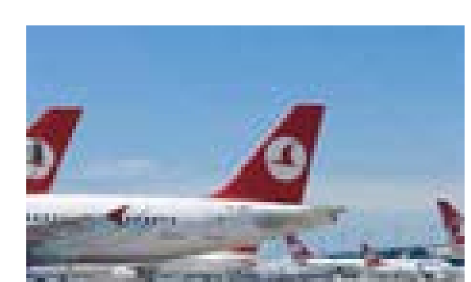
TURKISH AIRLINES
A STAR ALLIANCE MEMBER

Contents



In 2011...

Turkish Airlines' focus on the pursuit of growth that got under way in 2006 continued without letup in 2011, making it a successful year in which the airline also achieved significant breakthroughs in terms both of destination and aircraft numbers and of new partnerships and infrastructure investments.

Less than a decade ago in 2003, Turkish Airlines was flying a total of 10 million passengers on 65 aircraft to 103 destinations. Last year it carried 33 million passengers to 196 airports at 189 destinations aboard 179 planes.

Some people say they need good, healthy food while they're traveling. Others say they need comfortable and relaxing seats. Still others want, more than anything to be well entertained during a flight. Millions of people with different needs and desires...

You can't please them all... Or can you?

Love At First Flight

The World Is Our Home and You Are Our Guests

"Best airline in Europe"
As a global brandname, we don't just fulfill our passengers' expectations of what an airline ought to be: day-by-day we continue to raise our service standards.

Globally Awarded Cuisine

"World's second-best onboard catering"
The five-star restaurant dining experience which we provide in collaboration with DO & CO adds gourmet zest to your flight.

Globally Awarded Comfort

"World's best premium economy seats"
Our new Sky Interior cabin illumination system, ergonomically-designed seats, and attention given to countless other details make for a flight of unmatched comfort.

The Best of Entertainment

"Entertainment that you control"
An extensive music library and a huge selection of movie, documentary, and game options make flying with us more enjoyable than ever.

Financial Figures

11.8

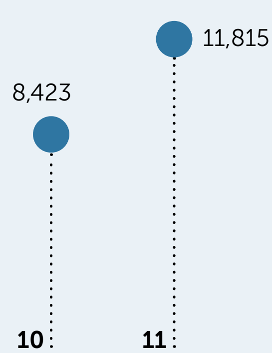
In 2011 Turkish Airlines increased its sales by 40% to TL 11.8 billion and booked an operating profit of TL 339 million. Owing mainly to the effects of non-operational items, net profit amounted to TL 19 million.

TL	1 January - 31 December 2011	1 January - 31 December 2010
ONGOING OPERATIONS	**2,027,895,455**	**1,770,655,663**
Income from sales	11,815,424,727	8,422,771,140
Cost of Sales (-)	-9,787,529,272	-6,652,115,477
GROSS PROFIT / LOSS	**2,027,895,455**	**1,770,655,663**
Marketing and sales costs (-)	-1,304,775,986	-980,877,520
General administrative costs (-)	-384,604,722	-327,017,860
Other operating income	159,756,551	141,579,534
Other operating costs (-)	-397,182,482	-122,151,211
OPERATING PROFIT / LOSS	**101,088,816**	**482,188,606**
Share of investment in profit/loss (equity method)	10,074,016	-36,800,970
Financial income	277,453,552	72,851,263
Financial costs (-)	-242,727,392	-152,549,546
PROFIT BEFORE TAX / (LOSS)	**145,888,992**	**365,689,353**
Tax income/(expense)	-127,372,360	-79,245,992
PROFIT FOR PERIOD / (LOSS)	**18,516,632**	**286,443,361**
Earnings per share/Loss (Kr)	0.02	0.24

Turkish Airlines is well aware that financial discipline is one of the most important keys to sustainable growth in its sector at a time when competition is becoming increasingly tougher.

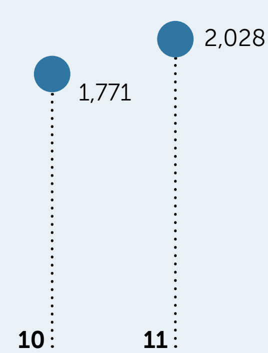
40%

Sales Revenues (TL million)
Turkish Airlines' sales revenues increased by 40% in 2011.



15%

Gross Profit (TL million)
Gross profit increased by 15% and topped TL 2 billion in 2011.



339

Turkish Airlines booked an operating profit of TL 339 million in 2011.

Our Flight Network

In 2011 Turkish Airlines inaugurated regularly scheduled flights to twenty new international destinations. This was more new routes introduced by the company in any single twelve-month period since the record-breaking year of 2006 that witnessed 24 new routes.

2011

Turkish Airlines today ranks among the top ten IATA-member airlines in terms of total international passengers carried annually. This is one of the biggest indicators of Turkish Airlines' success in 2011.

According to IATA published figures, total passenger demand grew by 5.9%, which was a bit below the 6.3% rise in total passenger capacity. In Turkish Airlines' case, capacity increased by 24.7% with the number of its passengers reaching 32.6 million. Significantly in a year during which worldwide demand for air cargo services declined by 0.7%, Turkish Airlines' cargo capacity was boosted by 26%.

Ladies and Gentlemen,

Laden as it was with events whose impact was felt not just in our own industry but across many other fields of commercial endeavor, 2011 will be remembered as a year in which hugely significant political and economic developments took place. For all of that, Turkish Airlines nevertheless completed the year having achieved a number of major successes.

According to International Air Transport Association (IATA) published figures, total passenger demand grew by 5.9%, which was a bit below the 6.3% or so rise in total passenger capacity. In Turkish Airlines' case, capacity increased by 24.7% with the number of its passengers reaching 32.6 million. Significantly in a year during which worldwide demand for air cargo services declined by 0.7%, Turkish Airlines' cargo capacity was boosted by 26%. 2011 indeed was a year of important investment for our company as it continued to register growth rates well above worldwide averages.

Despite stronger demand in passenger transport throughout the sector, 2011 was also fraught with some very tough market conditions as well. Natural and nuclear disaster in Japan as well as political upheavals in the Middle East and North Africa adversely affected passenger demand. In addition to the conditions prevailing in a region that is of prime importance for the Turkish Airlines network, the impact of economic recession in Europe, where 32% of our company's operations take place, was also severely felt. The effects of these developments on the demand side were compounded by pressures exerted by higher costs, such as about a 40% year-on rise (as measured in USD) in fuel prices.

In the face of unfavorable conditions which nearly brought some European airlines to verge of bankruptcy in the early months of 2012 and which fostered timidity among decision-makers throughout the industry about any increases in capacity, Turkish Airlines continued to invest and to grow strongly without letup. More aircraft joined our fleet in 2011 than in any other twelve-month period in our company's 78-year history. The addition of 31 new aircraft to our inventory not only brought the size of our fleet to 179 but also significantly rejuvenated it. The inclusion of these new planes has made our portfolio even more dynamic than it already was while clinching our standing as the airline with Europe's most youthful fleet.

During 2011 we added 21 new names to our list of flight destinations. This brings the number of points around the world to which we carry our brand name to 196.

During 2011 we added 21 new names to our list of flight destinations. This brings the number of points around the world to which we carry our brand name to 196.

Supporting its steady growth with its total-quality attitude and unconditional customer satisfaction approach, Turkish Airlines was named "Best Airline in Europe" in 2011.

