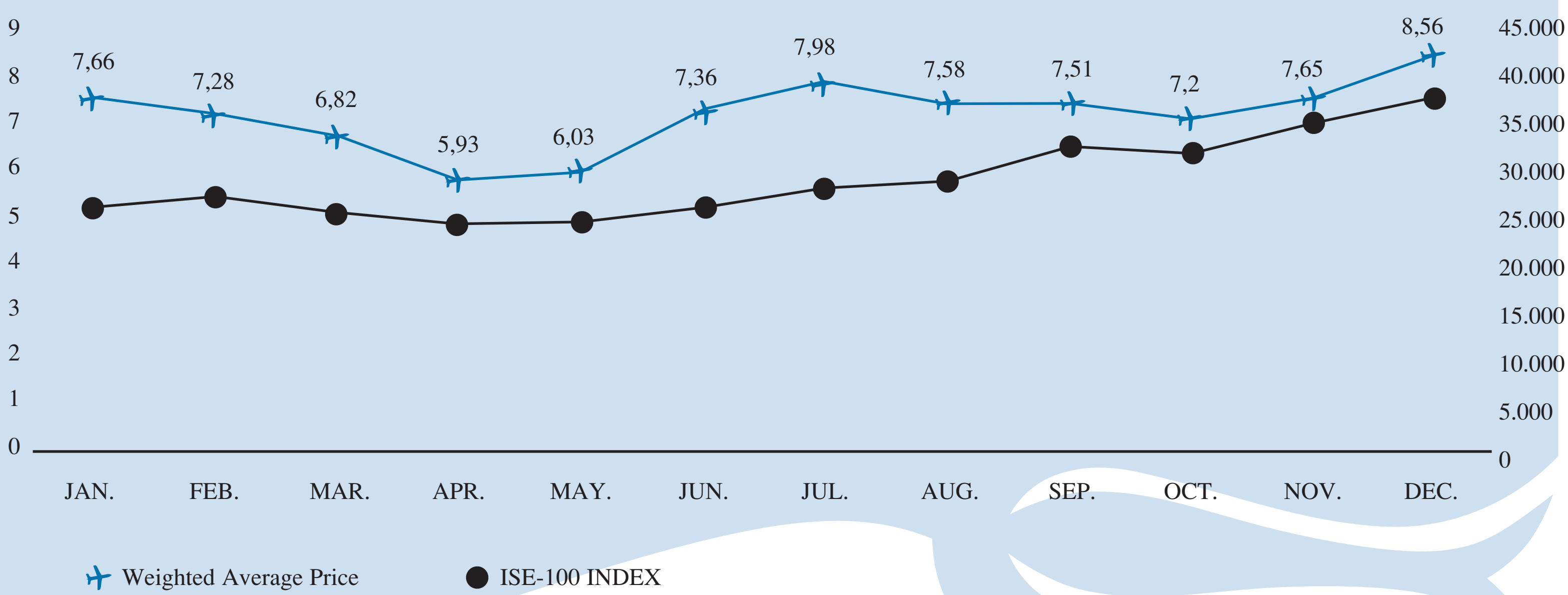
In accordance with the Capital Markets Board's decision of October 26, 1990, No. 815, the Company adopted the "registered capital" system with a maximum capital of YTL 700 millions. Public Housing and Public Participation Administration of Turkey acquired an interest in the Company as per the Supreme Planning Board's decision of July 17, 1989, No. 89/12. The Company was later made subject to Law No. 4046 on the Organization of Privatization Efforts and the Amendment of Certain Decree Laws, put into effect through publication in the Official Gazette dated November 27, 1994, No. 22124, and placed under the control of the Republic of Turkey Prime Ministry Privatization Administration (TPA).

As of December 31, 2005, the Company's registered capital was YTL 500 millions. On the same date, its issued and paid-in capital was YTL 175 millions, made up of 174,999,999,999 Class A shares and one Class C share, each having a nominal value of YTL 0.001.

	Grup	%	31 December 2005	%	31 December 2004
Republic of Turkey Prime Ministry Privatization Administration	A, C	75,18(*)	131.565.696	75,17	131.538.948
Others	A	24,82(*)	43.434.304	24,83	43.461.052
Share Capital (historic)			175.000.000		175.000.000
Restatement Effect			1.739.005.871		1.739.005.871
Restated Capital		**100,00**	**1.914.005.871**	**100,00**	**1.914.005.871**

(*) YTL 26.748 nominal valued shares of the Company subject to the second public offering during 1, 2 and 3 December 2004 were transferred to the accounts of Republic of Turkey Prime Ministry Privatization Administration by İş Yatırım Menkul Değerler A.Ş. The transfer was made due to default of private shareholders who did not transfer the amounts of the shares following the conclusion of last installment.

Change in the Company's share price in 2005



TÜRK HAVA YOLLARI A.O.
AFFILIATES, SUBSIDIARIES AND FINANCIAL ASSETS AVAILABLE FOR SALE

Name of the Company	Place of Incorporation and Operation	Proportion of Ownership Interest	Proportion of Voting Power Held	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transport
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Holland	Less than 0.1%	Less than 0.1%	Information and Telecommunication Services
Uçak Servisi A.Ş. (USAŞ)	Turkey	4,75%	4,75%	Catering
France Telecom	France	Less than 0.1%	Less than 0.1%	Telecommunications

DIVIDENDS FROM AFFILIATES & SUBSIDIARIES (YTL)	2005	2004
Uçak Servisi A.Ş. (USAŞ)	1.113.723	185.134
Emek İnşaat ve İşletme A.Ş.	69	6.137
Güneş Ekspres Havacılık A.Ş. (Sun Express)	7.080.216	3.966.833
France Telecom	157.326	90.343

GÜNEŞ EKSPRES HAVACILIK A.Ş.
An airline company operating in the charter segment for tourists. The other major shareholder of the Company is Condor Flugdienst GmbH who owns a 50% interest.

UÇAK SERVİSİ A.Ş. (USAŞ)
Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1.25% of shares was transferred on 2 January 2003, 2 January 2004 and 3 January 2005 and it will be completed to 15% by transferring the 1,25% of shares in the year 2006. Consequently, 1.140 million shares corresponding to 13.75% of USAŞ's share capital, transferred to the Company, were recorded to "financial assets" and "deferred income" accounts at market value of YTL 19.650.109. "Deferred income" amount is amortized to income during five years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003 and 1,026 million shares in 2005 at Istanbul Stock Exchange.

USAŞ gave 1,852,500,000 of free shares to the Company based on the decision taken in Non-general Assembly held on 8 December 2004 related to the share capital increase originated from the inflation adjustment difference arising from capital restatement.

TÜRK HAVA YOLLARI A.O.
FOREIGN CURRENCY INFLOW

The Company has received the gold plaque every year since 1994 in the "Best Exporters Awards" of the Istanbul Chamber of Commerce, a competition organized to encourage exporters. The winners for 2005 are expected to be announced in 2006.

Istanbul Chamber of Commerce Awards take into account the amount of foreign currency brought into Turkey and converted into Turkish Lira during the relevant year.

In 2005, the Company brought US$ 1.6 billion into Turkey and converted this into YTL.

The amounts of foreign currency the Company brought into Turkey and converted into TL are as follows:

FC REVENUE YEAR	FC INFLOW (US$ Millions)	RANKING	AWARD
1994	676	1.	GOLD PLAQUE
1995	707	1.	GOLD PLAQUE
1996	816	1.	GOLD PLAQUE
1997	820	1.	GOLD PLAQUE
1998	806	1.	GOLD PLAQUE
1999	975	1.	GOLD PLAQUE
2000	938	1.	GOLD PLAQUE
2001	901	1.	GOLD PLAQUE
2002	858	2.	GOLD PLAQUE
2003	1.018	2.	GOLD PLAQUE
2004	1.201	3.	GOLD PLAQUE

TÜRK HAVA YOLLARI A.O.
FINANCIAL RATIOS PREPARED ACCORDING TO ACCOUNTING STANDARDS OF CAPITAL MARKETS BOARD

	2005	2004
LIQUIDITY RATIOS		
Current Ratio (Current Assets/Short-Term Liabilities)	0,69	0,93
Acid-Test Ratio ((Current Assets-Inventories-Prepaid Taxes-Other Assets)/Short-Term Liabilities)	0,57	0,72
Cash Ratio (Liquid Assets/Short-Term Debt)	0,40	0,50
FINANCIAL STRUCTURE RATIOS		
Shareholders' Equity/Total Assets Ratio	0,36	0,38
Shareholders' Equity/Total Liabilities Ratio (Shareholders' Equity/(Short-Term Liabilities+Long-Term Liabilities))	0,55	0,60
LEVERAGE RATIOS		
Leverage Ratio (Total Liabilities/Total Assets)	0,64	0,62
Long-Term Liabilities/Shareholders' Equity	0,86	1,00
Interest Payment Capacity ((Fin.Exp.,M.Gain and Pre-Tax Profit)/Financial Expenses)	4,03	6,27
Debt Coverage Ratio (EBITDAR/(Interest Payment+Financial Leasing Principal Payment))	1,20	1,85
TURNOVER RATIOS (DAILY)		
Average Collection Period of Receivables=((Short-Term Receivables*360)/Operating Revenue)	22	21
Average Payment Period of Trade Payables=((Trade Payables*360)/Operating Expenses)	32	28
PROFIT RATIOS		
Net Profit Margin (Net Profit/Operating Revenues)	4,45%	3,83%
Asset Profitability Ratio (Net Profit/Total Assets)	3,93%	3,63%
Shareholders' Equity Profitability Ratio (Net Profit/Shareholders' Equity)	11,07%	9,64%
Increase/(Decrease) in Operating Revenues	11,23%	(1,84)%
Increase/(Decrease) in Operating Income	(18,51)%	(59,62)%
EBITDAR Margin ((Net Operating Profit+Operations Not Requiring Outlays+Rent Expense)/ Operating Revenues)	17,22%	19,94%

TÜRK HAVA YOLLARI A.O.

BALANCE SHEETS AND INCOME STATEMENTS ACCORDING TO TREND RATIOS (IFRS)

BALANCE SHEET ITEMS	31.12.2005	31.12.2004
ASSETS		
Current Assets	122%	100%
Cash and Cash Equivalents	132%	100%
Marketable Securities (net)	-	-
Accounts Receivable (net)	121%	100%
Financial Lease Receivables (net)	-	-
Due from Related Parties (net)	119%	100%
Other Receivables (net)	220%	100%
Biological Assets (net)	-	-
Inventories (net)	131%	100%
Receivables from Construction Contracts in Progress (net)	-	-
Deferred Tax Assets	-	-
Other Current Assets	70%	100%
Non-Current Assets	118%	100%
Accounts Receivable (net)	-	-
Financial Lease Receivables (net)	-	-
Due from Related Parties (net)	-	-
Other Receivables (net)	99%	100%
Financial Assets (net)	88%	100%
Positive/Negative Goodwill (net)	-	-
Investment Property	-	-
Tangible Fixed Assets (net)	119%	100%
Intangible Fixed Assets (net)	82%	100%
Deferred Tax Assets	-	-
Other Non-Current Assets	97%	100%
TOTAL ASSETS	119%	100%

BALANCE SHEET ITEMS	31.12.2005	31.12.2004
LIABILITIES		
Short-Term Liabilities	166%	100%
Bank Borrowings (net)	100%	-
Short-Term Portion of Long-Term Bank Borrowings (net)	-	-
Financial Lease Obligations (net)	88%	100%
Other Financial Liabilities (net)	118%	100%
Accounts Payable (net)	134%	100%
Due to Related Parties (net)	123%	100%
Advances Received	152%	100%
Billings on Construction Contracts in Progress (net)	-	-
Provisions for Liabilities	109%	100%
Deferred Tax Liabilities	-	-
Other Liabilities (net)	119%	100%
Long-Term Liabilities	96%	100%
Bank Borrowings (net)	100%	-
Financial Lease Obligations (net)	89%	100%
Other Financial Liabilities (net)	-	-
Accounts Payable (net)	83%	100%
Due to Related Parties (net)	-	-
Advances Received	-	-
Provisions for Liabilities	114%	100%
Deferred Tax Liabilities	194%	100%
Other Liabilities (net)	-	100%
MINORITY INTERESTS	-	-
SHAREHOLDERS' EQUITY	112%	100%
Share Capital	100%	100%
Capital Reserves	100%	100%
Profit Reserves	100%	100%
Net Profit for the Year	129%	100%
Accumulated Profits/(Losses)	90%	100%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	119%	100%

INCOME STATEMENT ITEMS	01.01.2005 31.12.2005	01.01.2004 31.12.2004
MAIN OPERATING REVENUES		
Sales Revenues (net)	114%	100%
Cost of Sales (-)	117%	100%
Service Revenues (net)	-	-
Other Revenues from Main Operations/Interest+Dividend+Rent (net)	77%	100%
GROSS OPERATING PROFIT	95%	100%
Operating Expenses (-)	102%	100%
NET OPERATING PROFIT	66%	100%
Income from Other Operations	115%	100%
Losses from Other Operations (-)	112%	100%
Financial Expenses (-)	142%	100%
OPERATING PROFIT	81%	100%
Net Monetary Gain/(Loss) (net)	-	100%
MINORITY INTEREST	-	-
PROFIT BEFORE TAXATION	165%	100%
Taxes	1546%	100%
NET PROFIT FOR THE YEAR	129%	100%
EARNINGS PER SHARE (YKr)	130%	100%

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
CAPITAL MARKET BOARD STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2005
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

INPACT

INTERNATIONAL NETWORK OF PROFESSIONAL ACCOUNTANTS

Can Uluslararası Denetim A.Ş.
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To the Board of Directors of Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı ("the Company") as at 31 December 2005, and the related statements of income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with the standards issued by the Capital Market Board of Turkey ("CMB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Türk Hava Yolları Anonim Ortaklığı as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards issued by the CMB.

4. Additional paragraph for convenience translation into English:

The effects of differences between accounting principles issued by the CMB (see note 2), the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified and reflected in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the Company's financial position and results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

Can Uluslararası Denetim A.Ş.
A Member Firm of INPACT International

Abdülkadir SAYICI
Partner

31 March 2006, İstanbul, Turkey

TÜRK HAVA YOLLARI A.O.
BALANCE SHEETS
AS AT 31 DECEMBER 2005 AND 2004

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

ASSETS	Note	Audited 31 December 2005	Audited 31 December 2004
Current Assets		825.922.684	677.317.067
Cash and Cash Equivalents	4	482.910.555	365.637.483
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	191.596.806	158.585.050
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	970.701	812.921
Other Receivables (net)	10	6.567.690	2.989.387
Biological Assets (net)	11	-	-
Inventories (net)	12	84.255.279	64.513.843
Receivables from Construction Contracts in Progress (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	59.621.653	84.778.383
Non-Current Assets		2.688.869.983	2.270.835.407
Accounts Receivable (net)	7	-	-
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	-	-
Other Receivables (net)	10	1.901.488	1.921.124
Financial Assets (net)	16	37.406.378	42.636.073
Positive/Negative Goodwill (net)	17	-	-
Investment Property	18	-	-
Tangible Fixed Assets (net)	19	2.631.113.979	2.206.147.116
Intangible Fixed Assets (net)	20	6.154.133	7.463.579
Deferred Tax Assets	14	-	-
Other Non-Current Assets	15	12.294.005	12.667.515
Total Assets		3.514.792.667	2.948.152.474

TÜRK HAVA YOLLARI A.O.
BALANCE SHEETS
AS AT 31 DECEMBER 2005 AND 2004

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

	Note	Audited 31 December 2005	Audited 31 December 2004
LIABILITIES			
Short-Term Liabilities		1.198.903.059	721.872.724
Bank Borrowings (net)	6	362.903.225	-
Short-Term Portion of Long-Term Bank Borrowings (net)	6	-	-
Financial Lease Obligations (net)	8	179.092.821	202.712.254
Other Financial Liabilities (net)	10	332.636	281.244
Accounts Payable (net)	7	255.994.916	190.770.953
Due to Related Parties (net)	9	8.022.859	6.508.221
Advances Received	21	52.397.414	34.452.683
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	27.543.644	25.222.977
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	10	312.615.544	261.924.392
Long-Term Liabilities		1.067.548.015	1.116.165.994
Bank Borrowings (net)	6	-	-
Financial Lease Obligations (net)	8	856.730.859	957.728.732
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	7.124.267	8.556.817
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	113.641.242	99.777.377
Deferred Tax Liabilities	14	90.051.647	46.484.742
Other Liabilities (net)	10	-	3.618.326
MINORITY INTERESTS	24	-	-
SHAREHOLDERS' EQUITY		1.248.341.593	1.110.113.756
Share Capital	25	175.000.000	175.000.000
Capital Reserves	26-27-28	1.872.838.374	1.872.838.374
- Share Premium		181.185	181.185
- Share Premium of Cancelled Shares		-	-
- Revaluation Surplus on Tangible Fixed Assets		-	-
- Revaluation Increments on Financial Assets		-	-
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
Profit Reserves	26-27-28	8.223.909	8.223.909
- Legal Reserves		417.011	417.011
- Statutory Reserves		-	-
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		9	9
- Associate Shares and Gain on Sale of Investment Property to be added to Capital		-	-
- Foreign Currency Translation Differences		-	-
Net Profit for the Year		138.227.837	107.058.441
Accumulated Profits/(Losses)	26-27-28	(945.948.527)	(1.053.006.968)
Total Liabilities and Shareholders' Equity		3.514.792.667	2.948.152.474

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

TÜRK HAVA YOLLARI A.O.
STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

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

	Note	Audited 1 January - 31 December 2005	Audited 1 January - 31 December 2004
MAIN OPERATING REVENUES			
Sales Revenues (net)	36	2.953.354.162	2.592.697.139
Cost of Sales (-)	36	(2.435.869.117)	(2.084.379.054)
Service Revenues (net)		-	-
Other Revenues from Main Operations/Interest+Dividend+Rent (net)	36	153.717.446	200.688.807
GROSS OPERATING PROFIT		671.202.491	709.006.892
Operating Expenses (-)	37	(577.630.482)	(566.458.446)
NET OPERATING PROFIT		93.572.009	142.548.446
Income from Other Operations	38	425.430.333	371.382.815
Losses from Other Operations (-)	38	(277.165.588)	(248.497.343)
Financial Expenses (-)	39	(60.042.012)	(42.347.448)
OPERATING PROFIT		181.794.742	223.086.470
Net Monetary Gain/(Loss) (net)	40	-	(113.210.018)
MINORITY INTEREST	24	-	-
PROFIT BEFORE TAXATION		181.794.742	109.876.452
Taxes	41	(43.566.905)	(2.818.011)
NET PROFIT FOR THE YEAR		138.227.837	107.058.441
EARNINGS PER SHARE (YKr)	42	0,079	0,061

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

TÜRK HAVA YOLLARI A.O.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

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

	Share Capital	Restatement Effect on Shareholders' Equity	Share Premium	Legal Reserves	Extraordinary Reserves	Special Funds	Net Profit/(Loss) For The Year	Accumulated Losses	Total
Balances at 31 December 2003	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	243.458.570	(1.296.465.538)	1.003.055.315
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	(243.458.570)	243.458.570	-
Net Profit for the Year	-	-	-	-	-	-	107.058.441	-	107.058.441
Balances at 31 December 2004	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	107.058.441	(1.053.006.968)	1.110.113.756
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	(107.058.441)	107.058.441	-
Net Profit for the Year	-	-	-	-	-	-	138.227.837	-	138.227.837
Balances at 31 December 2005	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	138.227.837	(945.948.527)	1.248.341.593

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

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 31 December 2005, the shareholders and their respective shareholdings in the Company were as follows:

Republic of Turkey Prime Ministry Privatization Administration	75,18%
Others	24,82%
Total	100,00%

The total number of employees working for the Company as of 31 December 2005 is 11.121 (2004: 10.956). The average number of employees working for the Company in the years 2005 and 2004 is 11.151 and 10.341, respectively. Financial assets of the Company are stated at note 16.

The Company is registered in İstanbul, Turkey and its head office address is as follows:
Türk Hava Yolları Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy-İstanbul.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Accounting Standards Applied

The Company maintains its books of account and prepares its statutory financial statements in accordance with Turkish Uniform Chart of Accounts, Turkish Commercial Code, Turkish Tax Laws and generally accepted accounting principles promulgated by Capital Markets Board and applicable to the companies quoted in Istanbul Stock Exchange.

The Company's financial statements are prepared in accordance with accounting and reporting principles promulgated by Capital Markets Board. Capital Markets Board issued a comprehensive set of accounting principles in the Comminique Serial XI no:25 “Accounting Principles in the Capital Markets”. In the Comminique, it is stated that alternatively application of accounting standards promulgated by International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) is deemed as the application of accounting principles of Capital Markets Board (CMB).

By the decision made on 17 March 2005, Capital Markets Board declared that for companies which operate in Turkey and prepare financial statements in accordance with accounting principles of Capital Markets Board it is not required to apply inflation accounting effective after 1 January 2005. Therefore, IAS 29 “Financial Reporting in Hyperinflationary Economies” issued by IASC was not applied in the financial statements, all other International Financial Reporting Standards pertaining to measurement and all changes made in those standards in 2005 were applied. Financial statements and footnotes are presented in the compulsory formats by an announcement of CMB dated 20 December 2004.

New Turkish Lira

A new law, numbered as 5083 on the Monetary Unit of the Republic of Turkey was enacted with the effect from 1 January 2005, which deletes six zeroes from the former currency of Republic of Turkey, the Turkish Lira (“TL”), to form a new currency the New Turkish Lira (“YTL”). Thus, YTL 1 = TL 1.000.000. The New Turkish Lira is divided into 100 New Turkish cents (“YKr”). As per the CMB decision numbered MSD-10/832-43399 dated 1 December 2004, the financial statements to be announced publicly in 2005 should be prepared in YTL including comparatives. Accordingly, the accompanying financial statements are presented in YTL.

Preparation of Financial Statements in Hyperinflationary Periods

Depending on the CMB's decision dated on 17 March 2005 which stated that for the companies preparing the financial statements in accordance with CMB Accounting Standards it is not required to apply inflation accounting effective after 1 January 2005, The Company have not applied inflation accounting after 1 January 2005. The balance sheet as of 31 December 2004 and the income statement for the year 2004 which were presented for comparison are stated in the purchasing power of YTL as of 31 December 2004.

International Accounting Standard 29 (IAS 29), “Financial Reporting in Hyperinflationary Economies”, requires financial statements prepared in the currency of a hyperinflationary economy to be adjusted by purchasing power of that currency as of balance sheet date and previous period's financial statements to be adjusted for comparison by using the same values. One of the primary reasons requiring application of IAS 29 is three-year cumulative inflation rate approaching to or exceeding 100 %. Adjustment was made by using conversion factors derived from countrywide Wholesale Price Index

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

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

announced by the State Institute of Statistics. The indices and the conversion factors used to restate the financial statements as at 31 December 2004 and 31 December 2005 are given below:

Dates	Index	Conversion Factor	Three-Year Cumulative Inflation Rates %
31 December 2004	8.403,8	1,000	69,7
31 December 2005	8.785,7	1,000	35,6

As at 31 December 2005, the exchange rate announced by Central Bank of Turkey was YTL 1,3418 = US Dollar 1 (2004: YTL 1,3421 = US Dollar 1).

The main procedures for the restatement of previous period's financial statements are given below:
- Previous period's financial statements in the currency of a hyperinflationary economy are expressed at the purchasing power as of 31 December 2004.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit at the balance sheet date.
- Non-monetary assets and liabilities and shareholders' equity which was not expressed at the purchasing power as of balance sheet date are restated by using relevant conversion factors.
- All items in the income statement are restated by using relevant (monthly) conversion factors and expressed at the purchasing power as of 31 December 2004.
- The effect of inflation on the Company's net monetary position is reflected as net monetary gain/loss in the previous period's income statement.

Basis of Consolidation

The associate of which participation rate of THY is 50% and not controlled by the Company is valued by equity method.
For purposes of financial statements, the associate's principal activity and direct and indirect participation rate of the Company are given below:

Name of the Company	Principal Activity	Direct Participation	Indirect Participation	Country of Registration
Güneş Ekspres Havacılık A.Ş.	Air Transportation	50%	-	Turkey

In equity method, the associate is presented on the balance sheet at net asset value and the portion of the Company from its operations is added to the income statement.

Comparative Information

Current period financial statements have been prepared as comparative with the prior year financial statements. In order to provide an appropriate presentation of current period's financial statements, the comparative information have been re-classified in terms of any necessity occurrences.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

3.3 Tangible Fixed Assets
Tangible fixed assets are measured at net book value calculated as acquisition cost at 31 December 2005 less accumulated depreciation. Tangible fixed assets are depreciated on a periodical basis for all categories.

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

	Useful Life (Years)	Residual Value
- Land	-	-
- Buildings	25-50	-
- Aircraft	15	30%
- Engines	15	30%
- Components	5-8-10	-
- Repairables	2-3	-
- Simulators	10	-
- Machinery and Equipments	3-5-7-10	-
- Furniture and Fixtures	3-4-5	-
- Motor Vehicles	4-5-7	-
- Other Equipments	5	-

3.4 Intangible Fixed Assets
Intangible fixed assets, include leasehold improvements, rights, information systems and software. Intangible fixed assets are reflected at cost as of 31 December 2005, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years, on a periodical basis.

3.5 Impairment on Assets
In international markets, purchasing and second hand trading of aircraft and similar assets are realized in US Dollar. As a result of inflation rate being higher than devaluation of YTL against US Dollar in recent years, net book values of aircraft, spare engines and simulators adjusted for the effect of inflation have exceeded net book values of these assets based on their US Dollar acquisition costs.

The Company's management considers that the situation explained above causes a fictitious increase in value. Therefore, the Company decreases the adjusted net book value of its aircraft, spare engines and simulators to net book value of these assets based on US Dollar acquisition costs. An examination is then made of whether net book values based on US Dollar acquisition costs may exceed their recoverable amount. Recoverable amount is determined as higher of the present value of cash flows expected from the use of assets and the net selling price of these assets. Net selling price is determined according to International Aircraft Price Guide. In the accompanying financial statements, the difference between adjusted net book values of these assets and net book values based on US Dollar acquisition costs is netted off against monetary gain. The difference between net book values of these assets based on US Dollar acquisition costs and recoverable amount is recognized as impairment loss under operating expenses.

3.6 Borrowing Costs
Banks loans are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Finance expenses resulted from bank loans are recorded to income statement in the period in which they are incurred.

3.7 Manufacturers' Credits
Manufacturers' credits are received against acquisition and/or lease of aircraft and engines. The Company records these credits as a reduction to the cost of the owned or financial leased assets and amortizes them over the related asset's remaining useful life. Manufacturers' credits related to operational leases are recorded as deferred revenue and amortized over the lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments and Financial Risk Management

(a) Classification and Accounting

The Company classifies and accounts for financial instruments as follows:

Securities Held for Trading

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their prices. Subsequent to initial recognition, held for trading securities are valued at their fair value if measured reliably. Gains or losses on these securities are recognized in net profit or loss for the period in which they arise.

Investments Held to Maturity

Investments held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity.

Investments Available for Sale

Investments available-for-sale are those investments that the ownership rate is less than or equivalent to 20% and are not held for trading. Subsequent to acquisition, available for sale investments which are traded at stock markets are valued at market rate on balance sheet date. Those whose market value cannot be measured reliably are valued at cost. Gains or losses on available for sale investments are recognized in net profit or loss for the period in which they arise.

Investments At Equity

Investment that the ownership rate is 50% and the Company is not in a position to exercise sole control are carried at equity.

(b) Measurement

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.
The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented here in may not necessarily be indicative of the amounts the Company could realize in a current market exchange.

Balances with banks, receivables, contingent liabilities such as letters of guarantee and letters of credit are important financial instruments which would have negative effects on the financial structure of the Company if the other party failed to comply with the terms and conditions of the agreement.
The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

The Company's principal financial assets are cash and cash equivalents, accounts and other receivable, due from related parties and available for sale financial assets.

Book values of trade receivables and due from related parties along with the related allowances for uncollectibility are estimated to be their fair value except for discount of these receivables to their present value when they hold significant credit periods.

Güneş Ekspres Havacılık A.Ş. is accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. and France Telecom shares are classified as available for sale investments and changes in their fair value are recognized in net profit or loss.

Financial assets, other than Güneş Ekspres Havacılık A.Ş., Uçak Servisi A.Ş. and France Telecom where the Company is not in a position to exercise significant influence or joint control, are stated at cost as their fair value can not be measured reliably.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include bank borrowings, financial lease obligations, accounts and other payables, due to related parties. Foreign currency bank loans are translated into New Turkish Lira at the rates of change ruling at the balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments and Financial Risk Management (cont'd)

Book values of accounts payable and due to related parties are estimated to reach their fair value, except discounting of these liabilities.

Financial expenses are accounted for on an accrual basis and are traced under related financial liability account to the extent that they are not settled in the period in which they arise. Accounts and other payables and due to related parties are recorded at their nominal value, which approximates their fair value.

Credit Risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and the current economic environment. The Company has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

Price Risk

• Currency Risk

The Company is exposed to exchange rate fluctuations between foreign currencies and New Turkish Lira due to the nature of its business. The major part of the Company's ticket income is in Euro and US Dollar or linked to these currencies and the major part of its expenses is denominated in US Dollar and New Turkish Lira.

• Interest Risk

Some of the interest rates related to leasing transactions are based on LIBOR. Therefore the Company is exposed to interest rate fluctuations on international markets. The Company does not have hedging transactions to limit currency and interest rate risks.

• Market Risk

The Company invests in government bonds acquired under reverse repurchase agreements made for short periods or deposits to banks on a monthly or quarterly basis. Fair values of these investments fluctuate based on market conditions.

• Liquidity Risk

In general, tickets are sold in advance and transportation is provided later. Therefore, the Company takes advantage of collecting revenue in advance and incurring transportation cost later. The Company also benefits from the difference between the collection and the payment periods.

3.9 Foreign Currency Transactions

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

The closing and average NTL to US Dollar exchange rates for the periods are as follows:

	Closing Rate	Average Rate
31 December 2004	1,3421	1,4223
31 December 2005	1,3418	1,3405

3.10 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.

3.11 Events Subsequent To The Balance Sheet Date

The Company discloses the events subsequent to the balance sheet date in the relevant period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when there exists a legal liability as a result of the Company's transactions in the past and it is necessary to settle the liability for flow of resources out of the Company and the amount of outflow can be reliably measurable.

Liabilities and assets resulting from past events and existence of which can be approved by occurrence or non-occurrence of one or more events that are not in full control of the entity are not recognized in the financial statements and considered as contingent assets and liabilities.

3.13 Leases

The Company leases aircraft, engines, simulators, computer equipments and vehicles by financial leases or operational leases. Financial leases are reflected in the Company's balance sheet by recording leased assets and lease liabilities equal to the present value of lease payments. The finance leased assets are depreciated over their useful lives. Operating leases are accounted for as operating expense when incurred.

3.14 Related Parties

The shareholders, key management personnel and board members of the Company, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties in the accompanying financial statements. Transactions with related parties for ordinary operations have taken place at prices compliant with market conditions.

3.15 Segmental Reporting

Business Segments

The Company operates predominantly in one industry segment, its primary business being the air transportation of passengers and cargo within, to or from Turkey.

Geographical Segments

Revenue analysis is based on the destinations that the Company serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Revenue from both scheduled and non-scheduled international flights is attributed to flight destination's geographical area.

3.16 Taxation and Deferred Taxes

Taxes on income for the period comprise of current tax and deferred tax. The Company accounts for current and deferred taxation on the results for the period.

Provision is made in the financial statements for the Company's estimated liability for Turkish corporation tax on its results for the period. The charge for current tax is based on the results for the period as adjusted for items, which are non-assessable or disallowed.

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences whereas deferred tax assets are only recognized when it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.
Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred tax assets and liabilities are also offset.