Nor were our investments just about nourishing our organic growth. Through our subsidiaries we also continued investments in sectors which round out our logistical services value chain and strengthen our vertical integration. In 2011 alone we set up four new companies, bringing the total number in which we control stakes to 12. These subsidiaries not only make it possible for us to achieve operational excellence but also function as individual profit centers in their own right.

Despite adverse market conditions prevailing in our main territory, higher oil prices, and a record-breaking level of investment in our company's history, we nevertheless completed the year on-budget and with major commercial successes. Turkish Airlines carried 3.5 million more passengers in 2011 than it did in 2010 but also registered a 23.7% rate of year-on growth in its carried cargo Total sales were up by 40% and reached TL 11.8 billion in value, while the company's operating profit amounted to TL 339 million. Owing mainly to the effects of non-operational items, net profit amounted to TL 19 million. Well aware that financial discipline is one of the most important keys to sustainable growth in our sector at a time when competition is becoming increasingly tougher, our company continues to abide by its long-term, value-based growth program, whose most fundamental principle is effective cost management.

Our company continues to conduct its activities through a well-defined and well-planned strategy which it focuses on success and achieves it. We have made significant progress in the direction of pursuing growth and increasing our share of the transfer market, which are the two essential components of our primary business model. Turkish Airlines today ranks among the top ten IATA-member airlines in terms of total international passengers carried annually. With flights operating in and out of 196 airports as of end-2011, Turkish Airlines also has one of the world's most extensive flight networks. By combining İstanbul's unrivaled geographical location with its own huge network resources as an airline, our company is ideally positioned to offer incomparably attractive transfer options. The approximately 20% rise in the number of Turkish Airlines' international transfer passengers in 2011 is just one indication of the validity of its business model. I am also confident that we will be seeing even more of the benefits of that model in the near future.

Supporting its steady growth with its total-quality attitude and unconditional customer satisfaction approach, Turkish Airlines was named "Best Airline in Europe" in 2011. In a survey conducted among 18.8 million frequent fliers by Skytrax, the global civil aviation industry's most respected airline and airport review and ranking agency, Turkish Airlines was identified as the carrier offering the best service among all airlines operating in Europe. Our on-board catering, which is widely admired by our passengers, also continues to receive praise and accolades from various organizations. Successes like these of course make us happy, but they also give us additional motivation to do even better. To that end, we are involved in a series of ongoing projects which are aimed at further increasing passenger satisfaction. At a time when slimmer profit margins are forcing carriers across the sector to cut costs, we take pride in the fact that Turkish Airlines' investments in passenger satisfaction have made it the most preferred airline.

Esteemed stakeholders:

In the years ahead we intend to continue our investments aimed at further exploiting the potential that is inherent in İstanbul's strategic location on the Asia-Europe-Africa corridor. We are engaged in a methodical, step-by-step effort that involves long-term strategies to achieve our overall objectives. Our highest ambition of course is that our company should stand among the world's biggest leaders by the time Turkey celebrates the first centenary of its republic in 2023. We have already begun to reap the benefits of these efforts and we feel both excitement and pride with every step that takes us closer to this goal. As we advance along this path we are most fortunate that we can count on the dedicated efforts of our employees and the unstinting support of our nation while our greatest source of confidence and motivation is to be found in the deep regard with which our company is held. With a workforce of nearly 30 thousand people when the personnel of our subsidiaries are included, we shall go on striving with all of our might to give our passengers an even better, cozier, friendlier, tastier, and safer flying experience while also creating value for you, our esteemed investors.

In closing, I extend my sincere thanks to all of our managers, employees, business partners, customers, and suppliers for the valuable efforts that contribute to our success and of course to you, our shareholders, for your ongoing support.

I salute you all while also offering my best wishes that 2012 will be yet another success-filled year both for our company and for our country.

Hamdi Topçu
Chairman & Head of the Executive Committee

In the years ahead we intend to continue our investments aimed at further exploiting the potential that is inherent in İstanbul's strategic location on the Asia-Europe-Africa corridor.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Executive Committee

Hamdi Topçu
Chairman of the Board, Head of Executive Committee
Mr. Topçu was born in Çayeli, Rize in 1964. He graduated from Marmara University in 1986, receiving his degree in Economics and Administrative Sciences. In 1986, he began his career as a financial advisor, which is a title he still holds. Mr. Topçu was appointed as a Board Member of Turkish Airlines in 2003 and an Executive Committee Member in 2006. Mr. Topçu, who has been Chairman of Turkish Airlines Board and Head of Executive Committee since 1 January 2010, is married and has four children.

Temel Kotil, PhD
CEO, Member of the Board and Executive Committee
Mr. Kotil was born in Rize in 1959. Mr. Kotil graduated from Aeronautical Engineering Department at İstanbul Technical University in 1983. In 1986, he completed his first master's degree in the United States from the Aircraft Engineering Department of Michigan University, his second master's degree in Mechanical Engineering in 1987, and his PhD in Mechanical Engineering in 1991. Mr. Kotil served as Assistant Associate Professor and Associate Professor at İstanbul Technical University at the Faculty of Aircraft and Space Sciences. At the same department, Mr. Kotil served as Assistant Department Head and Associate Dean. In 2003, he began his carrier with Turkish Airlines as Vice President of the Technical Department. In 2005, he was appointed General Manager of Turkish Airlines, and in 2006, he was elected as a member of the IATA Boards of Directors. In 2010, Mr. Kotil was appointed as a Board Member of the Association of European Airlines. Mr. Kotil is married and has four children.

Prof. Dr. Cemal Şanlı
Vice Chairman of the Board and Executive Committee
Mr. Şanlı was born in Manisa in 1950. He graduated from the Faculty of Law of İstanbul University in 1977 and received his title as a Doctor of Law with the publication of his thesis "International Commercial Arbitration" in 1985. He completed his PhD dissertation on International Arbitration at the "Institute of Advanced Legal Studies" associate with the University of London. In 1987, he became Assistant Associate Professor, in 1990 Associate Professor, and in 1996 full Professor at İstanbul University of Law. He is currently the head of the International Private Law Department of the Faculty of Law at İstanbul University. He is married and has four children.

Board of Directors

Mehmet Büyükekşi
Member of the Board
Born in Gaziantep in 1961, Mr. Büyükekşi graduated from the Faculty of Architecture, Yıldız Technical University in 1984. In addition to being a Board Member of Turkish Airlines, Mr. Büyükekşi is the President of the Turkish Exporters' Assembly, Assembly Member in İstanbul Chamber of Industry, a member of the Board of Directors in Türk Eximbank, in İstanbul Development Agency, in İstanbul Leather and Leather Products Exporters' Association (İDMİB) and General Coordinator of Ziylan Group. Mr. Büyükekşi has been Founder Chairman of Turkish Footwear Industry Research, Development and Education Foundation (TASEV). He is married and has three children.

İsmail Gerçek
Member of the Board
Born in Çanakkale in 1963, Mr. Gerçek graduated in 1985 from the Department of Public Administration of the Faculty of Political Sciences at Ankara University. In that same year, he began working as Deputy Finance Inspector Committee of the Ministry of Finance. Until 1998, he worked as a Finance Inspector and Finance Chief Inspector. Between 1992-1994, he completed his Master of Arts degree in Money and Banking in the United States as well as post-graduate studies in finance. Mr. Gerçek, who deputized Assistant Head of İstanbul Provincial Finance Administration between 1995-1997, has worked as a partner- certified public accountant in an accounting firm since 1998. Additionally, he serves as a member in the boards of directors, auditing committees and boards of trustees of various companies. He is married and has two children.