3.17 Employee Retirement and Termination Indemnities

Employee retirement and termination indemnities as required by Turkish Labor Law are recognized in the accompanying financial statements as earned. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined by the net of an expected inflation rate and an appropriate discount rate. The interest amount included in employee retirement expense is disclosed in the financial result as interest expense.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Use of Estimates

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

3.19 Maintenance and Repair Costs

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

3.20 Frequent Flyer Program

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

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

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2005	31 December 2004
Cash	195.489	162.030
Cheques received	138.532	116.877
Banks	477.065.690	363.838.243
Other liquid assets	5.510.844	1.520.333
	482.910.555	365.637.483

Foreign currency bank balances are YTL 295.610.051 at 31 December 2005 (2004: YTL 247.555.286).
Time Deposits:

Amount	Currency	Opening Date	Maturity	31 December 2005
170.390.000	YTL	22.07.2005 - 30.12.2005	02.01.2006 - 30.01.2006	170.390.000
31.653.000	Euro	30.12.2005	02.01.2006	50.249.138
149.163.000	US Dollar	27.12.2005 - 30.12.2005	02.01.2006 - 30.01.2006	200.146.913
				420.786.051

Amount	Currency	Opening Date	Maturity	31 December 2004
112.500.000	YTL	25.10.2004 - 31.12.2004	03.01.2005- 24.01.2005	112.500.000
89.790.000	Euro	31.12.2004	03.01.2005	164.028.372
22.500.000	US Dollar	31.12.2004	03.01.2005	30.197.250
				306.725.622

5 MARKETABLE SECURITIES (NET)

None (2004: None).

6 BANK BORROWINGS (NET)

Bank Borrowings comprised the following short-term bank credit:

Bank Name	Maturity	Original Amount	Interest Accruals	YTL
T. İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	459.998 US Dollar	362.903.225

(2004: None).

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

7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

i) Short-term accounts receivable comprised the following:

	31 December 2005	31 December 2004
Trade receivables	210.448.412	175.591.911
Discount on receivables	(2.334.886)	(341.303)
Provision for doubtful receivables	(16.516.720)	(16.665.558)
	191.596.806	158.585.050

ii) Short-term accounts payable comprised the following:

	31 December 2005	31 December 2004
Trade payables	252.278.380	186.439.488
Deposits and guarantees received	3.715.141	4.221.819
Other	1.395	109.646
	255.994.916	190.770.953

iii) Long-term accounts receivable comprised the following:

	31 December 2005	31 December 2004
Deposits and guarantees received	7.124.267	8.556.817

8 FINANCIAL LEASE RECEIVABLES AND OBLIGATIONS (NET)

i) Financial Lease Receivables: None (2004: None).

ii) Financial Lease Obligations:

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

	31 December 2005	31 December 2004
Not later than one year	221.054.754	237.797.984
Between 1 - 4 years	540.757.739	608.219.202
Over 4 years	458.520.976	451.213.188
	1.220.333.469	1.297.230.374
Less: Future interest expense	(184.509.789)	(136.789.388)
Principal value of future rentals shown in the balance sheets	1.035.823.680	1.160.440.986
Represented by:		
Current liabilities	179.092.821	202.712.254
Long-term liabilities	856.730.859	957.728.732
	1.035.823.680	1.160.440.986
Interest range:		
Floating rate obligations	982.205.221	872.924.584
Fixed rate obligations	53.618.459	287.516.402
	1.035.823.680	1.160.440.986

As of 31 December 2005, the US Dollar denominated lease obligations' interest rates for the fixed rate obligations are between 7,12% and 7,70%; and for the floating rate obligations are a margin ranging between LIBOR minus 0,05% and LIBOR plus 3%.

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

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

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

	31 December 2005	31 December 2004
Not later than one year	118.983.335	74.824.262
Between 1 - 4 years	176.568.422	117.723.485
Over 4 years	124.747.806	1.488.724
	420.299.563	194.036.471

9 DUE TO AND FROM RELATED PARTIES (NET)

i) Due to and from related parties as of 31 December 2005 and 31 December 2004 comprised the following:
Due from related parties comprised the following:

	31 December 2005	31 December 2004
Güneş Ekspres Havacılık A.Ş. (Sun Express)	970.701	812.763
Uçak Servisi A.Ş. (USAŞ)	-	158
	970.701	812.921

Due to related parties comprised the following:

	31 December 2005	31 December 2004
Güneş Ekspres Havacılık A.Ş. (Sun Express)	459.029	211.054
Uçak Servisi A.Ş. (USAŞ)	7.563.830	6.297.167
	8.022.859	6.508.221

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

	31 December 2005	31 December 2004
Services rendered to Sun Express	3.655.346	1.912.675
Services rendered to USAŞ	372.382	256.824
	4.027.728	2.169.499

	31 December 2005	31 December 2004
Services received from Sun Express	866.914	2.603.397
Services received from USAŞ	79.320.622	66.785.003
	80.187.536	69.388.400

Dividends received from Related Parties:

	31 December 2005	31 December 2004
Sun Express	7.080.216	4.237.552
Uçak Servisi A.Ş. (USAŞ)	1.113.723	192.844
Emek İnşaat ve İşletme A.Ş.	69	6.560
France Telecom	157.326	94.106
	8.351.334	4.531.062

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

10 OTHER RECEIVABLES AND LIABILITIES (NET)

i) Other short-term receivables comprised the following:

	31 December 2005	31 December 2004
Due from insurance firms	3.192.141	-
Foreign receivables from technical suppliers	1.557.088	920.791
Receivables relating to RJ aircrafts modifications	560.516	-
Personnel salary advances	375.337	326.363
Due from personnel	278.853	247.834
Receivable from SITA deposit certificates	155.882	150.242
Bank deposits at banks having transfer difficulties (*)	-	845.502
Business advances	95.989	345.966
Other receivables	351.884	152.689
	6.567.690	2.989.387

(*) As of 31 December 2004, the balance of this account is related to bank balance in Egypt.

ii) Other long-term receivables comprised the following:

	31 December 2005	31 December 2004
Due from personnel	1.006.711	1.127.433
Receivable from SITA deposit certificates	804.107	702.736
Other receivables	90.670	90.955
	1.901.488	1.921.124

iii) Other short-term financial liabilities comprised the following:

	31 December 2005	31 December 2004
Debt to banks (*)	332.636	281.244

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

iv) Other short-term liabilities comprised the following:

	31 December 2005	31 December 2004
Flight liability resulting from ticket sales	154.979.724	124.731.094
Flight liability resulting from mileage sales	51.770.242	52.071.858
Frequent flyer program liability	30.577.262	6.993.168
Taxes and funds payable	16.204.908	19.340.449
Gross manufacturers' credits	19.690.997	16.956.092
Accumulated amortization on manufacturers' credits (-)	(16.199.785)	(14.564.872)
Social security premiums payable	14.840.062	12.188.329
Accruals for maintenance costs	12.585.613	15.944.575
Expense accruals for insurance premiums	10.468.387	10.074.286
Accruals for sales incentive premiums	6.684.627	7.734.390
Deferred income from USAŞ shares transfer	5.016.608	3.618.326
Debt to personnel	276.417	253.428
State Airport Administration ("DHMİ") protocol payable	-	1.822.211
Discount on DHMİ protocol payable	-	(36.401)
Other liabilities	1.373.121	790.475
Accruals for other expenses	4.347.361	4.006.984
	312.615.544	261.924.392

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

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

v) Other long-term liabilities comprised the following:

	31 December 2005	31 December 2004
Deferred income from USAŞ shares transfer	-	3.618.326
	-	3.618.326

11 BIOLOGICAL ASSETS (NET)

None (2004: None).

12 INVENTORIES (NET)

	31 December 2005	31 December 2004
Spare parts, flight equipments	69.659.366	54.483.543
Other inventories	14.595.913	10.030.300
	84.255.279	64.513.843

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

None (31 December 2004: None).

14 DEFERRED TAX ASSETS AND LIABILITIES

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements compliant to Capital Markets Board's accounting standards and statutory tax standards. These differences generally result from the recognition of revenue and expenses in different reporting periods considering CMB and tax standards and calculated for the items such as fixed assets, retirement pay, allowance for doubtful receivables. The deferred tax rate is 30%.

Temporary differences: Deferred tax assets/(liabilities)

	31 December 2005	31 December 2004
Allowance for unrecoverable bank accounts	246	276
Provision for doubtful receivables	230.607	416.692
Restatements on inventory	520.391	8.716.457
Appreciation in value of financial assets	(666.579)	(1.483.820)
Other short term assets	-	60.960
Short term lease obligations	36.369.506	47.867.011
Deferred income and expenses	456.107	290.395
Expense accruals	17.283.762	13.125.543
Provision for advance ticket sales	(21.609.699)	(17.973.936)
Deferred income	1.504.979	1.851.799
Adjustments to long term assets	-	(620.529)
Fixed assets	(365.532.429)	(425.380.016)
Long term lease obligations	185.266.465	287.318.620
Retirement pay liability	34.092.373	29.933.213
Manufacturers' credit	1.392.681	717.366
Discount on receivables	772.994	102.072
Discount on payables	(811.742)	(19.996)
Unused investment incentives	20.048.657	3.704.211
Unused tax losses	630.034	4.888.940
Deferred tax liability	(90.051.647)	(46.484.742)

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

14 DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Movement in deferred tax liability is as follows:

	31 December 2005	31 December 2004
Net deferred tax charge related to temporary differences	43.566.905	2.818.011
Monetary gain on deferred tax liabilities	-	(6.043.575)
Net change in deferred tax	43.566.905	(3.225.564)

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

i) Other current assets comprised the following:

	31 December 2005	31 December 2004
Prepaid taxes and funds	13.363.884	51.305.913
Prepaid sales commissions	11.149.101	10.414.391
Maintenance service income accruals	10.127.094	6.172.005
Deferred insurance expenses	6.787.420	6.154.237
Prepaid operating lease expenses	5.314.180	3.982.248
Interline passenger income accruals	3.843.430	182.580
Tax to be refunded	2.965.389	2.682.798
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Prepaid financial expense of bank borrowing	740.124	-
Prepaid rent expenses	574.125	440.142
Prepaid aircraft financing expense	487.846	539.501
VAT deductible	437.170	152.793
Other prepaid expenses	2.739.482	1.659.367
	59.621.653	84.778.383

ii) Other non-current assets comprised the following:

	31 December 2005	31 December 2004
Prepaid Eximbank USA guarantee and exposure fee	5.889.372	7.001.219
Advances given for operating leases	2.637.672	1.241.311
Prepaid aircraft financing expense	2.067.151	2.688.118
Deposits given	1.325.066	1.736.867
Prepaid operating lease expenses	374.744	-
	12.294.005	12.667.515

16 FINANCIAL ASSETS (NET)

i) The investment accounted for using the equity method is as follows:

	31 December 2005	31 December 2004
Güneş Ekspres Havacılık A.Ş. (Sun Express)	17.490.282	16.706.000

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

16 FINANCIAL ASSETS (NET) (cont'd)

ii) Financial assets available for sale are as follows:

	31 December 2005	31 December 2004
France Telecom shares	20.214.336	20.214.336
Diminution in value of France Telecom shares	(13.458.870)	(11.192.456)
Uçak Servisi A.Ş. (USAŞ)	8.085.622	8.213.707
Appreciation in value of USAŞ shares	3.367.104	6.880.463
Sita Inc.	1.679.619	1.785.738
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
Other financial assets	1.426	1.426
	19.916.096	25.930.073
	37.406.378	42.636.073

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1,25% of shares was transferred on 2 January 2003 and 1,25% of shares was transferred on 2 January 2004, 1,25% of shares was transferred on 3 January 2005 and the transfer will be completed to 15% by transferring 1,25% of shares in the year 2006. Consequently, 1.140 million shares corresponding to 13,75% of USAŞ's share capital, transferred to the Company, were recorded to “financial assets” and “deferred income” accounts at market value of YTL 19.650.109. “Deferred income” amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003 and 1.026 million shares in 2005 at İstanbul Stock Exchange.

USAŞ gave 1.852.500.000 free shares to the Company based on the decision taken in Non-general Assembly held on 8 December 2004 related to the share capital increase originated from the inflation adjustment difference arising from capital restatement.

Details of the Company's financial assets at 31 December 2005 are as follows:

Name of the Company	Place of Incorporation and Operation	Ownership Rate	Voting Power Rate	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Holland	Less than 0,1%	Less than 0,1%	Information & Telecommunication Services
Uçak Servisi A.Ş. (USAŞ)	Turkey	4,75%	4,75%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

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

17 POSITIVE/NEGATIVE GOODWILL (NET)

None (2004: None).

18 INVESTMENT PROPERTY (NET)

None (2004: None).

19 TANGIBLE FIXED ASSETS (NET)

	31 December 2005	31 December 2004
Tangible fixed assets (net)	2.051.105.815	1.810.476.604
Advances given for aircraft purchases	570.531.933	395.670.512
Advances given for other tangible fixed assets	9.476.231	-
	2.631.113.979	2.206.147.116

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

19 TANGIBLE FIXED ASSETS (NET) (cont'd)

	Land, Land Improvements and Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Softwares	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Other Leased Fixed Assets and Simulators	Total Leased Assets	Total
Cost											
Opening balance 1 January 2005	164.394.003	293.126.703	216.627.863	1.271.455.508	284.390.748	386.260	2.230.381.085	3.359.221.949	17.796.598	3.377.018.547	5.607.399.632
Transfers from finance leased aircraft	-	-	-	719.930.479	-	-	719.930.479	(719.930.479)	-	(719.930.479)	-
Additions	-	5.089.635	5.083.323	92.789.901	104.757.919	1.667.822	209.388.600	262.118.349	-	262.118.349	471.506.949
Disposals	-	(3.113.184)	(21.182.606)	(57.043.500)	(79.498.014)	(383.627)	(161.220.931)	-	-	-	(161.220.931)
Closing balance 31 December 2005	164.394.003	295.103.154	200.528.580	2.027.132.388	309.650.653	1.670.455	2.998.479.233	2.901.409.819	17.796.598	2.919.206.417	5.917.685.650
Accumulated depreciation											
Opening balance 1 January 2005	45.636.971	252.663.395	196.713.598	778.440.216	139.865.031	-	1.413.319.211	936.557.576	5.265.168	941.822.744	2.355.141.955
Transfers from finance leased aircraft	-	-	-	212.888.307	-	-	212.888.307	(212.888.307)	-	(212.888.307)	-
Depreciation for the period	2.736.555	13.116.453	7.455.455	60.038.540	86.525.225	-	169.872.228	124.189.315	1.381.514	125.570.829	295.443.057
Disposals	-	(3.096.621)	(19.602.881)	(443.671)	(79.498.014)	-	(102.641.187)	-	-	-	(102.641.187)
Closing balance 31 December 2005	48.373.526	262.683.227	184.566.172	1.050.923.392	146.892.242	-	1.693.438.559	847.858.584	6.646.682	854.505.266	2.547.943.825
Accumulated impairment	-	5.710.483	-	533.859.545	-	-	539.570.028	774.651.895	4.414.087	779.065.982	1.318.636.010
31 December 2005 net book value	116.020.477	26.709.444	15.962.408	442.349.451	162.758.411	1.670.455	765.470.646	1.278.899.340	6.735.829	1.285.635.169	2.051.105.815
31 December 2004 net book value	118.757.032	32.529.232	19.914.266	202.929.868	144.525.717	386.260	519.042.375	1.283.505.372	7.928.857	1.291.434.229	1.810.476.604

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

20 INTANGIBLE FIXED ASSETS (NET)

	Rights	Leasehold Improvements	Total
Cost			
Opening balance 1 January 2005	60.098.447	18.829.214	78.927.661
Additions	1.533.298	461.899	1.995.197
Disposals	-	(58.052)	(58.052)
Closing balance 31 December 2005	61.631.745	19.233.061	80.864.806
Accumulated depreciation			
Opening balance 1 January 2005	53.301.396	18.162.686	71.464.082
Amortization charge for the period	2.793.911	504.228	3.298.139
Disposals	-	(51.548)	(51.548)
Closing balance 31 December 2005	56.095.307	18.615.366	74.710.673
Accumulated impairment	-	-	-
31 December 2005 net book value	5.536.438	617.695	6.154.133
31 December 2004 net book value	6.797.051	666.528	7.463.579

21 ADVANCES RECEIVED

i) Short-term advances received comprised the following:

	31 December 2005	31 December 2004
Advances received for mileage credit sales	21.649.478	23.101.559
MCO advances	15.962.740	8.360.092
E-pos ticket advances	9.675.611	348.806
Special rent advances	3.413.900	2.394.541
Advances received for financial leases	1.151.059	-
Other advances received	544.626	247.685
	52.397.414	34.452.683

ii) Long-term advances received: None (2004: None).