Gülsüm Azeri
Member of the Board of Directors
Gülsüm Azeri is a graduate of Boğaziçi University, from which she holds degrees in both chemical engineering and industrial engineering. She served as Head of the Chemicals Group at Şişecam in 1994-1998 and as Head of the same company's Glass & Housewares Group (1999-2007) and Flat Glass Group (2007-2011). Between 1994 and 2011 she was also a member of the Şişecam Executive Committee. Mrs Azeri is currently the CEO and holds seats on the boards of OMV Petrol Ofisi A.Ş. (where she is also chairman) and of OMV Gaz ve Enerji Holding A.Ş. From 2004 to 2008 she was the President of the Federation of European Glass's Glassware Committee and a board member of the "Glass for Europe" trade association in 2009-2011. She has served as a member of the board of directors of the İstanbul Chamber of Industry, as a member of the executive board of the Turkish Exporters Assembly, and as a member of the board of directors and the executive board of the Foreign Economic Relations Board. She represented the private sector on the Prime Minister's Council of Ethics in 2005-2011. She was elected to a seat on the Turkish Airlines Board of Directors in April 2011. Gülsüm Azeri is married and has two children.

Muzaffer Akpınar
Member of the Board
Born in 1962, Mr. Akpınar attended the French Saint-Michel Lycee and graduated from the Department of Management Science of Boğaziçi University. He began professional career as a founding partner of Penta Tekstil in 1986 and in 1993 was appointed as the CEO of KVK Mobil Telefon Hizmetleri A.Ş. Mr. Akpınar later served as CEO of MV Holding A.Ş. and played an active role in the creation of Fintur Holding BV. Mr. Akpınar served as the General Manager of Turkcell between 1 January 2002 and July 2006. He carries on his activities as an entrepreneur and investor in the fields of renewable energy, technology, chemicals and construction. He is married and has two children.

Auditing Committee

Orhan Birdal
Auditing Committee Member
Mr. Birdal was born in Erzincan in 1958. In 1980 graduated from the Istanbul Academy of Economics and Commercial Sciences College of Journalism and Public Relations, and in 1990 completed his graduate degree from the Social Sciences Institute of Marmara University. Between 1976 - 1978 Mr. Birdal served on the Turkish Agricultural Equipment Board and beginning in 1982 carried out various duties at DHMİ (General Directorate of State Airports Authority). As of 2007, he assumed the position of General Manager and Chairman of the Board of DHMİ, which he presently continues. Between 2008-2011 he served as a Member of the Board of Directors of Turkish Airlines. Mr. Birdal is married and has four children.

Prof. Dr. Ateş Vuran
Auditing Committee Member
Mr. Vuran was born in İstanbul in 1944. He graduated from the İstanbul Academy of Economic and Commercial Sciences, and conducted studies at Italy's Perugia University in 1966 - 1967. He received his PhD. in 1974, became an associate professor in 1978, and full Professor in 1984 in the Departments of Statistical and Numerical Methods. In 1971, founded Turkey's first private airline company (Anadolu Havacılık ve Turizm A.Ş.). He is the Head of the Department of Tourism Management within the Faculty of Commercial Sciences at İstanbul University of Commerce. He is married and has two children.

Naci Ağbal
Auditing Committee Member
Mr. Ağbal was born in Bayburt in 1968. He graduated from the Department of Public Administration of the Faculty of Political Sciences of İstanbul University in 1989. Between 1996 - 1998, he completed an MBA program at Exeter University in England. Mr. Ağbal was appointed as the General Manager of Budget and Financial Control in the Ministry of Finance in 2006, and as the Undersecretary of Finance in the same ministry in 2009. He is also a member of the Council of Higher Education and a member of the Board of Trustees at the Yesevi University. He is married and has two children.

Mission

To be a leading European airline and an active global player by virtue of **its flight safety and security record, its product diversity, its service quality, and its competitive stance.**

- To develop the company's standing as a global airline by expanding the coverage of its long-range flight network.
- To develop the company's standing and competencies as a technical maintenance services provider by making its technical maintenance unit a major technical maintenance resource in the region.
- To develop the company's standing as a service provider in all strategically important aspects of civil aviation, including ground handling services and flight training.
- To defend the company's standing as the leader of the domestic airlines industry.
- To provide uninterrupted, superior-quality flight service by entering into a collaborative agreement with a global airline alliance that will complement its own network in such a way as to advance the company's international image and enhance its marketing abilities.
- To defend and improve upon İstanbul's reputation as a regional aviation hub.
- In its capacity as the flag carrier of the Republic of Turkey in the civil aviation industry, to be a leading European airline and an active global player by virtue of its flight safety and security record, its product diversity, its service quality, and its competitive stance.

Vision

To be an airline that is distinguished by:

- Sustained growth that is above the industry average
- A zero accident and crash record
- The most envied service levels worldwide
- Unit costs equal to those of low-cost carriers
- Sales and distribution costs below industry averages
- Loyal customers who take care of their own reservation, ticketing, and boarding formalities themselves
- Personnel who constantly develop their qualifications with the awareness of the close relationship between the benefits for the company and the added value that they contribute
- A sense of entrepreneurship that creates business opportunities for fellow members in the Star Alliance and takes advantage of the business potential provided by them
- A management team whose members identify with modern governance principles and distinguish themselves by being mindful of the best interests not just of shareholders but of all stakeholders

Strategy

Turkish Airlines adheres to a strategy that seeks to make use of its aviation industry strengths in order to effectively transform opportunities that present themselves into advantages while continuing to pursue growth that is nourished by its becoming an increasingly more preferred carrier.

Turkish Airlines is advancing confidently towards its goal of consolidating its position **among the leading airlines in the global market.**

Turkish Airlines' Competitive Advantages

İstanbul's geographical location

İstanbul, Turkish Airlines' primary base of operations, is unique in terms of geographical location. A natural bridge between East and West, İstanbul allows transfers in either direction to be made in less time and at a lower cost than is possible anywhere else. İstanbul is within convenient reach of many cities that are important centers of attraction for tourism or other economic activity for traffic moving on medium-range, narrow-body aircraft. The fact that one may reach 55 countries within three and a half hours aboard a flight leaving İstanbul is a clear indication of its importance as an aviation hub.

Low operating costs

Turkish Airlines' operating costs are very much lower than those of its competitors. The contributors to this cost advantage are a relatively youthful fleet, the ability to conduct narrow-body operations, İstanbul's location, high levels of personnel productivity, and efficiencies in aircraft utilization. Lower costs give Turkish Airlines a considerable degree of operational flexibility, alleviate the profit margin disadvantages that frequently arise from the sector's excessively high costs, and allow it to remain a profitable airline.

Subsidiaries

Turkish Airlines' expansion through subsidiaries is systematically coordinated with the company's other strategies and objectives. Twelve subsidiary companies in Turkish Airlines' portfolio support its primary operations. Each subsidiary generates high-quality service through its own, self-developed professionalism and expertise; by focusing on its own business model, it maximizes operational efficiency; by supplying products and services to non-company customers, they become profit centers in their own right. By reducing operational costs and providing flexibility, Turkish Airlines' subsidiaries are of the utmost strategic importance to its future success as a civil aviation industry enterprise.