22 RETIREMENT PLANS

Except for retirement pay liability which is explained under Provisions for Liabilities, there is not any agreement of retirement commitment.

23 PROVISIONS FOR LIABILITIES

i) Provisions for short-term liabilities comprised the following:

	31 December 2005	31 December 2004
Accrued salaries	17.993.508	15.619.949
Provisions for legal claims	9.202.870	9.245.739
Other provisions	347.266	357.289
	27.543.644	25.222.977

ii) Provisions for long-term liabilities comprised the following:

	31 December 2005	31 December 2004
Provision for Retirement Pay Liability	113.641.242	99.777.377

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

23 PROVISIONS FOR LIABILITIES (cont'd)

Provision for Retirement Pay Liability is recognized as explained below:

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), or are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of YTL 1.727 as at 31 December 2005 (2004: YTL 1.575). The number of service years required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described here can be named as an unfunded defined benefit system. The total provision recognised in the financial statements represents the estimated present value of the vested benefit obligation.

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

	31 December 2005	31 December 2004
Current service cost	15.156.287	11.702.155
Interest cost	5.594.993	4.883.377
	20.751.280	16.585.532

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

	31 December 2005	31 December 2004
Provision at 1 January	99.777.377	89.528.586
Charge for the period	20.751.280	16.585.532
Payments during the period	(6.887.415)	(6.336.741)
Provision at 31 December	113.641.242	99.777.377

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,61% (2004: 5,45 %) per annum considering the effect of increase in eligible pay and its limit.

24 MINORITY INTERESTS

None (2004: None).

25 SHARE CAPITAL/RECIPROCAL ASSOCIATE CAPITAL ADJUSTMENT

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

	Group	%	31 December 2005	%	31 December 2004
Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	75,18(**)	131.565.696	75,17	131.538.948
Others	A	24,82(**)	43.434.304	24,83	43.461.052
Share capital (historic)			175.000.000		175.000.000
Restatement effect			1.739.005.871		1.739.005.871
Restated Share Capital			1.914.005.871		1.914.005.871

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

(**) YTL 26.748 nominal valued shares of the Company subject to the second public offering during 1, 2 and 3 December 2004 were transferred to the accounts of Republic of Turkey Prime Ministry Privatization Administration by İş Yatırım Menkul Değerler A.Ş. The transfer was made due to default of private shareholders who did not transfer the amounts of the shares following the conclusion of last installment.

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

25 SHARE CAPITAL/RECIPROCAL ASSOCIATE CAPITAL ADJUSTMENT (cont'd)

As at 31 December 2005, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:
Articles of Association 7: Positive vote of the Board member representing class C share and approval of the Board of Directors are necessary for transfer of shares issued to the name.

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

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

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 Registery”
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

Articles of Association Temporary Article 1: Head of the Board of Directors, members of the Board of Directors, auditors and general manager meeting the conditions defined in law numbered 4046, are to be selected from candidates suggested by A group shareholders, by the offer of Republic of Turkey Prime Ministry Privatization Administration and the approval of the Prime Minister or authorized minister, as long as the Company's shares held by Turkish State are not below 50%. The article 315 of Turkish Commercial Code is applicable for the members representing non-public membership.

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

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

	31 December 2005	31 December 2004
Share Capital	175.000.000	175.000.000
Share Premium	181.185	181.185
Legal Reserves	417.011	417.011
Extraordinary Reserves	7.806.889	7.806.889
Special funds	9	9
Shareholders' Equity Inflation Adjustment Differences (*)	1.872.657.189	1.872.657.189
Net Profit for the Year	138.227.837	107.058.441
Accumulated Losses	(945.948.527)	(1.053.006.968)
	1.248.341.593	1.110.113.756
(*) Shareholders' Equity Inflation Adjustment Differences		
Share Capital	1.739.005.871	1.739.005.871
Share Premium	714.307	714.307
Legal Reserves	60.597.395	60.597.395
Extraordinary Reserves	67.026.275	67.026.275
Special funds	5.313.341	5.313.341
	1.872.657.189	1.872.657.189

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

26-27-28 CAPITAL RESERVES, PROFIT RESERVES AND ACCUMULATED LOSSES (cont'd)

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

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

29 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debts. As of 31 December 2005, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

The foreign currency position of the Company as of 31 December 2005 and 31 December 2004 in terms of YTL is as follows:

31 December 2005	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	209.110.558	63.411.560	1.701.717	27.041.304	301.265.139
Accounts receivable (net)	24.881.620	45.615.416	5.907.491	40.429.558	116.834.085
Due from related parties (net)	469.066	446.745	-	-	915.811
Other receivables (short-term) (net)	4.230.783	522.195	75.320	91.366	4.919.664
Inventory-advances	1.117.566	53.958	71.109	18.599	1.261.232
Other current assets	28.138.494	2.946.996	298.931	9.047.045	40.431.466
Other receivables (long-term) (net)	1.810.818	-	-	-	1.810.818
Tangibles fixed assets (advances for aircraft)	579.865.473	-	142.691	-	580.008.164
Other non-current assets	11.312.071	463.364	71.791	414.991	12.262.217
	860.936.449	113.460.234	8.269.050	77.042.863	1.059.708.596
Foreign currency denominated liabilities					
Bank borrowings (net)	362.903.225	-	-	-	362.903.225
Financial lease obligations (short-term)	179.092.821	-	-	-	179.092.821
Accounts payable (short-term) (net)	68.596.451	56.577.386	3.195.299	28.019.720	156.388.856
Due to related parties (net)	8.022.859	-	-	-	8.022.859
Deposits and advances received	23.008.165	148.138	412	-	23.156.715
Other accrued liabilities (short-term)	347.266	-	-	-	347.266
Other liabilities (net)	92.278.977	83.458.279	13.058.372	45.196.135	233.991.763
Financial lease obligations(long-term) (net)	856.730.859	-	-	-	856.730.859
Accounts payable (long-term) (net)	428.254	5.270.953	103.467	1.321.592	7.124.266
	1.591.408.877	145.454.756	16.357.550	74.537.447	1.827.758.630
Net foreign currency position (*)	(730.472.428)	(31.994.522)	(8.088.500)	2.505.416	(768.050.034)

(*) Whereas, the Company seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Company values its aircraft and spare engines according to their US Dollar acquisition costs or US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Company's assets and liabilities against the changes in foreign exchange rates.

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

29 FOREIGN CURRENCY POSITION (cont'd)

As of 31 December 2005, the net book value of aircraft and spare engines, which are carried by their US Dollar acquisition costs or US Dollar selling prices is YTL 1.735.882.362 (2004: YTL 1.504.373.218).

31 December 2004	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	40.353.808	178.302.052	2.317.807	28.309.351	249.283.018
Accounts receivable (net)	35.521.212	32.904.743	5.421.928	38.641.943	112.489.826
Due from related parties (net)	477.642	311.411	-	-	789.053
Other receivables (short-term) (net)	739.008	288.734	49.340	909.014	1.986.096
Inventory-Advances	277.197	41.698	47.031	64.103	430.029
Other current assets	27.689.397	2.206.977	461.616	1.917.674	32.275.664
Other receivables (long-term) (net)	1.919.808	-	-	-	1.919.808
Tangible fixed assets (advances for aircraft)	395.670.512	-	-	-	395.670.512
Other non-current assets	1.241.311	-	-	-	1.241.311
	503.889.895	214.055.615	8.297.722	69.842.085	796.085.317
Foreign currency denominated liabilities					
Financial lease obligations (short-term)	202.712.254	-	-	-	202.712.254
Accounts payable (short-term) (net)	54.284.440	47.389.637	4.071.525	20.360.591	126.106.193
Due to related parties	215.959	1.268	-	-	217.227
Deposits and advances received	347.345	-	-	-	347.345
Other liabilities (net)	88.429.414	69.226.821	14.621.078	45.579.476	217.856.789
Financial lease obligations (long-term)	957.728.732	-	-	-	957.728.732
	1.303.718.144	116.617.726	18.692.603	65.940.067	1.504.968.540
Net foreign currency position (*)	(799.828.249)	97.437.889	(10.394.881)	3.902.018	(708.883.223)

30 GOVERNMENT GRANTS

The Company has investment incentive certificates; dated 23 May 2003 covering the period of 22.04.2003 - 22.04.2006 at amount of YTL 2.416.819.000 and dated 9 March 2005 covering the period of 24.01.2005 - 24.01.2007 at amount of YTL 136.969.308. The investment incentive certificates provide benefits for the exemption of Value Added Tax regarding domestic and international purchases of goods and exemption of customs duty for investment goods imported from countries other than European Union members.

In addition, of investment spending by 31 December 2005, YTL 39.886.126 is subject to 100% investment allowance and YTL 26.942.730 is subject to 40% investment allowance.

Investment allowances are deducted from current or future taxable income.

31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:
Amount of letter of guarantees given is YTL 38.040.225 as of 31 December 2005 (2004: YTL 34.044.958).

b) Purchase Commitments:
The Company has signed agreements for delivery of 59 aircraft with delivery dates between years 2005-2008. Total value of these aircraft is approximately US Dollar 4.7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Company paid a deposit of US Dollar 421 million as of 31 December 2005 related to these aircraft.

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

31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (cont'd)

c) Letters of comfort:

	31 December 2005	31 December 2004
Letters of comfort given to Sun Express	US Dollar 2.900.000	US Dollar 2.900.000
	Euro 2.556.459	Euro 2.556.459

d) The Company's discounted retirement pay provision is YTL 113.641.242. The Company's undiscounted liability for retirement pay would be approximately YTL 184 million as of 31 December 2005, if all employees were dismissed on that date.

32 BUSINESS COMBINATIONS

None (2004: None).

33 SEGMENTAL REPORTING

Business Segments

The Company predominantly operates in one industry segment, its primary business is being the air transportation of passengers and cargo within, to or from Turkey.

Geographical Segments

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

34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) Market price of 202.735 France Telecom securities, which is quoted at Paris Stock Exchange, included in the financial investments available for sale as of 31 December 2005, has decreased from Euro 20,99 at 31 December 2005 to Euro 18,68 at 29 March 2006. Hence, the total market value of these securities decreased by YTL 743.455 compared to balance sheet date.

b) Market price of 1.624,5 million USAŞ securities, which is traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of 29 March 2006, has decreased from YTL 7,05 at 31 December 2005 to YTL 6,85 at 29 March 2006. Hence, the total market value of these securities decreased by YTL 324.900 compared to balance sheet date.

c) The Company has sold 1.026 million of USAŞ shares in January 2006 at İstanbul Stock Exchange. After the transaction, the percentage of the shares owned by the company within the capital of USAŞ is 3%.

d) According to the decision dated 20.03.2006 and numbered 2006/19 of Privatization High Commission, 25% of A group shares of the Company owned by Turkish Republic Prime Ministry Privatization Administration have been decided to be sold through public offering. It has been also decided to use the right for the selling of additional shares and to complete public offering within the twelve months beginning from the decision date.

e) Retirement pay ceiling has been increased to YTL 1.770,62 as of 1 January 2006.

f) The company has cancelled financial the lease contracts of two A340 aircrafts of which lease contracts would be due by 22 July 2006 and 19 June 2007, by paying the remaining lease payments before the maturity date thus having the ownership of these two aircraft.

35 DISCONTINUED OPERATIONS

None (2004: None).

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

36 MAIN OPERATING REVENUES

Main operating revenues comprised the following:

	31 December 2005	31 December 2004
Scheduled flights		
- Passenger	2.686.817.564	2.329.331.104
- Cargo and mail	266.536.598	263.366.035
Non-scheduled flights	30.986.034	46.078.926
Other revenues	122.747.906	154.615.997
Total revenues	3.107.088.102	2.793.392.062
Less: Discounts and sales returns	(16.494)	(6.116)
Net Sales	3.107.071.608	2.793.385.946
Cost of Sales (-)	(2.435.869.117)	(2.084.379.054)
Gross Operating Profit	671.202.491	709.006.892

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

	31 December 2005	31 December 2004
- Europe	1.267.513.611	1.090.666.171
- Middle East	281.514.326	249.712.506
- North Africa	77.769.603	68.970.569
- North America	154.198.652	153.764.088
- Far East	486.167.200	438.635.084
	2.267.163.392	2.001.748.418
Domestic	686.190.770	590.948.721
Total revenue from the scheduled flights	2.953.354.162	2.592.697.139

Cost of Sales consists of the following:

	31 December 2005	31 December 2004
Fuel expenses	729.386.690	517.297.738
Staff expenses	523.619.808	416.433.682
Depreciation expenses	285.638.122	287.273.732
Landing and overflight expenses	245.249.413	240.215.847
Handling expenses	157.321.224	162.863.442
Passenger service and catering expenses	146.643.592	129.469.337
Maintenance expenses	141.000.727	140.439.645
Operating lease expenses	100.924.585	58.840.591
Insurance expenses	51.058.405	65.956.974
Other renting expenses	15.026.757	13.375.133
Aircraft wet-lease expenses	10.223.259	25.922.694
Communication expenses	7.972.597	8.798.621
Service expenses	6.921.026	5.654.263
Other taxes	5.096.775	2.673.125
Lighting, heating, energy and water expenses	3.790.684	4.239.882
Transportation expenses	2.689.662	1.486.718
Cost of other sales	3.305.791	3.437.630
	2.435.869.117	2.084.379.054

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

37 OPERATING EXPENSES (-)

Operating expenses comprised the following:

	31 December 2005	31 December 2004
Sales and marketing expenses (-)		
Commission and promotion expenses	212.444.272	207.547.785
Staff expenses	125.487.955	112.546.475
Reservation system expenses	55.300.819	49.226.480
Communication expenses	13.372.145	14.191.223
Other renting expenses	13.226.105	13.126.284
Service expenses	8.197.697	5.611.697
Advertisement expenses	7.654.857	4.523.055
Transportation expenses	5.039.813	3.869.315
Passenger service and catering expenses	4.404.684	3.852.944
Other taxes	4.128.938	2.695.220
Code share expenses	2.059.097	1.870.056
Lighting, heating, energy and water expenses	1.492.957	1.470.491
Maintenance expenses	1.052.548	1.591.666
Software and computer equipment expenses	634.039	676.774
Fuel expenses	525.559	391.662
Insurance expenses	287.514	500.027
Other sales and marketing expenses	13.201.723	12.966.241
	468.510.722	436.657.395

	31 December 2005	31 December 2004
General administrative expenses (-)		
Staff expenses	70.304.250	89.573.691
Depreciation expenses	13.103.074	13.178.104
Other taxes	3.726.375	3.539.217
Maintenance expenses	3.879.646	4.129.903
Software and computer equipment expenses	3.492.256	3.967.982
Communication expenses	2.424.355	2.400.550
Commission and promotion expenses	2.239.262	1.836.426
Service expenses	2.026.024	2.363.496
Lighting, heating, energy and water expenses	1.641.541	790.898
Other renting expenses	1.242.136	848.276
Insurance expenses	384.735	1.213.916
Fuel expenses	221.145	5.805
Other general administrative expenses	4.434.961	5.952.787
	109.119.760	129.801.051
Total operating expenses	577.630.482	566.458.446

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

38 INCOME/LOSSES FROM OTHER OPERATIONS

Income from other operations consists of the following:

	31 December 2005	31 December 2004
Foreign exchange gains	209.523.006	250.059.990
Change in provision for diminution in value of fixed assets	123.145.065	22.249.212
Interest income	42.289.467	42.256.159
Reversal of unnecessary provision	11.009.988	20.764.780
Discounts received from spare parts suppliers	10.442.021	8.556.212
Dividend income	8.351.334	4.531.062
Cost free materials income	5.019.663	1.511.262
Profit on sale of marketable securities	3.611.850	-
Compensation received	3.473.513	5.642.184
Income from manufacturers' credit	1.774.511	1.695.609
Gain on sale of fixed assets	798.359	605.066
Income from financial investment accounted per equity method	784.282	8.615.374
Discount income	596.515	-
Other income	4.610.759	4.895.905
	425.430.333	371.382.815

Loss from other operations consists of the followings:

	31 December 2005	31 December 2004
Foreign exchange losses	238.201.803	222.638.553
Provision expenses	30.491.374	8.156.108
Interest expenses-third parties	-	4.324.789
Retirement pay interest cost	5.594.993	4.883.377
Rent expense of RJ aircraft to be returned	-	4.507.796
Discount expense	-	783.128
Expenses incurred for passengers with no visas	796.374	1.699.204
Other expenses	2.081.044	1.504.388
	277.165.588	248.497.343

39 FINANCIAL EXPENSES

Financial expenses consist of the following:

	31 December 2005	31 December 2004
Finance Lease interest expenses	45.658.088	42.347.448
Interest expenses for bank borrowings	12.163.552	-
Other financial expenses	2.220.372	-
	60.042.012	42.347.448

40 NET MONETARY GAIN/LOSS

By the decision issued on 17 March 2005, Capital Markets Board announced that it is not required to apply inflation accounting effective from 1 January 2005 for the companies operating in Turkey and reporting in accordance with the accounting standards of CMB. Due to this announcement, The Company has ended the application of inflation accounting after 1 January 2005. Consequently, for the period ended on 31 December 2005, there is no monetary gain /loss (2004: YTL 113.210.018).

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

41 TAX

Corporation tax payable is as follows:

	31 December 2005	31 December 2004
Provision for corporate tax payable	-	-
Prepaid taxes and funds	(13.363.884)	(51.305.913)
	(13.363.884)	(51.305.913)

Tax expense is as follows:

	31 December 2005	31 December 2004
Current period tax expense	-	-
Deferred tax expense	43.566.905	2.818.011
Tax expense	43.566.905	2.818.011

Corporate tax

The Company is subject to Turkish corporate taxes. There is provision for the estimated tax liabilities based on the Company's financial results for the period.

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

The effective tax rates are as follows:
• In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004)
• In 2005: 30 %

In Turkey, prepaid corporate taxes are calculated and accrued on a quarterly basis. The prepaid corporate tax rate was 33% in 2004. In 2005, the prepaid corporate tax rate is 30%.

Tax losses can be carried forward for offsetting against future taxable income for up to 5 years. However, losses cannot be carried back for offsetting against profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until 15 April following the close of the accounting period to which they relate. The 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 resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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

41 TAX (cont'd)

Income withholding tax (cont'd)

Income withholding tax which was calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not, has been removed in general. However, 19.8% withholding tax is still applicable to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. Carried forward investment incentives to be deducted from corporate tax liability in the following periods are revalued with the applicable WPI.

42 EARNINGS PER SHARE

There is no dilutive equity instruments outstanding which would require the calculation of separate diluted earnings per share.

A summary of the weighted average number of shares outstanding and the basic earnings per share calculation are as follows:

	31 December 2005	31 December 2004
Number of shares outstanding on 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding on 31 December (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the period (in full)	175.000.000.000	175.000.000.000
Net profit for the period	138.227.837	107.058.441
Basic earnings per share (YKr)	**0,079**	**0,061**

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

43 STATEMENTS OF CASH FLOWS

	Audited 31 December 2005	Audited 31 December 2004
Cash flows from operating activities		
Profit before taxation	181.794.742	109.876.452
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	298.741.196	300.451.836
Provision for retirement pay liability	20.751.280	16.585.532
Interest income	(42.289.467)	(42.256.159)
Gain on sales of fixed asset	(798.359)	(605.066)
Monetary gain on deferred taxes liabilities	-	(6.043.575)
Change in provision for diminution in value of fixed assets	(123.145.065)	(22.249.212)
Income from financial investment accounted per equity method	(784.282)	(8.615.374)
Interest expense	57.821.640	46.672.237
Movement in manufacturers' credit	1.099.992	(2.447.513)
Foreign exchange gain on financial leases	2.229.427	30.920.326
Provision for diminution in value of financial assets	5.924.343	(8.506.026)
Amortization of deferred income from USAŞ shares transfer	(2.220.044)	(2.119.206)
Increase/(Decrease) in provision for doubtful receivables	(148.838)	(5.269.940)
Operating profit before working capital change	398.976.565	406.394.312
Increase in accounts receivable	(32.862.918)	(18.823.805)
(Increase)/decrease in due from related parties (short-term)	(157.780)	58.920.756
(Increase)/decrease in other short and long-term receivables	(3.558.667)	18.538.432
Increase in inventories	(19.741.436)	(12.354.531)
Decrease in other current assets	38.520.614	5.537.837
Decrease in other non-current assets	373.510	4.247.502
Increase in other financial liabilities	51.392	281.244
Increase/(decrease) in accounts payable	63.791.413	(6.882.897)
Increase in due to related parties	1.514.638	394.481
Increase/(decrease) in advances received	17.944.731	(24.701.237)
Increase/(decrease) in provision for short-term liabilities	2.320.667	(4.971.658)
Increase in other short and long-term liabilities	48.192.878	26.472.313
Retirement benefits paid	(6.887.415)	(6.336.741)
Interest paid	(59.179.468)	(48.679.413)
Income taxes paid	(13.363.884)	(73.234.322)
Cash generated from operations	435.934.840	324.802.273
Cash flows from investing activities		
Cash outflow from purchase of financial assets	-	(8.207)
Cash inflow from sale of financial assets	89.634	-
Cash inflow from sale of tangible and intangible fixed assets	59.000.980	6.952.148
Interest received	42.289.467	42.256.159
Acquisition of tangible and intangible fixed assets	(473.118.517)	(118.563.959)
Advances given for aircrafts and other tangible assets	(184.337.652)	(388.118.049)
Net cash used in investing activities	(556.076.088)	(457.481.908)
Cash flows from financing activities		
Principal payment of financial leases	(387.625.942)	(252.814.146)
Change in financial lease obligations	262.137.037	-
Change in bank borrowings	362.903.225	-
Net cash provided by/(used in) financing activities	237.414.320	(252.814.146)
Net increase/(decrease) in cash and cash equivalents	117.273.072	(385.493.781)
Cash and cash equivalents at the beginning of period	365.637.483	751.131.264
Cash and cash equivalents at the end of period	482.910.555	365.637.483

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

None (2004: None).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2005

INPACT

INTERNATIONAL NETWORK OF PROFESSIONAL ACCOUNTANTS

Can Uluslararası Denetim A.Ş.
[illegible]
INPACT INTERNATIONAL
[illegible]

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 31 December 2005, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Can Uluslararası Denetim A.Ş.
A Member Firm of INPACT International

İsmail USLU
Partner

13 April 2006, İstanbul, Turkey

TÜRK HAVA YOLLARI A.O.
BALANCE SHEETS
AS AT 31 DECEMBER 2005 AND 2004

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

	Note	31 December 2005	31 December 2004
ASSETS			
Cash and cash equivalents	5	482.910.555	382.255.154
Accounts receivable (net)	6	191.596.806	165.792.500
Due from related parties	7	970.701	849.867
Inventories	8	84.674.663	67.445.899
Prepaid tax	23	13.363.884	53.637.690
Other short-term receivables and assets	9	52.944.957	38.118.993
Total current assets		826.461.566	708.100.103
Investments at equity	10	17.490.282	17.465.262
Financial assets available for sale	10	19.993.581	27.108.556
Tangible fixed assets (net)	11	2.071.099.171	1.892.760.028
Intangible fixed assets (net)	12	6.360.178	7.802.787
Advances given for aircraft	13	573.169.605	414.950.866
Other long-term receivables and assets	14	11.557.821	13.953.943
Total non-current assets		2.699.670.638	2.374.041.442
Total assets		3.526.132.204	3.082.141.545

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

TÜRK HAVA YOLLARI A.O.
BALANCE SHEETS
AS AT 31 DECEMBER 2005 AND 2004

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

	Note	31 December 2005	31 December 2004
LIABILITIES			
Bank borrowings	15	363.235.861	294.026
Short-term portion of finance lease obligations	16	179.092.821	211.925.219
Accounts payable		252.279.781	195.027.513
Due to related parties	17	8.022.859	6.804.010
Other short-term payables	18	37.952.344	39.702.806
Deposits and advances received	19	56.412.654	40.432.199
Passenger flight liabilities	20	209.797.889	184.838.378
Other accrued liabilities	21	92.206.894	73.156.705
Total current liabilities		1.199.001.103	752.180.856
Long-term portion of finance lease obligations	16	856.730.859	1.001.256.055
Manufacturers' credit (net)	22	3.491.212	2.499.897
Deposits and advances received	19	7.124.266	8.945.711
Deferred tax liabilities	23	92.353.486	48.597.403
Retirement pay liability	24	113.641.242	104.312.102
Other long-term payables	18	-	3.782.773
Total non-current liabilities		1.073.341.065	1.169.393.941
SHAREHOLDERS' EQUITY			
Share capital	25	2.000.994.542	2.000.994.542
Reserves		147.576.470	147.576.470
Share premium		936.192	936.192
Accumulated losses		(895.717.168)	(988.940.456)
Total shareholders' equity		1.253.790.036	1.160.566.748
Total liabilities and shareholders' equity		3.526.132.204	3.082.141.545

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

TÜRK HAVA YOLLARI A.O.
STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

	Note	1 January - 31 December 2005	1 January- 31 December 2004
Operating revenues	30 and 35	3.139.178.553	2.920.341.113
Operating expenses (-)	31 and 35	(3.054.728.897)	(2.771.314.056)
Main Operating Profit		84.449.656	149.027.057
Income from other operations	33 and 35	111.015.890	66.327.837
Loss from other operations (-)	34	(27.159.903)	(16.588.648)
Operating Profit		168.305.643	198.766.246
Financial income/(expense) (net)	32	(57.286.976)	34.459.166
Monetary gain/(loss) (net)		28.073.365	(118.355.242)
Profit Before Taxation		139.092.032	114.870.170
Taxation charge	23	(45.868.744)	(2.946.085)
Net Profit		93.223.288	111.924.085
Earnings Per Share (YTL, in full)	3.17	0,00053	0,00064

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

TÜRK HAVA YOLLARI A.O.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

	Share Capital	Reserves	Share Premium	Accumulated Losses	Total Shareholders' Equity
Balances at 1 January 2004	2.000.994.542	147.576.470	936.192	(1.100.864.541)	1.048.642.663
Net profit for the year	-	-	-	111.924.085	111.924.085
Balances at 31 December 2004	2.000.994.542	147.576.470	936.192	(988.940.456)	1.160.566.748
Balances at 1 January 2005	2.000.994.542	147.576.470	936.192	(988.940.456)	1.160.566.748
Net profit for the year	-	-	-	93.223.288	93.223.288
Balances at 31 December 2005	2.000.994.542	147.576.470	936.192	(895.717.168)	1.253.790.036

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

TÜRK HAVA YOLLARI A.O.
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

	1 January-31 December 2005	1 January-31 December 2004
Cash flows from operating activities:		
Profit before taxation	139.092.032	114.870.170
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	311.755.353	314.106.918
Provision for retirement pay liability	16.216.555	17.339.314
Interest income	(42.433.556)	(44.176.637)
Gain on sales of fixed asset	(3.035.861)	(632.565)
Monetary gain on deferred taxes liabilities	(2.112.661)	(6.318.246)
Change in provision for diminution in value of fixed assets	(63.511.531)	(23.260.405)
Income from financial investment accounted per equity method	(784.282)	(9.006.930)
Interest expense	57.821.640	48.793.420
Movement in manufacturers' credit	991.315	(2.558.749)
Foreign exchange (gain)/loss on financial leases (net of monetary gain)	(50.510.861)	32.325.608
Provision for diminution in value of financial assets available for sale	7.784.603	(7.325.359)
Amortization of deferred income from USAŞ shares transfer	(2.307.710)	(1.567.253)
Decrease in provision for doubtful receivables	(906.262)	(5.509.451)
Expensed portion of previous year's prepaid tax	2.378.934	-
Operating profit before working capital changes	370.437.708	427.079.835
Increase in accounts receivable	(24.898.044)	(19.679.318)
Increase in due from related parties	(120.834)	(708.761)
Increase in inventories	(17.228.764)	(12.916.026)
(Increase)/Decrease in other short-term receivables and assets	(12.429.842)	91.505.069
Increase/(Decrease) in accounts payable	57.252.268	(7.195.714)
Increase in due to related parties	1.218.849	412.410
Increase/(Decrease) in other accrued liabilities and other long-term payables	15.824.664	(39.798.829)
Increase/(Decrease) in deposits and advances received	14.159.010	(25.823.871)
Increase in passenger flight liabilities	24.959.511	60.061.136
Retirement benefits paid	(6.887.415)	(6.624.737)
Interest paid	(59.179.468)	(50.891.819)
Prepaid tax	(13.363.884)	(76.562.711)
Previous years prepaid tax to be returned	51.258.756	-
Net cash provided by operating activities	401.002.515	338.856.664
Cash flows from investing activities		
Cash outflow from purchase of financial assets	-	(8.580)
Cash inflow from sale of financial assets	89.634	-
Cash inflow from sale of tangible and intangible fixed assets	61.814.841	7.268.119
Interest received	42.433.556	44.176.637
Acquisition of tangible and intangible fixed assets	(483.919.336)	(123.952.512)
Advances given for aircraft	(158.218.739)	(405.344.077)
Net cash used in investing activities	(537.800.044)	(477.860.413)
Cash flows from financing activities		
Principal payment of financial leases	(387.625.942)	(264.304.167)
Change in financial lease obligations	262.137.037	-
Change in bank borrowings	362.941.835	294.026
Net cash provided by/(used in)financing activities	237.452.930	(264.010.141)
Net increase/(decrease) in cash and cash equivalents	100.655.401	(403.013.890)
Cash and cash equivalents at the beginning of period	382.255.154	785.269.044
Cash and cash equivalents at the end of period	482.910.555	382.255.154

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

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at
31 December 2005 unless otherwise stated.)

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 31 December 2005, the shareholders and their respective shareholdings in the Company were as follows:

Republic of Turkey Prime Ministry Privatization Administration	75,18%
Others	24,82%
Total	100,00%

The total number of employees working for the Company as of 31 December 2005 is 11.121 (2004: 10.956). The average number of employees working for the Company in the years 2005 and 2004 is 11.151 and 10.341, respectively. Financial assets of the Company are stated at note 10.

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

THY Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy- İstanbul.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Accounting Standards Applied

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") (formerly referred to as International Accounting Standards "IAS"). The bases used in the preparation of the accompanying financial statements are as follows:

The Company maintains its books of account and prepares its statutory financial statements in accordance with accounting principles promulgated by Turkish Commercial Code (the "TCC"), Capital Market Board of Turkey ("CMB"), and tax legislation. The accompanying financial statements are based on the statutory records, with adjustments and reclassifications, including restatement for the changes in the general purchasing power of New Turkish Lira, for the purpose of fair presentation in accordance with IFRS.

The bases of the financial statements used in the preparation of the accompanying financial statements are set out below and in Note 3.

Inflation Accounting

In the accompanying financial statements, restatement adjustments that are made to compensate for the effect of changes in the general purchasing power of New Turkish Lira are based on International Accounting Standard No: 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 35,6% for the three-year ended 31 December 2005 (2004: 69,7%) based on the wholesale price index ("WPI") announced by the Turkish State Institute of Statistics. Based on the current trends and developments, Turkey will come of hyperinflationary status effective from 1 January 2006.

Although the three year cumulative inflation rate was below the rate indicated in the preceding paragraph, since majority of the people keep their savings in foreign currencies, the prices of services and goods are set in terms of foreign currencies, interest rates and wages are expressed in terms of the inflation indexes, and the market prices are determined taking into account the losses due to the credit sales including the short term transactions, the economy shows the characteristics of a hyperinflationary environment and therefore the accompanying financial statements were inflation adjusted.

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

The indices and the conversion factors used to restate the accompanying financial statements as at 31 December 2005 and 31 December 2004 are given below:

Dates	Index	Conversion Factor	Three Years Cumulative Inflation Rates (%)
31 December 2004	8.403,80	1,04545	69,7
31 December 2005	8.785,74	1,00000	35,6

As at 31 December 2005, the exchange rate announced by Central Bank of Turkey was YTL 1,3418=US Dollar 1 (2004: YTL 1,3421=US Dollar 1).