55

countries

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The steadily growing mobility of everyday life in an increasingly more globalized world makes air travel more important today than ever. Persistent economic uncertainties and sociopolitical developments taking place around the world as well as increasingly more competitive market conditions necessarily mean that airlines must change in order to remain viable. Compared with many other business sectors, civil aviation industry companies operate with extremely slim profit margins. Economic volatility and uncertainty in 2011 made it a year whose profitability was even lower than it was in 2010. Although the sector registered 9% rise in its revenues last year, it also had to endure an 11% rise in its costs. (Source: IATA Industry Outlook 2011.) While a great deal of that increase in costs was attributable to higher oil prices, the growth in revenues was significantly frustrated by sociopolitical developments taking place in the Middle East and by natural and nuclear disaster in Japan.

İstanbul, Turkish Airlines' primary base of operations, is unique in terms of geographical location.

A strong and balanced flight network

With 196 destinations at end-2011, Turkish Airlines has one of the most extensive flight networks of any airline in the world. Turkish Airlines plans and manages this network so as to derive the most benefit from direct- and transfer-flight passenger potential with an eye on maximizing operational efficiency and profitability. Both the flight network and its flight frequency are structured in such a way as to reduce transfer passengers' layover times while also increasing overall quality. The average number of flights a week on routes operating through İstanbul is twelve. Turkish Airlines is always on the lookout for ways to expand this network by giving attention to markets in which there is strong growth potential. New destinations added in recent years for example contribute to a further strengthening of the company's position in Far Eastern and African markets. Use is also made of Turkish Airlines' commanding position in its home market in order to effectively tap Turkey's rapidly-growing international market potential. Finally the flight network is so constructed as to balance inter-regional revenue streams and passenger traffic flows. This helps safeguard the company's financial strength by reducing its exposure to localized risk.

Superior service quality

One consequence of Turkish Airlines' customer-focused operational strategy is that it must always deliver service whose quality standards are high. This approach to quality is one of the things that distinguishes Turkish Airlines from its competitors and makes it a brand which is preferred by travelers. Turkish Airlines' quality approach is manifested in every aspect of a customers' dealings with the airline and concentrates on their satisfaction before, during, and after flight. Turkish Airlines' successful adherence to this philosophy is attested to by many agencies and organizations as well as by passengers themselves. In the planning and conduct of its investments, improving service standards and increasing customer satisfaction always take precedence over cost.

Adhering to a strategy that seeks to make use of its aviation industry strengths in order to effectively transform opportunities that present themselves into advantages while continuing to pursue growth that is nourished by its becoming an increasingly more preferred carrier, Turkish Airlines is advancing confidently towards its goal of consolidating its position among the leading airlines in the global market. It shapes its strategies taking into both account aviation industry developments and the demands of competition as well as its own strengths and competencies. Taking all these considerations into account, Turkish Airlines develops long-, medium-, and short-term strategic plans while managing its business processes according to the action plans contained in its current strategy roadmap.

Turkish Airlines' Strategies

Maximize benefit

Further strengthen

Organic Growth

Turkish Airlines structures its growth strategies so as to make the best possible use of its strengths. İstanbul, its main operations center, makes its flight network rather productive serving as it does as a natural base linking east and west by virtue of its geographical location. The company effectively adheres to a transfer-focused business model strategy that is facilitated by its being located in İstanbul. In this connection, the company seeks to keep expanding its flight network with the addition of new, high-transfer-potential destinations so as to be the network carrier which is most preferred among transfer passengers.

In a business where growth is made difficult both by global economy fragilities and by steadily increasing competition, Turkish Airlines has nevertheless become the airline with the fastest-growing Available Seat Kilometer (ASK) ratio in recent years. The company supports this capacity increase by means of its transfer passenger strategy and through increases its passenger numbers that are achieved by balanced, inter-regional planning. Turkish Airlines also continues to invest in its fleet in line with its growth objectives. During the most recent three years the company has placed orders for a total of 92 aircraft of which 87 are passenger planes. These orders are clear evidence of Turkish Airlines' commitment to sustain the growth performance which it has achieved so far in the years ahead as well. Thoroughly analyzing market conditions as it places its orders, Turkish Airlines gives attention to achieving an aircraft mix that will be the most appropriate to its future strategies.

Cargo transport is a business line whose importance to Turkish Airlines' growth strategy is secondary only to passenger transport. Wide-body cargo aircraft which have been added to the fleet have contributed to greater cargo carrying capacity as well as to the expansion of Turkish Airlines' cargo transport network. The company's cargo operations are also supported by the increasing number of wide-body passenger aircraft in its fleet. With such an array of assets at its command, the company is able to plan and conduct its cargo operations in such a way as to exploit demand efficiently, protect itself against changes in the economic environment, and grow its shares of cargo transport markets in which it already has a presence. Turkish Airlines regards the profitability of its cargo operations as being vital to its overall sustainable profitability strategy.

Cost-cutting Policies

Turkish Airlines constantly seeks ways to increase its profitability and to reduce its sensitivity to higher costs by carrying out a variety of effective cost management projects. To save on fuel costs for example it keeps the average age of its fleet low and it also makes use of various fuel economy measures; to reduce the cost of making sales, it adheres to the strategies of increasing the share of direct sales channels and of regionally-focused marketing. In line with its strategic principles Turkish Airlines gives great importance to investments in technology and to effectively integrating the sector's newest practices into its operations. This enables it to improve product quality even as it benefits from technology-afforded cost advantages. Personnel productivity, which is monitored by keeping track of performance indicators, is also supported through projects that will further increase it. Infrastructure projects aimed at improving process productivity are in progress and a number are currently at the testing stage. Because personnel productivity gives Turkish Airlines such a competitive edge over its rivals, protecting and enhancing it is one of the most crucial elements of the company's overall strategies.

On the years ahead Turkish Airlines will, within the framework of its well-defined strategies, further strengthen its market position and provide maximum benefit to all of its stakeholders.

for all stakeholders

market position

Strategic Partnerships and Sub-brands

Aware of the benefits arising from the operational and structural flexibility that is created by working through subsidiaries and strategic collaborations, Turkish Airlines is constantly exploring and taking advantage of such opportunities when they will allow it to be more successful in the conduct of its business. The company also recognizes that just being a network carrier is not enough to make on the best in today's global arena. For such reasons, Turkish Airlines operates as a service provider in many different aspects of the civil aviation industry through subsidiaries and affiliates in which it controls stakes of one sort or another. Through subsidiaries active in such undertakings as technical maintenance, ground handling services, and onboard catering, Turkish Airlines continues to investigate new opportunities while maximizing its competitive strength in every area.

Having joined Star Alliance in 2008, Turkish Airlines intends to continue taking maximum advantage of the benefits of its membership in that organization in the years ahead as well. The company will support its organic growth through strategic collaborations with other airlines in its targeted markets as called for in its growth plan. In this way it will also strengthen its standing as a global network carrier while increasing its opportunities to provide better service in other territories.

Customer Focus

Recognizing that customer satisfaction is an indispensable aspect of every stage of its service operations, Turkish Airlines keeps the customer at the focal point of everything that it does at all times. In this regard, it conducts its operations with its eye on providing its passengers with the very best service quality even as it pursues fulfillment of its vision of sustainable, profitable growth. At every point where it is involved in a service relationship with a customer, Turkish Airlines strictly abides by its avowed principle of delivering superior-quality, friendly service.