The main procedures for the application of IAS 29 are as follows:

• All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying the relevant conversion factors. Corresponding figures for previous periods are similarly restated.

• Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit at the balance sheet date. Monetary items are money held and items to be received or paid in money.

• Fixed assets, investments and similar assets are restated from the date of their purchase, not to exceed their market value. Depreciation is similarly restated. The components of shareholders' equity are restated by applying the relevant conversion factors from the dates the components are contributed or otherwise arose.

• All items in the statement of income, except for the non-monetary items in the balance sheet, which have an effect on the statement of income, are restated by applying the relevant conversion factors from the dates when the income and expense items are initially recorded in the financial statements.

• The gain or loss on the net monetary position is the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets and liabilities, shareholders' equity and items of statement of income. The gain or loss on the net monetary position is included in net income.

New Turkish Lira

A new law, numbered as 5083 on the Monetary Unit of the Republic of Turkey was enacted with the effect from 1 January 2005, which deletes six zeroes from the former currency of Republic of Turkey, The Turkish Lira (“TL”), to form a new currency the New Turkish Lira (“YTL”). Thus, YTL 1 = TL 1.000.000. The New Turkish Lira is divided into 100 New Turkish cents (“YKr”). As per the CMB decision numbered MSD-10/832-43399 dated 1 December 2004, the financial statements to be announced publicly in 2005 should be prepared in YTL including comparatives. Accordingly, the accompanying financial statements are presented in YTL.

Comparative Information

Current period financial statements have been prepared as comparative with the prior period financial statements. In order to provide an appropriate presentation of current period's financial statements, the comparative information have been re-classified in terms of any necessity occurrences.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Revenue Recognition and Commission Expenses (cont'd)

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

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

3.2 Inventory Valuation

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

3.3 Financial Investments

The Company designates its investments portfolio in accordance with IAS 39 ("Financial Instruments: Recognition and Measurement") as follows:

Securities Held for Trading

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their prices. Subsequent to initial recognition, held for trading securities are valued at their fair value if measured reliably. Gains or losses on these securities are recognized in net profit or loss for the period in which they arise.

Investments Held to Maturity

Investments held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity.

Investments Available for Sale

Investments available-for-sale are those that the ownership rate is less than or equivalent to 20% and are not held for trading. Subsequent to acquisition, available for sale investments which are traded at stock markets is valued at market rate on balance sheet date. Otherwise, they are accounted for in accordance with IAS 29. Gains or losses on available for sale investments are recognized in net profit or loss for the period in which they arise.

Investments at Equity

Investment that the ownership rate is 50% and the Company is not in a position to exercise sole control is carried at equity.

3.4 Tangible and Intangible Fixed Assets

Tangible Fixed Assets

Tangible fixed assets are measured at cost restated for the effects of inflation. Depreciation is provided on a periodical basis for all categories of tangible fixed assets.

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

	Useful Life (Years)	Residual Value
- Land	-	-
- Buildings	25-50	-
- Aircraft	15	30%
- Engines	15	30%
- Components	5-8-10	-
- Repairables	2-3	-
- Simulators	10	-
- Machinery and Equipments	3-5-7-10	-
- Furniture and Fixtures	3-4-5	-
- Motor Vehicles	4-5-7	-
- Other Equipments	5	-

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Tangible and Intangible Fixed Assets (cont'd)

Intangible Fixed Assets
Intangible fixed assets include leasehold improvements, rights, information systems and software. Intangible fixed assets are reflected at cost as of 31 December 2005, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years, on a periodical basis.

Impairment on Assets
According to IAS 29, the Company restates its fixed assets by using WPI. However, in international markets, purchasing and second hand trading of aircraft and similar assets are realized in US Dollar.

As a result of inflation rate being higher than devaluation of YTL against US Dollar in recent years, net book values of aircraft, spare engines and simulators adjusted for the effect of inflation have exceeded net book values of these assets based on their US Dollar acquisition costs. The Company's management considers that the situation explained above causes a fictitious increase in value. Therefore, the Company decreases the adjusted net book value of its aircraft, spare engines and simulators to net book value of these assets based on US Dollar acquisition costs. An examination is then made of whether net book values based on US Dollar acquisition costs may exceed their recoverable amount. Recoverable amount is determined higher of the present value of cash flows expected from the use of assets and their net selling price of these assets. Net selling price is determined according to the International Aircraft Price Guide. In the accompanying financial statements, the difference between adjusted net book values of these assets and net book values based on US Dollar acquisition costs is netted off against monetary gain. The difference between net book values of these assets based on US Dollar acquisition costs and recoverable amount is recognized as impairment loss under operating expenses.

3.5 Borrowing Costs
Banks loans are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized costs with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis. Finance expense resulted from bank loans are recorded to income statement in the period in which they are incurred.

3.6 Manufacturers' Credits
Manufacturers' credits are received against acquisition and/or lease of aircraft and engines. The Company records these credits as a reduction to the cost of the owned or financial leased assets and amortizes them over the related asset's remaining useful life. Manufacturers' credits related to operational leases are recorded as deferred revenue and amortized over the lease term.

3.7 Maintenance and Repair Costs
Regular maintenance and repair costs for owned and leased flight equipment are charged to operating expense as incurred. Heavy maintenance checks for owned and finance leased aircraft are expensed as incurred and delivery maintenance checks of operational leased aircraft are accrued on a periodical basis.

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

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

3.9 Taxation and Deferred Taxes
Taxes on income for the period comprise of current tax and deferred tax. The Company accounts for current and deferred taxation on the results for the period, in accordance with IAS 12 (“Income Taxes, Revised”).

Provision is made in the financial statements for the Company's estimated liability for Turkish corporation tax on its results for the period. The charge for current tax is based on the results for the period as adjusted for items, which are non-assessable or disallowed.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Taxation and Deferred Taxes (cont'd)

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences whereas deferred tax assets are only recognized when it is possible that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred tax assets and liabilities are also offset.

3.10 Employee Retirement and Termination Indemnities

Employee retirement and termination benefits as required by Turkish Labor Law are recognized in the accompanying financial statements as earned. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined by the net of an expected inflation rate and an appropriate discount rate according to IAS 19 (“Employee Benefits”). The interest amount included in employee retirement expense is disclosed in the financial result as interest expense.

3.11 Related Parties

The shareholders, key management personnel and board members of the Company, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties in the accompanying financial statements. Transactions with related parties for ordinary operations have taken place at prices compliant with market conditions.

3.12 Foreign Currency Transactions

Transactions in foreign currencies are translated into New Turkish Lira at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated with 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 NTL to US Dollar exchange rates for the periods are as follows:

	Closing Rate	Average Rate
31 December 2004	1,3421	1,4223
31 December 2005	1,3418	1,3405

3.13 Leases

The Company leases aircraft, engines, simulators, computer equipments and vehicles by financial leases or operational leases. According to IAS 17 (“Leases”), finance leases are reflected in the Company's assets by recording leased assets and lease liabilities equal to the present value of the lease payments. The finance leased assets are depreciated over their useful lives. Operating leases are accounted for as operating expense when incurred.

3.14 Financial Instruments and Financial Risk Management

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Financial Assets

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented here in may not necessarily be indicative of the amounts the Company could realize in a current market exchange.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Financial Instruments and Financial Risk Management (cont'd)

Financial Assets (cont'd)

Balances with banks, receivables, contingent liabilities such as letters of guarantee and letters of credit are important financial instruments which would have negative effects on the financial structure of the Company if the other party failed to comply with the terms and conditions of the agreement.

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

The Company's principal financial assets are cash and cash equivalents, accounts receivable, due from related parties and available for sale financial assets.

Book values of trade receivables and due from related parties along with the related allowances for uncollectibility are estimated to be their fair value except for discount of these receivables to their present value when they hold significant credit periods.

Book values of trade liabilities and due to related parties are estimated to be their fair value except liabilities discounted to their present value when they hold significant credit periods.

Güneş Ekspres Havacılık A.Ş. is accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. and France Telecom shares are classified as available for sale investments and changes in their fair value are recognized in net profit or loss.

Financial assets, other than Güneş Ekspres Havacılık A.Ş., Uçak Servisi A.Ş. and France Telecom where the Company is not in a position to exercise significant influence or joint control, are stated at cost as their fair value can not be measured reliably.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include bank borrowings, financial lease obligations, accounts and other payables, due to related parties. Foreign currency bank loans are translated into New Turkish Lira at the rates of change ruling at the balance sheet date.

Book values of accounts payable and due to related parties are estimated to reach their fair value, except discounting of these liabilities.

Financial expenses are accounted for on an accrual basis and are traced under related financial liability account to the extent that they are not settled in the period in which they arise. Accounts and other payables and due to related parties are recorded at their nominal value, which approximates their fair value.

Credit Risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and the current economic environment. The Company has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

Price Risk

• Currency Risk

The Company is exposed to exchange rate fluctuations between foreign currencies and New Turkish Lira due to the nature of its business. The major part of the Company's ticket income is in Euro and US Dollar or linked to these currencies and the major part of its expenses is denominated in US Dollar and New Turkish Lira.

• Interest Risk

Some of the interest rates related to leasing transactions are based on LIBOR. Therefore the Company is exposed to interest rate fluctuations on international markets. The Company does not have hedging transactions to limit currency and interest rate risks.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Financial Instruments and Financial Risk Management (cont'd)

• Market Risk

The Company invests in government bonds acquired under reverse repurchase agreements made for short periods or deposits to banks predominatly on a daily, monthly or quarterly basis. Fair values of these investments fluctuate based on market conditions.

• Liquidity Risk

In general, tickets are sold in advance and transportation is provided later. Therefore, the Company takes advantage of collecting revenue in advance and incurring transportation cost later. The Company also benefits from the difference between the collection and the payment periods.

3.15 Offsetting

Financial assets and liabilities are offset and the net amount recognized 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.

3.16 Use of Estimates

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

3.17 Earnings Per Share

IAS 33 ("Earnings per Share") requires disclosure of basic earnings per share and diluted earnings per share (if applicable) for companies whose shares are publicly traded or which are in the process of issuing shares in a public market.

There were no dilutive equity instruments outstanding which would require the calculation of separate diluted earnings per share.

A summary of the weighted average number of shares outstanding and the basic earnings per share calculation are as follows:

	31 December 2005	31 December 2004
Number of shares outstanding at 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at 31 December (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the year (in full)	175.000.000.000	175.000.000.000
Net profit for the year	93.223.288	111.924.085
Earnings per share (YTL, full amount)	0,00053	0,00064

4 SEGMENTAL REPORTING

4.1 Business Segments

The Company operates predominantly in one industry segment, its primary business being the air transportation of passengers and cargo within, to or from Turkey.

4.2 Geographical Segments

Revenue analysis is based on the destinations that the Company serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Revenue from both scheduled and non-scheduled international flights is attributed to flight destination's geographical area.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2005	31 December 2004
Cash	195.489	169.393
Cheques received	138.532	122.189
Banks	477.065.690	380.374.142
Other liquid assets	5.510.844	1.589.430
	482.910.555	382.255.154

Foreign currency bank balances are YTL 295.610.051 at 31 December 2005 (2004: YTL 258.806.299).

Time Deposits

Amount	Currency	Opening date	Maturity	31 December 2005
170.390.000	YTL	22.07.2005-30.12.2005	02.01.2006-24.01.2006	170.390.000
149.163.000	US Dollar	27.12.2005-30.12.2005	02.01.2006-03.01.2006	200.146.913
31.653.000	Euro	30.12.2005	02.01.2006	50.249.138
				420.786.051

Amount	Currency	Opening date	Maturity	31 December 2004
117.612.955	YTL	25.10.2004-31.12.2004	03.01.2005-24.01.2005	117.612.955
22.500.000	US Dollar	31.12.2004	03.01.2005	31.569.670
89.790.000	Euro	31.12.2004	03.01.2005	171.483.213
				320.665.838

6 ACCOUNTS RECEIVABLE (NET)

Accounts receivable comprised the following:

	31 December 2005	31 December 2004
Trade receivables	210.448.412	183.572.297
Discount on receivables	(2.334.886)	(356.815)
Provision for doubtful receivables	(16.516.720)	(17.422.982)
	191.596.806	165.792.500

7 DUE FROM RELATED PARTIES

Due from related parties comprised the following:

	31 December 2005	31 December 2004
Güneş Ekspres Havacılık A.Ş. (Sun Express)	970.701	849.702
Uçak Servisi A.Ş. (USAŞ)	-	165
	970.701	849.867

8 INVENTORIES

Inventories comprised the following:

	31 December 2005	31 December 2004
Spare parts, flight equipments	70.078.750	56.959.738
Other inventories	14.595.913	10.486.161
	84.674.663	67.445.899

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

9 OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other short-term receivables and assets comprised the following:

	31 December 2005	31 December 2004
Prepaid sales commissions	11.268.599	10.887.709
Maintenance service income accruals	10.127.094	6.452.513
Deferred insurance expenses	6.787.420	6.433.938
Prepaid operating lease expenses	5.314.180	4.163.235
Interline passenger income accruals	3.843.430	190.878
Due from insurance firms	3.192.141	-
Tax to be refunded	2.965.389	2.804.727
Prepaid other expenses	2.739.482	1.723.700
Foreign receivables from technical suppliers	1.557.088	962.640
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.142.056
Prepaid financial expense of bank borrowing	740.124	-
Prepaid rent expenses	574.125	460.146
Receivables relating to Rj aircraft modification	560.516	-
Prepaid aircraft financing expense	487.846	564.021
VAT deductible	437.170	159.737
Personnel salary advance	375.337	341.196
Due from personnel	278.853	259.098
Receivable from SITA deposit certificates	155.882	157.070
Business advances given	95.989	361.690
Bank deposits at banks having transfer difficulties (*)	-	883.929
Other receivables	351.884	170.710
	52.944.957	38.118.993

(*) As of 31 December 2004, the balance of this account is related to bank balance in Egypt.

10 FINANCIAL ASSETS (NET)

The investment accounted for using the equity method is as follows:

	31 December 2005	31 December 2004
Güneş Ekspress Havacılık A.Ş. (Sun Express)	17.490.282	17.465.262

Financial assets available for sale are as follows:

	31 December 2005	31 December 2004
France Telecom shares	21.133.047	21.133.047
Diminution in value of France Telecom shares	(14.377.581)	(11.701.136)
Uçak Servisi A.Ş. (USAŞ)	8.431.536	8.587.009
Appreciation in value of USAŞ shares	3.021.190	7.193.170
Sita Inc.	1.755.955	1.866.896
Emek İnşaat ve İşletme A.Ş.	28.080	28.080
Other financial assets	1.354	1.490
	19.993.581	27.108.556

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1,25% of shares was transferred on 2 January 2003 and 1,25% of shares was transferred on 2 January 2004, 1,25% of shares was transferred on 3

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

10 FINANCIAL ASSETS (NET) (cont'd)

January 2005 and it will be completed to 15% by transferring 1,25% share in the year 2006. Consequently, 1.140 million shares corresponding to first 13,75% of USAŞ's share capital, transferred to the Company, was recorded to “financial assets” and “deferred income” accounts at market value of YTL 19.650.109. “Deferred income” amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003 and 1.026 million shares in 2005 at Istanbul Stock Exchange.

USAŞ gave 1.852.500.000 free shares to the Company based on the decision taken in Non-general Assembly held on 8 December 2004 related to the share capital increase originated from the inflation adjustment difference arising from capital restatement.

Details of the Company's financial assets at 31 December 2005 are as follows:

Name of the Company	Place of Incorporation and Operation	Ownership Rate	Voting Power Rate	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Holland	Less than 0,1%	Less than 0,1%	Information & Telecommunication Services
Uçak Servisi A.Ş. (USAŞ)	Turkey	4,75%	4,75%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

11 TANGIBLE FIXED ASSETS (NET)

Tangible fixed assets comprised the following:

	31 December 2005	31 December 2004
Tangible fixed assets (net)	2.061.622.940	1.892.760.028
Advances given for other tangible fixed assets	9.476.231	-
	2.071.099.171	1.892.760.028

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

11 TANGIBLE FIXED ASSETS (NET) (cont'd)

	Land, Land Improvements and Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Software	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets and Simulators	Total Leased Assets	Total
Cost											
Opening balance 1 January 2005	171.865.462	306.448.868	226.473.271	1.329.241.237	297.315.877	403.815	2.331.748.530	3.511.893.506	18.605.426	3.530.498.932	5.862.247.462
Transfers from finance leased aircraft	-	-	-	752.650.230	-	-	752.650.230	(752.650.230)	-	(752.650.230)	-
Additions	-	5.113.540	5.082.869	92.644.878	105.802.241	1.675.910	210.319.438	262.118.349	-	262.118.349	472.437.787
Disposals	-	(3.254.662)	(22.374.956)	(57.092.445)	(83.111.079)	(390.865)	(166.224.007)	-	-	-	(166.224.007)
Closing balance 31 December 2005	171.865.462	308.307.746	209.181.184	2.117.443.900	320.007.039	1.688.860	3.128.494.191	3.021.361.625	18.605.426	3.039.967.051	6.168.461.242
Accumulated depreciation											
Opening balance 1 January 2005	47.711.103	264.146.565	205.653.933	813.819.146	146.221.685	-	1.477.552.432	979.122.702	5.504.459	984.627.161	2.462.179.593
Transfers from finance leased aircraft	-	-	-	222.563.758	-	-	222.563.758	(222.563.758)	-	(222.563.758)	-
Depreciation for the period	2.860.927	13.700.627	7.767.989	62.732.620	90.020.557	-	177.082.720	129.787.204	1.444.302	131.231.506	308.314.226
Disposals	-	(3.237.355)	(20.659.342)	(444.052)	(83.111.079)	-	(107.451.828)	-	-	-	(107.451.828)
Closing balance 31 December 2005	50.572.030	274.609.837	192.762.580	1.098.671.472	153.131.163	-	1.769.747.082	886.346.148	6.948.761	893.294.909	2.663.041.991
Accumulated impairment	-	6.368.370	-	576.412.045	-	-	582.780.415	856.116.001	4.899.895	861.015.896	1.443.796.311
31 December 2005 net book value	121.293.432	27.329.539	16.418.604	442.360.383	166.875.876	1.688.860	775.966.694	1.278.899.476	6.756.770	1.285.656.246	2.061.622.940
31 December 2004 net book value	124.154.359	34.007.636	20.819.339	212.152.724	151.094.193	403.815	542.632.066	1.341.838.750	8.289.212	1.350.127.962	1.892.760.028

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

12 INTANGIBLE FIXED ASSETS (NET)

	Rights	Leasehold Improvements	Total
Cost			
Opening balance 1 January 2005	62.829.830	19.684.974	82.514.804
Additions	1.541.345	463.973	2.005.318
Disposals	-	(60.692)	(60.692)
Closing balance 31 December 2005	64.371.175	20.088.255	84.459.430
Accumulated depreciation			
Opening balance 1 January 2005	55.723.863	18.988.153	74.712.016
Amortization charge for the period	2.915.458	525.669	3.441.127
Disposals	-	(53.891)	(53.891)
Closing balance 31 December 2005	58.639.321	19.459.931	78.099.252
Accumulated impairment	-	-	-
31 December 2005 net book value	5.731.854	628.324	6.360.178
31 December 2004 net book value	7.105.966	696.821	7.802.787

13 ADVANCES GIVEN FOR AIRCRAFT

	31 December 2005	31 December 2004
Prepayments for aircraft purchases	570.531.933	413.653.138
Advances given for operational leases	2.637.672	1.297.728
	573.169.605	414.950.866

14 OTHER LONG-TERM RECEIVABLES AND ASSETS

	31 December 2005	31 December 2004
Prepaid Eximbank USA guarantee and exposure fee	5.889.372	7.319.414
Prepaid aircraft financing expense	2.067.151	2.810.289
Deposits given	1.325.066	1.815.805
Due from personnel	1.006.711	1.178.673
Receivables from SITA deposit certificate	804.107	734.673
Prepaid operating lease expenses	374.744	-
Other receivables	90.670	95.089
	11.557.821	13.953.943

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

15 BANK BORROWINGS

	31 December 2005	31 December 2004
T.İş Bankası /Citibank NA London	362.903.225	-
Other (*)	332.636	294.026
	363.235.861	294.026

Bank Name	Maturity	Currency	Interest accruals	YTL
T.İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	459.998 US Dollar	362.903.225

(*) Other bank borrowings consist of overnight interest-free borrowings obtained for settlement of tax and social security premium payments.

16 FINANCE LEASE OBLIGATIONS

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

	31 December 2005	31 December 2004
Not later than one year	221.054.754	248.605.545
Between 1 - 5 years	699.473.041	813.888.304
Over 5 years	299.805.674	293.693.684
	1.220.333.469	1.356.187.533
Less: Future interest expense	(184.509.789)	(143.006.259)
Principal value of future rentals shown in the balance sheets	1.035.823.680	1.213.181.274

	31 December 2005	31 December 2004
Represented by:		
Current liabilities	179.092.821	211.925.219
Long-term liabilities	856.730.859	1.001.256.055
	1.035.823.680	1.213.181.274
Interest range:		
Floating rate obligations	982.205.221	912.597.686
Fixed rate obligations	53.618.459	300.583.588
	1.035.823.680	1.213.181.274

As of 31 December 2005, the US Dollar denominated lease obligations' interest rates for the fixed rate obligations are between 7,12% and 7,70%; and for the floating rate obligations are a margin ranging between LIBOR minus 0,05% and LIBOR plus 3,00%.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

17 DUE TO RELATED PARTIES

Due to related parties comprised the following:

	31 December 2005	31 December 2004
Güneş Ekpres Havacılık A.Ş. (Sun Express)	459.029	220.646
Uçak Servisi A.Ş. (USAŞ)	7.563.830	6.583.364
	8.022.859	6.804.010

18 OTHER SHORT-TERM AND LONG-TERM PAYABLES

Other short-term payables comprised the following:

	31 December 2005	31 December 2004
Taxes and funds payable	16.204.908	20.219.443
Social security premiums payable	14.840.062	12.742.270
Deferred income from USAŞ shares transfer	5.257.836	3.782.773
Debt to personnel	276.417	264.946
State Airport Administration (DHMİ) protocol payable	-	1.905.028
Discount on DHMI protocol payable	-	(38.055)
Other liabilities	1.373.121	826.401
	37.952.344	39.702.806

Other long-term payables comprised the following:

	31 December 2005	31 December 2004
Deferred income from USAŞ share transfer	-	3.782.773
	-	3.782.773

19 DEPOSITS AND ADVANCES RECEIVED

Short-term deposits and advances received comprised the following:

	31 December 2005	31 December 2004
Advances received for mileage credit sales	21.649.478	24.151.490
MCO advances	16.262.840	8.740.046
E-pos ticket advance	9.675.611	364.658
Deposits and guarantees received	3.715.141	4.413.694
Special rent advances	3.413.900	2.503.369
Advances received for financial leases	1.151.059	-
Other advances received	544.625	258.942
	56.412.654	40.432.199

Long-term deposits and guarantees received comprised the following:

	31 December 2005	31 December 2004
Deposits and guarantees received	7.124.266	8.945.711

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

20 PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities comprised the following:

	31 December 2005	31 December 2004
Flight liability resulting from ticket sales	154.949.961	130.399.934
Flight liability resulting from mileage sales	54.847.928	54.438.444
	209.797.889	184.838.378

21 OTHER ACCRUED LIABILITIES

Other accrued liabilities comprised the following:

	31 December 2005	31 December 2004
Frequent flyer program liability	30.577.262	7.310.997
Accrued salaries	17.993.508	16.329.852
Maintenance service income accruals	12.585.613	16.669.232
Expense accruals of insurance premiums	10.468.387	10.532.147
Provisions for legal claims	9.202.870	9.665.943
Accruals for sales incentive premiums	6.684.627	8.085.906
Other accrued liabilities	347.266	373.527
Accruals for other expenses	4.347.361	4.189.101
	92.206.894	73.156.705

22 MANUFACTURERS' CREDIT (NET)

Unearned income about manufacturers' credit comprised the following:

	31 December 2005	31 December 2004
Gross manufacturers' credit	19.690.997	17.726.720
Accumulated amortization	(16.199.785)	(15.226.823)
	3.491.212	2.499.897

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at
31 December 2005 unless otherwise stated.)

23 TAXATION

Corporation tax payable is as follows:

	31 December 2005	31 December 2004
Prepaid taxes and funds	(13.363.884)	(53.637.690)
	(13.363.884)	(53.637.690)

Tax expense is as follows:

	31 December 2005	31 December 2004
Deferred tax expense	45.868.744	2.946.085
Tax expense	45.868.744	2.946.085

Corporate tax

The Company is subject to Turkish corporate taxes. There is provision for the estimated tax liabilities based on the Company's financial results for the period.

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 rates are as follows:

- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004).
- In 2005: 30%.

In Turkey, prepaid taxes are calculated and accrued on a quarterly basis. In 2004, the prepaid corporate income tax rate was applied 33%. Prepaid corporate income tax rate is 30% in 2005.

Tax losses can be carried forward for offsetting against future taxable income for up to 5 years. However, losses cannot be carried back for offsetting against profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until 15 April following the close of the accounting period to which they relate. The 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 resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax which was calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not, has been removed in general. However, 19,8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. Carried forward investment incentives to be deducted from corporate tax liability in the following periods are revalued with the applicable WPI.

Deferred tax

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences generally result in the recognition of revenue and expenses in different reporting periods considering IFRS and tax standards. The deferred tax rate is 30%.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

23 TAXATION (cont'd)

Deferred tax (cont'd)

Temporary differences: Deferred tax assets/(liabilities)

	31 December 2005	31 December 2004
Allowance for unrecoverable bank accounts	246	289
Provision for doubtful receivables	230.607	435.630
Restatement of inventory	394.576	9.112.607
Appreciation in value of financial assets	(666.579)	(1.551.257)
Other current assets	-	63.731
Short-term lease obligation	36.369.506	50.042.494
Deferred income and expense	420.258	303.593
Expense accruals	18.270.507	13.722.079
Provision for advance ticket sales	(21.519.668)	(18.790.825)
Deferred income	1.504.979	1.935.960
Adjustments to non-current assets	-	(648.731)
Fixed assets	(368.749.380)	(444.712.894)
Long-term lease obligation	185.266.465	300.376.817
Retirement pay liability	34.092.373	31.293.632
Manufacturers' credit	1.392.681	749.969
Discount on receivables	772.994	106.711
Discount on payables	(811.742)	(20.905)
Unused investment incentives	20.048.657	3.872.562
Unused tax losses	630.034	5.111.135
Deferred tax liability	(92.353.486)	(48.597.403)

Movement in deferred tax liability is as follows:

	31 December 2005	31 December 2004
Net deferred tax charge related to temporary differences	45.868.744	2.946.085
Net deferred tax charge	45.868.744	2.946.085
Monetary gain on deferred tax liabilities	(2.112.661)	(6.318.246)
Net change in deferred tax	43.756.083	(3.372.161)

Reconciliation from the expected to the disclosed tax charge is as follows:

	31 December 2005	31 December 2004
Profit before taxation	139.092.032	114.870.171
Expected tax expense (2005: 30%, 2004: 33%)	41.727.610	37.907.156
Reconciling items:		
Non-deductible expenses	9.054.039	724.664
Tax-exempt income	(5.163.626)	(31.028.227)
Non-deductible monetary losses	240.554	10.084.299
Tax benefit due to using tax rate of 30% for calculation of deferred tax	-	(5.758.110)
Investment incentive used	-	(3.872.562)
Unused tax losses	-	(5.111.135)
Taxation charge	45.868.744	2.946.085

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

24 RETIREMENT PAY LIABILITY

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), or are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of YTL 1.727 as at 31 December 2005 (2004: YTL 1.575). The number of years service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described here can be named as an unfunded defined benefit system. The total provision recognized in the financial statements represents the estimated present value of the vested benefit obligation.

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

	31 December 2005	31 December 2004
Current service cost	15.156.287	12.234.000
Interest cost	5.594.993	5.105.319
	20.751.280	17.339.319

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

	31 December 2005	31 December 2004
Provision at 1 January	104.312.102	93.597.525
Charge for the year	20.751.280	20.287.849
Payments during the year	(6.887.415)	(6.624.737)
Restatement effect	(4.534.725)	(2.948.535)
Provision at 31 December	113.641.242	104.312.102

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,61% (2004: 5,45%) per annum considering the effect of increase in eligible pay and its limit.

25 SHARE CAPITAL/RECIPROCAL ASSOCIATE CAPITAL ADJUSTMENT

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

	Group	%	31 December 2005	%	31 December 2004
Republic of Turkey Prime Ministry Privatization Administration (*)	A, C	75,18 (**)	131.565.696	75,17	131.538.948
Others	A	24,82 (**)	43.434.304	24,83	43.461.052
Share capital (historic)			175.000.000		175.000.000
Restatement effect			1.825.994.542		1.825.994.542
Restated Share Capital			2.000.994.542		2.000.994.542

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

(**) YTL 26.748 nominal valued shares of the Company subject to the second public offering during 1, 2 and 3 December 2004 were transferred to the accounts of the Republic of Turkey Prime Ministry Privatization Administration by İş Yatırım Menkul Değerler A.Ş. The transfer was made due to default of private shareholders who did not transfer the amounts of the shares following the conclusion of last installment.

25 SHARE CAPITAL/RECIPROCAL ASSOCIATE CAPITAL ADJUSTMENT (cont'd)

As at 31 December 2005, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

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

Articles of Association Temporary Article 1: Head of the Board of Directors, members of the Board of Directors, auditors and general manager meeting the conditions defined in law numbered 4046, are to be selected from candidates suggested by A group shareholders, by the offer of Republic of Turkey Prime Ministry Privatization Administration and the approval of the Prime Minister or authorized minister, as long as the Company's shares held by Turkish State are not below 50%. The article 315 of Turkish Commercial Code is applicable for the members representing non-public membership.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

26 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debts. As of 31 December 2005, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

The foreign currency position of the Company as of 31 December 2005 and 31 December 2004 in terms of YTL is as follows:

31 December 2005	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	209.110.558	63.411.560	1.701.717	27.041.304	301.265.139
Account receivables (net)	24.881.620	45.615.416	5.907.491	40.429.558	116.834.085
Due from related parties	469.066	446.745	-	-	915.811
Other short-term receivables and assets	32.369.277	3.469.191	374.251	9.138.411	45.351.130
Inventories-advances	1.117.566	53.958	71.109	18.599	1.261.232
Other long-term receivables and assets	10.485.217	463.364	71.791	414.991	11.435.363
Advances given for the tangible fixed assets	9.333.540	-	142.691	-	9.476.231
Advances given for the aircraft	573.169.605	-	-	-	573.169.605
	860.936.449	113.460.234	8.269.050	77.042.863	1.059.708.596

31 December 2005	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated liabilities					
Bank borrowings	362.903.225	-	-	-	362.903.225
Financial lease obligations (short-term)	179.092.821	-	-	-	179.092.821
Accounts payable (net)	67.907.303	54.755.274	3.166.398	27.703.755	153.532.730
Due to related parties	8.022.859	-	-	-	8.022.859
Deposits and advances received (short-term)	23.697.313	1.970.250	29.313	315.965	26.012.841
Other accrued liabilities	17.657.538	6.848.702	2.836.665	4.149.043	31.491.948
Passenger flight liabilities	71.477.493	76.609.577	10.221.707	41.047.092	199.355.869
Financial lease obligations (long-term)	856.730.859	-	-	-	856.730.859
Gross manufacturers' credit	3.491.212	-	-	-	3.491.212
Deposits and advances received (long-term)	428.254	5.270.953	103.467	1.321.592	7.124.266
	1.591.408.877	145.454.756	16.357.550	74.537.447	1.827.758.630
Net foreign currency position (*)	(730.472.428)	(31.994.522)	(8.088.500)	2.505.416	(768.050.034)

(*) Whereas, the Company seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.4, the Company values its aircraft and spare engines according to their US Dollar acquisition costs or US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Company's assets and liabilities against the changes in foreign exchange rates.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

26 FOREIGN CURRENCY POSITION (cont'd)

As of 31 December 2005, the net book value of aircraft and spare engines, which are carried by their US Dollar acquisition costs or US Dollar selling prices is YTL 1.735.882.362 (2004: YTL 1.572.744.705).