Aware that air travel is different from any other mode of transportation, Turkish Airlines plays the role of host and treats passengers like guests as embodied in its slogan "The world is our home and you are our guests." In the 2011 rankings of the Skytrax World Airline Awards, which are known as the "Oscars" of the aviation industry, Turkish Airlines received the "Best Airline in Europe", "Best Airline Southern Europe", and "Best Premium Economy Seats" citations. Such accolades are additional evidence that Turkish Airlines is advancing steadily towards its goal of being the best in the world.

Recognizing the impact of brand awareness on success, Turkish Airlines remains a part of everyday life by keeping people immediately and constantly aware of its campaigns and related news and information through active use of such popular social media channels as Facebook and Twitter. In addition to increasing brand awareness, the activities which Turkish Airlines carries out and the campaigns which it organizes through such channels also enable the company to communicate interactively with passengers. Other manifestations of the importance which Turkish Airlines gives to brand investments are to be seen in the sponsorship agreements that the company enters into and the celebrity names that it recruits for its advertising campaigns. The common goal of all of Turkish Airlines' brand investments is to ensure that both its brand awareness and its customer loyalty assets remain sustainable.

Turkey's geographical location and its growing influence at both the regional and the global levels **draw attention to Turkish Airlines and make it the preferred choice of travelers.**

Turkish Airlines' focus on the pursuit of growth that got under way in 2006 continued without letup in 2011, making it a successful year in which the airline also achieved significant breakthroughs in terms both of destination and aircraft numbers and of new partnerships and infrastructure investments.

A service approach that focuses on maximum customer satisfaction in everything from flight safety to product quality and from attractive pricing contributes substantially to Turkish Airlines' ongoing success. The steady rise in passenger numbers in recent years as well as its designation as "Best Airline In Europe" in 2011 are just two outcomes of the customer satisfaction which the airline creates by concentrating on its strengths.

Ideally situated on the Asia-Europe-Africa corridor where Turkey's intercontinental traffic is the heaviest, Turkish Airlines' geographical location has always been an important factor in its becoming a global brand. This locational advantage makes Turkey's aviation industry and our own company increasingly more active players in the sector. Although İstanbul has always been a natural Eurasian transfer center it is an advantage which suffered from neglect and was inadequately exploited for quite a long time. Turkey's geographical location and its growing influence at both the regional and the global levels draw attention to Turkish Airlines and make it the preferred choice of travelers as both the country's national carrier and its biggest airline.

More aircraft joined the Turkish Airlines fleet in 2011 than in any other twelve-month period in the company's history. Besides being a year in which capacity increased by the most however, 2011 was also witness to a number of developments which adversely affected demand across the sector. Natural and nuclear disaster in Japan as well as political upheavals in the Middle East and North Africa had a significant impact on aviation in parts of the world where the company has been increasing its investments. Despite all such negative developments however, the company's quick decisions and equally expedient actions enabled it to remain successful. Turkish Airlines was the first airline to resume international flights in and out of Libya after they had been suspended for seven months and it did so as soon as political and security considerations permitted. Nourishing its business model with strategies that will allow it to exploit opportunities while protecting itself against risks as much as possible, Turkish Airlines had a very successful business year with a record-breaking level of investment despite all of the adversities in its landscape. The first half of 2011 was also witness to a sharp rise in oil prices, which ended up markedly higher than in the previous year. That the company should have increased its global market share and also ranked among the top ten IATA members in terms of international passengers carried at a time when it was incurring higher investment costs and enduring higher fuel prices are the biggest indicators of Turkish Airlines' success in 2011.

The addition of 31 new aircraft made 2011 the year during which Turkish Airlines' fleet grew the faster than in any other twelve-month period in the company's 78-year history. Turkish Airlines also significantly strengthened its flight network with the addition of 21 new routes last year. As a result of these investments, the company achieved the 33 million passenger target which it had set itself for the year.

Investments in 2010 and 2011 have readied Turkish Airlines for 2012...

Under the HABOM project which is being undertaken at İstanbul's Sabiha Gökçen Airport and which involves 380,000 m^2 of construction work, work is currently in progress on narrow-body aircraft hangars that are scheduled to go into service in June 2012. When they do, Turkish Airlines will have taken a major step forward towards becoming a regional maintenance and repair center while also positioning itself to respond to demand for aircraft maintenance and repair services in European, Asian, North African, and Middle Eastern countries as well as in Turkey. The company is also about to launch an internationally-certified flight school in the province of Aydın in southwestern Turkey. Ventures and undertakings such as these are what will further entrench Turkish Airlines' stature as a global brand.

With the addition of planned new routes, Turkish Airlines will become the world's seventh biggest international network. Nineteen new aircraft (for which contracts had previously been entered into) will be added to the fleet in 2012.

Flying a total of 10 million passengers on 65 aircraft to 103 destinations less than a decade ago in 2003, in 2011 the company carried 33 million passengers to 196 airports aboard 189 planes. For 2012, Turkish Airlines has set targets of 38 million passengers and TL 14.6 billion in turnover. By becoming a member of Star Alliance, the world's biggest and most important airline alliance, Turkish Airlines took a major step forward in its strategy of making Turkey the most important junction between Europe and Asia. Passengers from all over the world make their connections conveniently by flying on Turkish Airlines.

Such undertakings are landmarks on Turkey's long-term roadmap which has been collectively dubbed the "2023 Strategic Vision". They, and others like them, propel Turkish Airlines towards its goal of being a global giant.

With the addition of planned new routes, Turkish Airlines will become the world's seventh biggest international network. **Nineteen new aircraft will be added to the fleet in 2012.**

Superior-quality, experienced human resources and a carefully-conceived mix of subsidiaries continue to strengthen Turkish Airlines' standing as global brand and leader in the civil aviation industry.

Turkish Technic

Provides maintenance, repair, and technical support services to Turkish Airlines as well as to more than a hundred domestic and international airlines.

A wholly-owned subsidiary of Turkish Airlines, Turkish Technic was established on 23 May 2006.
With its subsidiary operations and more than 2,000 employees, Turkish Technic conducts its activities with the goal of becoming an important air transport technical maintenance base in its region by supplying whatever maintenance, repair, and technical and infrastructure support the aviation industry may need.

SunExpress

The market leader in charter flights between Germany and Turkey.

Founded in 1989, SunExpress is a joint venture of Turkish Airlines and Lufthansa in which each controls a 50% stake.
Having inaugurated flights in 1990, the company served the charter market for many years. In 2001 it began plying the Antalya-Frankfurt route as the first privately-owned airline in Turkey to operate regularly-scheduled international flights. Today the company has a fleet of 22 aircraft and employs 1,456 people.

Turkish DO & CO

Supplies catering services to Turkish Airlines and to more than sixty other domestic and international airlines.

Commencing operations on 1 January 2007, Turkish DO & CO is a joint venture of Turkish Airlines and DO & CO Restaurants & Catering AG in which each controls a 50% stake.
Headquartered at İstanbul Atatürk Airport, Turkish DO & CO provides catering services to domestic and international airlines out of kitchens operating at nine different locations in Turkey. These kitchens turn out about 120,000 meals a day, every choice of which is carefully prepared by the company's own cooks. Turkish DO & CO has been responsible for substantial improvements in catering service quality aboard Turkish Airlines aircraft.

Turkish OPET Aviation Fuels

Provides jet fuel storage and supply services at İstanbul Atatürk and other airports in Turkey.

Turkish OPET Aviation Fuels was established on 18 September 2009. It is a joint venture of Turkish Airlines and OPET Petrolcülük A.Ş. in which each controls an equal stake.
Turkish OPET Aviation Fuels commenced operations on 1 July 2010. In addition to aviation fuels of every kind, the company also engages in the domestic and international sale, importation, exportation, distribution, and transport of chemicals, lubricants, and paints.

Goodrich Turkish Airlines Technical Service Center

Goodrich Turkish Airlines Technical Service Center will provide high-quality and effective nacelle & thrust reverser maintenance and repair services in İstanbul.

Established in 2010, Goodrich Turkish Airlines Technical Service Center is a joint venture of Turkish Technic (40%) and TSA-Rina Holdings (60%), the latter a subsidiary of Goodrich Corporation.
Goodrich Turkish Airlines Technical Service Center will provide maintenance and repairs services to Turkish Airlines and other Turkish and international airline companies.

TURKBINE Technical Gas Turbines Maintenance & Repair Inc

A collaboration that takes advantage of the technical knowledge, international experience, technical specializations, and strong brand underpinnings of each side.

Established on 28 June 2011, it is a joint venture of Turkish Tecnics and Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri A.Ş. in which each controls an equal stake.
This agreement sets out the principles governing the conduct of maintenance, repair, and overhaul services both for a variety of aircraft engines and for industrial gas turbines used in power plants. Each party controls 50% stake. The agreement forms the basis for a collaboration that takes advantage of the technical knowledge, international experience, technical specializations, and strong brand underpinnings of each side.

By continuously improving the quality, flexibility, and productivity of its operations through subsidiaries, Turkish Airlines increases its strength and influence in the world's aviation industry.

Turkish Engine Center (TEC)

Provides aircraft engine maintenance, repair, and overhaul services to customers in Turkey and its hinterland.

TEC was established on 10 October 2008. It is a joint venture of Turkish Airlines and United Technologies (Pratt & Whitney) in which Turkish Airlines controls a 51% stake.
Operating out of a high-tech, environment-friendly maintenance center with about 25,000 m^2 of area at İstanbul Sabiha Gökçen International Airport, TEC has the capacity to perform maintenance on more than 200 aircraft engines a year.

B&H Airlines

Bosnia-Herzegovina's flag carrier and only airline as well as Turkish Airlines' strategic partner in the Balkans.

Since 2009, B&H Airlines has been in operation as a joint venture of Turkish Airlines (49%), the Federation of Bosnia and Herzegovina (50.93%), and Energoinvest (0.07%).
Backed by Turkish Airlines' network strengths through existing scheduled flights and code sharing agreements, B&H Airlines offers direct flights from Sarajevo to many other European cities. The company conducts its operations with a fleet of five aircraft and 124 personnel.

TGS

Provides ground handling services at İstanbul Atatürk Airport and five other airports in Turkey.

Established on 12 March 2009 as a joint venture of Turkish Airlines and HAVAŞ Havaalanları Yer Hizmetleri A.Ş. in which each controls a 50% stake, TGS (Turkish Ground Services) has been in operation since the beginning of 2010.
TGS's goal is to serve at least 400,000 flights a year for Turkish Airlines and other domestic and international airlines at Turkey's İstanbul Atatürk, Ankara Esenboğa, İzmir Adnan Menderes, Antalya, Adana, and İstanbul Sabiha Gökçen airports. Employing close to 6,000 personnel and an equipment park of nearly 3,000 units, TGS adheres to the strictest international quality standards in the conduct of all of its ground handling services and operations.

Turkish Cabin Interior Systems Industries Inc

This company was set up in order to take a share of world markets with the products that it manufactures.

Formed on 9 May 2011, stakes of 30%, 21%, and 49% are owned respectively by Turkish Airlines, Turkish Tecnic and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ -TAI).
The objective of this joint venture, whose name is Turkish Cabin Interior Systems Industries Inc (Türk Kabin İçi Sistemleri Sanayi A.Ş.), is to undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components and to take a share of international markets with the goods and services that it produces.

Aircraft Seat Manufacturing Industry & Trade Inc

This company was set up to design and manufacture airline seats and to make, modify, market, and sell spare parts.

Formed on 27 May 2011, stakes of 50%, 45%, and 5% are owned respectively by Asan Hanil Group, Turkish Airlines, and Turkish Tecnic.
A joint venture with the Asan Hanil Group, the company was set up to design and manufacture airline seats and to make, modify, market, and sell spare parts.

HABOM

HABOM will be the biggest aviation maintenance, repair, overhaul, and modification center in the region.

Set up on 23 June 2011, the company is a wholly-owned subsidiary of Turkish Airlines.
HABOM's principal business activities consist of buying, selling, renting, leasing, maintaining, repairing, and modifying any and all manner of aircraft and aircraft equipment as well as any and all manner of aviation-related equipment, instruments, and engines; engaging in any and all manner of training activities related to such undertakings, including but not limited to seminars and courses.


NEW YORK

Industry Developments and the Forecast for 2012

Between 2003 and 2007, the world's aviation industry increased its total capacity strongly and consistently. In 2012 by contrast, capacity is expected to grow by not much more than 4%.

Despite higher fuel costs and lower confidence indexes **in many industrialized countries, the aviation industry's financial performance remained steady.**

Industry Developments and the Forecast for 2012

Airlines' profits peaked in the third quarter of 2010. As oil prices in general and jet fuel prices in particular have risen, so too have airlines' profit margins grown slimmer.

The future of both the air cargo and the passenger markets will be directly linked to how politicians approach and deal with the problems not just of debt but also of competitiveness in the eurozone.

Industry Developments

Financial Assessment

The eurozone debt crisis is having a serious impact on the aviation industry.
The biggest risk threatening airlines' profitability in 2012 will be the economic turmoil spawned by the eurozone's massive debt crisis. Even as monetary authorities continue to take steps to head off a credit crunch, it is possible that it will be necessary for them to have recourse to additional measures–including IMF support–in order to avoid the economic problems which Italy and Spain are now facing. If the eurozone's overwhelming grows deeper, there are serious risks of a banking system crisis and of having to contend with even more widespread economic weaknesses.

IATA has lowered its 2012 industry profit projection from USD 4.9 billion to around USD 3.5 billion.
Projections for 2012 suggest that there will be marked performance differences from one region to another. European airlines will likely start feeling the adverse effects of the current economic recession whereas North American airlines, which have been having recourse to capacity reduction, could see their profitability increase. In Asia, it is thought that China's airlines in particular will see significant growth in profits nourished by a still strongly expanding domestic market and by high load factors.

According to a risk assessment study published by the Organization for Economic Cooperation and Development (OECD), the overall losses sustained by the world's airline industry could reach USD 8.3 billion.

Airlines' profits most recently peaked in the third quarter of 2010. As oil prices in general and jet fuel prices in particular have risen, so too have airlines' profit margins grown slimmer. Despite this, their EBITDA margins have ranged between 5% and 10% in the three

Deviation in net profits after taxation by region (USD billion)

biggest regions: Asia-Pacific, the Americas, and Europe. Economic performance improved significantly as of the third quarter of 2011.