31 December 2004	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	42.187.828	186.405.611	2.423.148	29.595.968	260.612.555
Account receivables (net)	37.135.597	34.400.214	5.668.346	40.398.161	117.602.318
Due from related parties	499.350	325.564	-	-	824.914
Other short-term receivables and assets	29.720.433	2.609.137	534.178	2.955.157	35.818.905
Inventories-advances given	289.795	43.593	49.168	67.016	449.572
Other long-term receivables and assets	2.007.060	-	-	-	2.007.060
Advances given for the aircraft	414.950.866	-	-	-	414.950.866
	526.790.929	223.784.119	8.674.840	73.016.302	832.266.190
Foreign currency denominated liabilities					
Financial lease obligations (short-term)	211.925.219	-	-	-	211.925.219
Accounts payable	27.972.762	40.767.554	3.538.322	19.336.983	91.615.621
Due to related parties	225.774	1.326	-	-	227.100
Deposits and advances received	29.141.955	8.775.870	718.247	1.948.966	40.585.038
Other accrued liabilities	20.273.716	13.600.846	4.400.261	5.129.285	43.404.108
Passenger flight liabilities	69.674.784	58.772.230	10.885.323	42.521.709	181.854.046
Financial lease obligations (long-term)	1.001.256.054	-	-	-	1.001.256.054
Manufacturers' credit (net)	2.499.897	-	-	-	2.499.897
	1.362.970.161	121.917.826	19.542.153	68.936.943	1.573.367.083
Net foreign currency position (*)	(836.179.232)	101.866.293	(10.867.313)	4.079.359	(741.100.893)

27 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:
Amount of letter of guarantees given is YTL 38.040.225 as of 31 December 2005 (2004: YTL 35.592.250).

b) Purchase Commitments:
The Company has signed agreements for delivery of 59 aircraft with delivery dates between years 2005-2008. Total value of these aircraft is approximately US Dollar 4.7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Company paid a deposit of US Dollar 421 million as of 31 December 2005 related to these aircraft.

c) Letters of comfort:

	31 December 2005	31 December 2004
Letters of comfort given to Sun Express	US Dollar 2.900.000	US Dollar 2.900.000
	Euro 2.556.459	Euro 2.556.459

d) The Company's discounted retirement pay provision is YTL 113.641.242. The Company's undiscounted liability for retirement pay would be approximately YTL 184 million as of 31 December 2005, if all employees were dismissed on that date.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

28 OPERATING LEASE COMMITMENTS

Operating lease commitments of the Company comprised the following:

	31 December 2005	31 December 2004
Not later than one year	118.983.335	78.224.911
Between 1-5 years	200.387.903	124.630.224
Over 5 years	100.928.325	-
	420.299.563	202.855.135

29 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) Market price of 202.735 France Telecom securities, which is quoted at the Paris Stock Exchange, included in the financial investments available for sale as of 31 December 2005, has decreased from Euro 20,99 at 31 December 2005 to Euro 17,82 at 12 April 2006. Hence, the total market value of these securities decreased by YTL 1.020.239 compared to balance sheet date.

b) Market price of 1.624,5 million USAŞ securities, which is traded in Istanbul Stock Exchange, and included in the financial investments available for sale as of 12 April 2006, has decreased from YTL 7,05 at 31 December 2005 to YTL 7,00 at 12 April 2006. Hence, the total market value of these securities decreased by YTL 81.225 compared to balance sheet date.

c) The Company has sold 1.026 million of USAŞ shares in January 2006 at Istanbul Stock Exchange. After the transaction, the percentage of the shares owned by the company within the capital of USAŞ is 3%.

d) According to the decision dated 20.03.2006 and numbered 2006/19 of Privatization High Commission, 25% of A group shares of the Company owned by Turkish Republic Prime Ministry Privatization Administration have been decided to be sold through public offering. It has been also decided to use the right for selling of additional shares and to complete public offering within the twelve months beginning from the decision date.

e) Retirement pay ceiling has been increased to YTL 1.770,62 as of 1 January 2006.

f) The Company has cancelled financial the lease contracts of two A340 aircraft of which lease contracts would be due by 22 July 2006 and 19 June 2007, by paying the remaining lease payments before the maturity date thus having the ownership of these two aircraft.

g) The Company took the delivery of 3 aircraft within January and February 2006 whose purchase agreements was signed before.

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

30 OPERATING REVENUES

Operating revenues comprised the following:

	31 December 2005	31 December 2004
Scheduled flights		
- Passenger	2.714.345.012	2.435.195.680
- Cargo and mail	269.339.731	275.335.623
Non-scheduled flights	31.421.773	48.173.144
Other revenues	124.072.037	161.636.666
Total revenues	3.139.178.553	2.920.341.113

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

	31 December 2005	31 December 2004
- Europe	1.279.626.580	1.140.235.299
- Middle East	285.849.922	261.061.561
- North Africa	78.527.254	72.105.177
- North America	155.703.990	160.752.433
- Far East	491.153.258	458.570.386
	2.290.861.004	2.092.724.856
Domestic	692.823.739	617.806.447
Total revenue from the scheduled flights	2.983.684.743	2.710.531.303

31 OPERATING EXPENSES

Operating expenses comprised the following:

Cost of Sales	31 December 2005	31 December 2004
Fuel expenses	735.752.048	540.808.137
Staff expenses	528.249.062	435.359.963
Depreciation expenses	297.770.441	300.329.889
Landing and overflight expenses	247.780.680	251.133.294
Handling expenses	159.531.910	170.265.340
Passenger service and catering expenses	148.563.895	135.353.522
Maintenance expenses	138.128.759	146.822.414
Operating lease expenses	101.903.865	61.514.807
Insurance expenses	51.914.206	68.954.618
Other rent expenses	15.151.215	13.983.013
Aircraft wet-lease expenses	10.575.369	27.100.841
Communication expenses	8.043.138	9.198.505
Service expenses	7.014.244	5.911.241
Other taxes	5.164.437	2.794.615
Lighting, heating and water expenses	3.842.818	4.432.578
Transportation expenses	2.705.369	1.554.287
Cost of other sales	6.392.867	3.593.865
	2.468.484.323	2.179.110.929

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

31 OPERATING EXPENSES (cont'd)

Sales and marketing expenses	31 December 2005	31 December 2004
Commission and promotion expenses	214.501.933	216.980.518
Staff expenses	126.781.998	117.661.542
Reservation system expenses	56.047.954	51.463.749
Communication expenses	13.544.727	14.836.192
Other rent expenses	13.354.869	13.722.854
Service expenses	8.291.621	5.866.740
Advertisement expenses	7.673.850	4.728.621
Transportation expenses	5.084.273	4.045.169
Passenger service and catering expenses	4.444.829	4.028.055
Other taxes	4.157.010	2.817.713
Code share expenses	2.075.866	1.955.047
Lighting, heating, energy and water expenses	1.507.183	1.537.323
Maintenance expenses	1.068.664	1.664.005
Software and computer equipment expenses	646.166	707.532
Fuel expenses	531.717	409.463
Insurance expenses	292.405	522.753
Other sales and marketing expenses	13.403.148	13.555.537
	473.408.213	456.502.813

General administrative expenses	31 December 2005	31 December 2004
Staff expenses	72.771.686	93.644.680
Depreciation expenses	13.984.912	13.777.029
Maintenance expenses	3.921.390	4.317.601
Other taxes	3.760.074	3.700.069
Software and computer equipment expenses	3.536.043	4.148.321
Communication expenses	2.483.204	2.509.652
Commission and promotion expenses	2.259.052	1.919.888
Service expenses	2.034.056	2.470.913
Lighting, heating, energy and water expenses	1.659.631	826.843
Other rent expenses	1.257.747	886.828
Insurance expenses	402.356	1.269.087
Fuel expenses	223.809	6.069
Other general administrative expenses	4.542.401	6.223.334
	112.836.361	135.700.314
Total operating expenses	3.054.728.897	2.771.314.056

32 FINANCIAL INCOME/(EXPENSE) (NET)

Financial income/(expense) comprised the following:

	31 December 2005	31 December 2004
Foreign exchange gains	211.917.117	261.424.838
Interest income	42.433.556	44.176.637
Income from investment accounted for equity method	784.282	9.006.930
Discount income	596.515	-
Increase in value of available for sale financial assets	-	7.325.359
Financial income	255.731.470	321.933.764

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

32 FINANCIAL INCOME/(EXPENSE) (NET) (cont'd)

	31 December 2005	31 December 2004
Foreign exchange losses	(241.601.663)	(232.757.139)
Financial lease interest expense	(45.658.088)	(44.272.076)
Interest expenses for bank borrowings	(12.163.552)	-
Diminution in value of financial assets	(5.779.778)	-
Retirement pay interest cost	(5.594.993)	(5.105.319)
Interest expenses-third parties	-	(4.521.344)
Discount expense	-	(818.720)
Other financial expense	(2.220.372)	-
Financial expense	(313.018.446)	(287.474.598)
Financial income/(expense) (net)	(57.286.976)	34.459.166

33 INCOME FROM OTHER OPERATIONS

Income from other operations comprised the following:

	31 December 2005	31 December 2004
Change in provision for diminution in value of fixed assets	59.560.153	23.260.405
Reversal of unnecessary provision	10.751.884	14.383.149
Discounts received from spare parts suppliers	10.555.819	8.945.079
Dividend income	8.356.877	4.736.992
Cost free materials income	5.109.245	1.579.946
Profit on sale of marketable securities	3.579.775	-
Compensation received	3.517.714	5.898.612
Gain on sale of fixed assets	3.035.861	632.565
Manufacturers' credit income	1.774.210	1.772.672
Other income	4.774.352	5.118.417
	111.015.890	66.327.837

34 LOSS FROM OTHER OPERATIONS

Loss from other operations comprised the following:

	31 December 2005	31 December 2004
Provision expenses	24.385.555	8.526.791
Rent expense of RJ aircraft to be returned	-	4.712.668
Expenses incurred for passengers with no visas	800.524	1.776.430
Other expenses	1.973.824	1.572.759
	27.159.903	16.588.648

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2005 unless otherwise stated.)

35 TRANSACTIONS WITH RELATED PARTIES

For the purposes of the accompanying financial statements, the Company's shareholders and the Company's equity participations are referred to as related parties.

Transactions with related parties comprised the following:

	31 December 2005	31 December 2004
Services rendered to Sun Express	3.682.604	1.999.603
Services rendered to USAŞ	376.002	268.496
	4.058.606	2.268.099

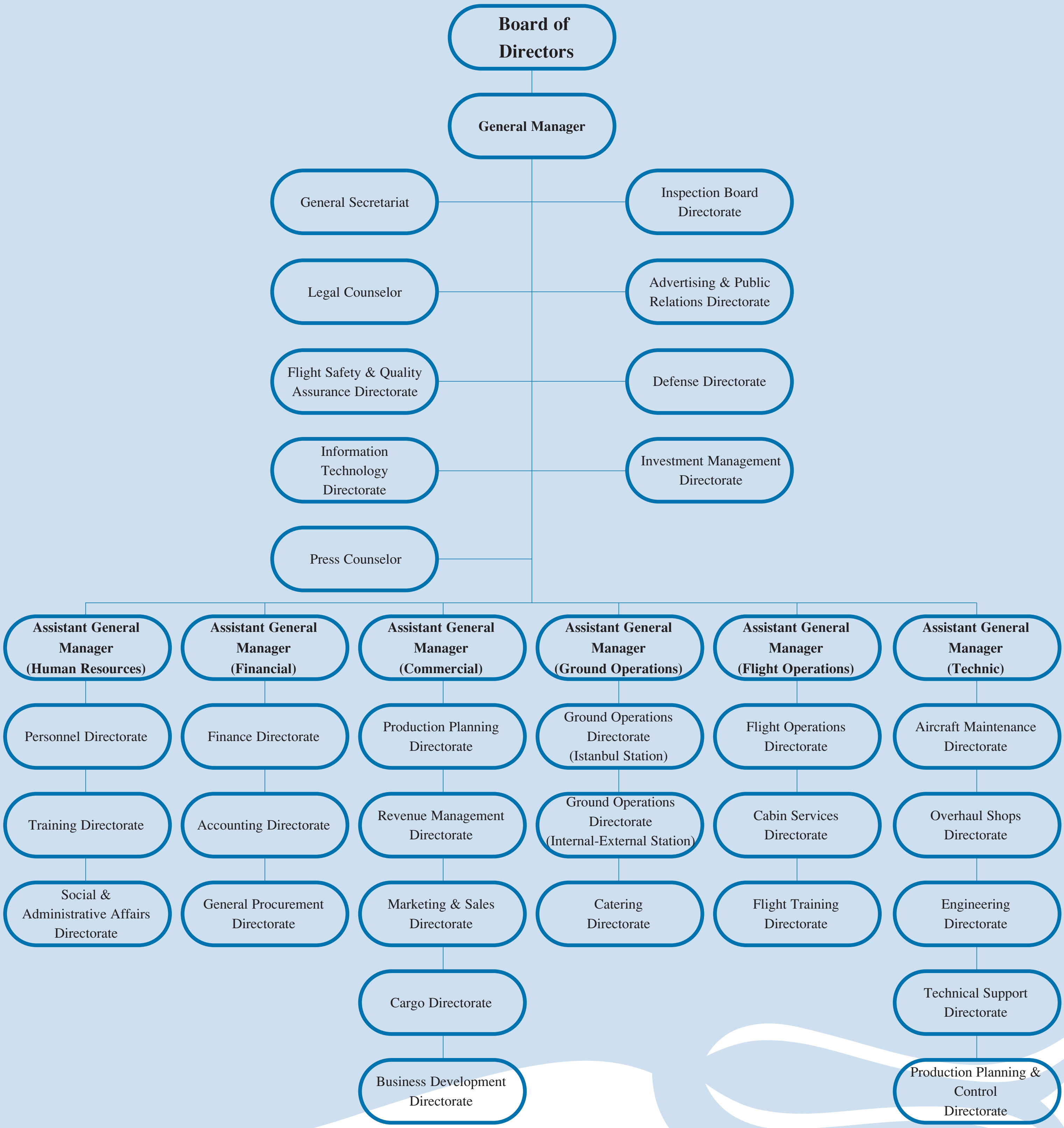
	31 December 2005	31 December 2004
Services received from Sun Express	873.363	2.721.718
Services received from USAŞ	80.172.618	69.820.280
	81.045.981	72.541.998

Dividend received comprised the following:

	31 December 2005	31 December 2004
Sun Express	7.066.005	4.430.142
Uçak Servisi A.Ş. (USAŞ)	1.131.509	201.609
Emek İnşaat ve İşletme A.Ş.	69	6.858
France Telecom	159.294	98.383
	8.356.877	4.736.992

TÜRK HAVA YOLLARI A.O.

Organizational Chart



TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Terms and Abbreviations

Available Seat-Kilometers	The product of total seats offered on each flight leg and the number of kilometers flown.
Revenue Passenger-Kilometers	The product of total passengers carried on each flight leg multiplied by kilometers flown.
Available Ton-Kilometers	The product of the total revenue load capacity (passengers, baggage, freight and mail) available on aircraft for each flight leg times kilometers flown.
Revenue Ton-Kilometers	The product of the total revenue load (passengers, baggage, freight and mail) carried on each flight leg times kilometers flown.
Passenger Load Factor	Ratio of revenue passenger-kms, expressed as percentage utilization of available seat capacity.
Overall Load Factor	Ratio of revenue ton-kms, expressed as percentage utilization of available load capacity (including passengers).
Revenue Passengers Carried	Total of all passengers having separate flight numbers counted on a point-to-point basis, that have paid 25% or more of the applicable fee.
Block Hours	Total aircraft hours measured from the time the engines are started for take-off to the time the engines are stopped after landing.
Kilometers Flown	The product of revenue operations and kilometers flown.
Average Daily Aircraft Utilization	The product of the number of aircraft of the same type and total revenue hours flown, divided by the number of aircraft days available.

FLIGHT DESTINATIONS

(*) Domestic Flights in the US are by American Airlines.

● Turkish Airlines Flights

○ Code-Share Flights

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