Although confidence indexes fell in many industrialized economies, the aviation industry's financial performance remained fairly steady even in the face of high fuel costs. One of the most crucial contributors to that performance was the ability of airlines to increase their net revenues by cutting their unit costs in all categories other than fuel. This helped keep higher fuel costs from depressing load factors. By maintaining those load factors, airlines managed to keep the average flight times of their fleets high until the third quarter of the year. Fleet average flight times in 2011 remained at about the levels that had been achieved at mid-2010. This success on the passenger side of the market helped counter the losses sustained on the cargo side.

Cargo markets are economic harbingers

Strong passenger demand also remained an important factor helping to support airlines' profitability until the third quarter. Despite plummeting confidence indexes in major economies and eroded consumer confidence in Europe and the United States, passenger volumes continued to move upwards until the third quarter. Falling confidence indexes not only nourished expectations of stock-retention among exporters but also led them to seek out cheaper shipping options as transit times became less important. One outcome of this was that the air cargo industry sustained rather more losses than did other carriers.

Cargo markets began to shrink from about the middle of the year. Between May and October, the worldwide cargo market is estimated to have contracted by about 5%. Concurrent with this was the beginning of a slowdown in world trade. Falling confidence indexes led exporters to seek out cheaper shipping options while also allowing them to be less chary of stock levels and transit times. In late 2011 the air cargo market began to grow once again. Good performance among North American carriers and developments in the Asian market in particular helped offset the adverse impact of the European debt crisis.

It seems likely that the future of both the air cargo and the passenger markets will be directly linked to how politicians approach and deal with the problems not just of debt but also of competitiveness in the eurozone. It is conceivable that both Greece's economic meltdown and the European debt crisis will be resolved with the support of the International Monetary Fund (IMF) and/or the European Central Bank (ECB). Such a development would mean that Europe could sustain its economy for yet another year–albeit with something of a contraction–and that emerging regional markets could continue to grow–albeit somewhat more slowly than was the case during the most recent two years. Nevertheless there is a distinct possibility that, owing to the feebleness of their own domestic markets, the financial performance of European airlines will lag significantly behind that of airlines in the expanding markets of other regions.

The air cargo market showed a net loss of 0.7% last year. The Asia-Pacific region witnessed the biggest air cargo market losses.

In its most recent report, the OECD stated that it was possible that all member countries' economies would contract and that the eurozone could expect to experience a long and deep recession.

In its most recently published economic report, the OECD stated that it was possible that all member countries' economies, including those of the USA and Japan, would contract and that the eurozone could expect to experience a long and deep recession. It seems likely that even emerging markets would suffer from such a turn of events. Difficult as it may be to anticipate the fallout from such a development, the OECD does show that this scenario has its roots in a crisis that stems from eurozone indiscipline, that it has damaged confidence, and that it is spreading to other countries and their financial institutions. The economic effects shown in the OECD scenario were used to calculate the financial impact of potential passenger and cargo losses in the airline industry. These projections indicate that airlines could sustain losses of more than USD 8 billion in 2012.

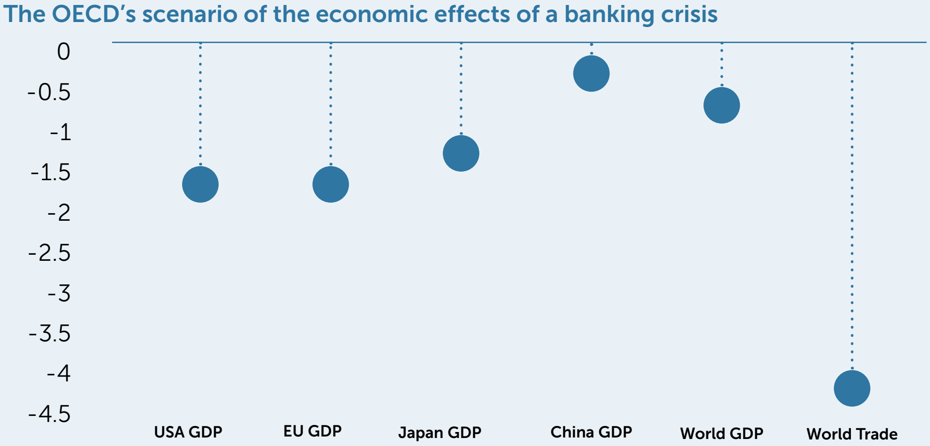
Traffic Assessment

Despite the economic crisis playing out in Europe in 2011, the passenger market as a whole did rather well, growing by 5.9% overall and registering a 6.9% rise in its revenue passenger kilometer (RPK) performance internationally. Europe's international carriers registered growth in traffic figures that were second only to those witnessed by Latin American carriers. Although a devastating earthquake and tsunami in Japan in March caused a 15.2% decline in national traffic in that country, emerging markets such as Brazil, India, and China experienced double-digit growth rates. By December of the year, there were indications that Japan's domestic lines market performance had bounced back to just 5% below what it had been before the quake.

The air cargo market showed a net loss of 0.7% last year. In the Asia-Pacific region, which is where a huge amount of the world's manufacturing output is generated and which is also the world's biggest air cargo market, international traffic and total traffic were down by 4.8% and 4.6% respectively, making this the region sustaining the biggest air cargo market losses. The biggest year-on rises in air cargo traffic on the other hand were registered in Latin American and the Middle East.

Passenger load factors remained fairly high until about the middle of 2011. Although they fell sharply in the fourth quarter, this can be largely attributed to airlines' increasing their capacity faster than the growth in their traffic. Cargo load factors, which went into decline around the middle of 2010, began to pick up slightly again with a resurgence in traffic in December 2011.

The OECD's scenario of the economic effects of a banking crisis

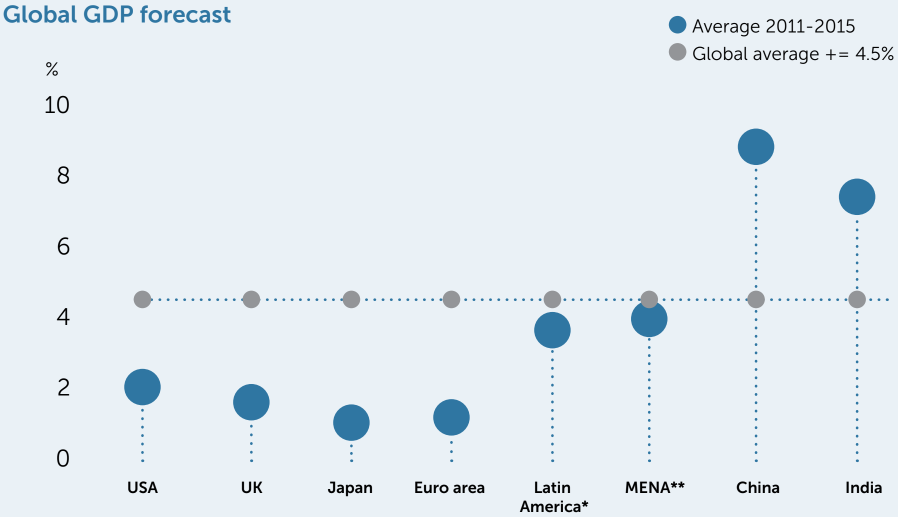


The Forecast for 2012

Economic

According to the IMF, global GDP should rise by 4% in 2011 and 2012 and continue to rise by 4.5% in 2013 and by 4.8% in 2015. Considering that the average over the last two decades has been 3.4%, this seems a remarkable expectation. The reason for it lies in the regional disparities among the IMF's GDP growth forecasts: some parts of the world will be performing better on the growth front than others. Countries like China and India and regions like Latin America & the Caribbean and the Middle East & North Africa will grow faster than the so-called "advanced economies" of North America, Europe, and Japan.

Global GDP forecast



Source: IMF
* Latin America and the Caribbean ** Middle East and North Africa

What that means is that emerging market economies are acting as the engines of global economic growth and that they are making a bigger contribution to it than developed market economies are. Indeed according to projections, emerging market economies will grow by 6.1% in 2012 and continue growing in the years that follow by rates somewhere in the 6.5-6.7% range whereas growth among the developed economies will only be 1.9% in 2012 and languish in the 2.4-2.7% range for several years thereafter.

Emerging market economies are acting as the engines of global economic growth and they are making a bigger contribution to it than developed market economies are.

According to IATA, the number of international passengers is expected to increase by 5.2% in 2012 and by around 5.7% annually in the years that follow.

Having bottomed out around mid-2009, international fares were only 20% higher in 2011.

Global trade

Air cargo transport is one of the most telling "vital signs" of the health of international trade. There is considerable evidence that the developing economies are having a bigger impact on the world's manufacturing industries than the developed economies are. While total output among the developing economies has been increasing by 8.8% a year, among the developed economies the year-on rise has been a mere 1.8%. Indications are that the chasm between the growth rates of these two economic camps will remain more or less the same in the period ahead.

Capacity

The growth in the aviation industry's carrying capacity increased strongly and steadily in the years between 2003 and 2007. It is expected to grow by about 4% in 2012.

Confidence indexes

Consumer and business confidence indexes provide important clues about respondents' estimates of consumption, business, output, and investment prospects. Confidence is certainly necessary to achieve results but it is not sufficient all by itself. Business confidence indexes tend to be more indicative of air cargo transport and premium-class passenger travel than of anything else.

Fares & rates

Fares are among the most important factors affecting demand in the aviation industry. Having bottomed out around mid-2009, international fares were only 20% higher in 2011 and they are still 10% below what they were in pre-recession days. While there is no evidence that low fares make a significant positive contribution to airlines' revenue streams, it is thought that their adverse impact is offset by the additional demand which they engender.

International air cargo rates remained relatively more stable than did passenger fares. They were at pre-recession levels at the beginning of 2011 and they increased by 8% over the next twelve months.

Traffic

According to IATA, the number of international passengers is expected to increase by 5.2% in 2012 and by around 5.7% annually in the years that follow. The overall rise in passenger numbers should be around 4.4% in 2012 and remain at something like 4.9% in the three years to end-2015.

IATA forecast for air transport markets, September 2011

% Growth Rate	2011	2012	2013	2014	2015	CAGR 2011-2015
International passengers	6.5	5.2	5.7	5.7	5.7	5.8
Total passengers	5.7	4.4	4.9	4.9	4.9	5.0
International cargo	1.7	4.5	5.8	5.9	5.5	4.7

The fastest growing countries by international passengers (Top 10)

Ranking	Country	International passengers 2010 (m)	CAGR 2011-2015 (%)	Additional passengers 2015 vs 2010 (m)
1	Uzbekistan	2.5	9.5	+1.4
2	Indonesia	17.5	9.0	+9.4
3	Kazakhstan	2.2	9.0	+1.2
4	China	59.5	8.8	+31.1
5	Iran	5.7	8.7	+3.0
6	Malaysia	25.4	8.7	+13.1
7	Cambodia	2.9	8.6	+1.5
8	UAE	57.6	8.5	+29.0
9	Ethiopia	2.3	8.4	+1.1
10	India	34.0	8.3	+16.7
	Wold Total	1,035.7	5.8	+335.1

4%

capacity increase

The growth in the aviation industry's carrying capacity increased strongly and steadily in the years between 2003 and 2007. It is expected to grow by about 4% in 2012.

2011 Traffic Results

Codesharing agreements which the company has entered into with other airlines added 70 destinations to the flight network list, bringing the total number to 259.

In 2010 Turkish Airlines flew to 42 domestic and 132 foreign airports. **With the addition of 21 new destinations in 2011, that number reached 196 of which 44 are domestic and 152 are international.**

As of end-2011, the number of cities to which Turkish Airlines operated flights reached 189.

20

new international destinations

In 2011 Turkish Airlines inaugurated regularly scheduled flights to twenty new international destinations.

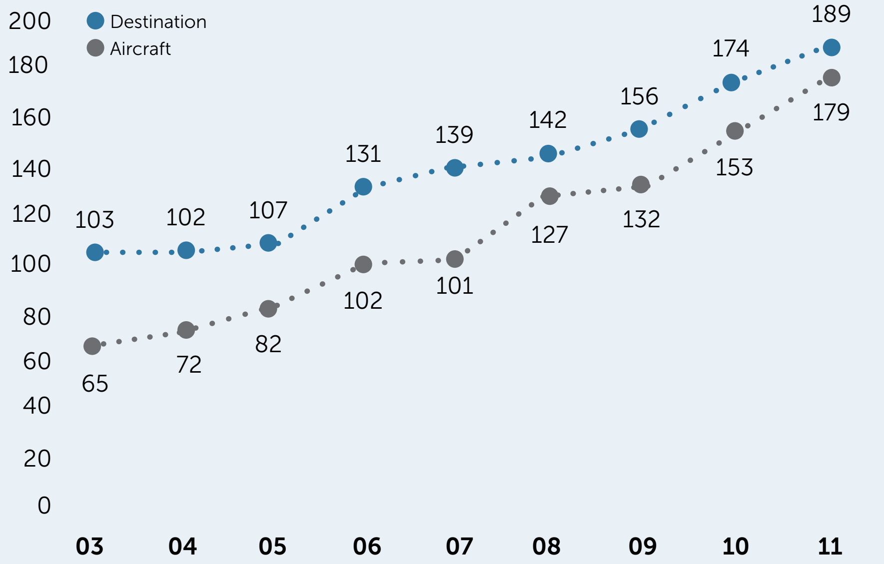
At 189 destinations in 82 countries...

More flights through a more extensive flight network

Turkish Airlines continued to strengthen its standing as a global network carrier in the international arena by increasing the total number of flights it conducted last year. This was in line with its strategic plan of promoting its home base İstanbul as a major international airline hub by providing as many scheduled connections as are needed to make it a regional bridge for passengers moving between destinations in Central Asia, the Balkans, Africa, and the Middle East on the one hand and those in the Far East, the Americas, and Europe on the other.

In 2011 Turkish Airlines inaugurated regularly scheduled flights to twenty new international destinations. This was more new routes introduced by the company in any single twelve-month period since the record-breaking year of 2006 that witnessed 24 new routes.

2003-2011 Fleet size vs destinations



Codesharing agreements further expand our flight network

As of end-2011, the number of cities to which Turkish Airlines operated flights reached 189. Codesharing agreements which the company has entered into with other airlines adds another 70 destinations to the list, bringing the total number to 259.

Codesharing partners (as of end-2011)

- All Nippon
- Asiana Airlines
- Air Malta
- Aerosvit
- Air India
- Austrian Airlines
- Air China
- B&H Airlines
- Crotia Airlines
- Egypt Air
- Ethiopian Airlines
- Garuda Indonesia
- Etihad Airways
- Lufthansa
- Lot Polish Airlines
- Syrian Arab Airlines
- Singapore Airlines
- Swiss
- Spanair
- Royal Air Maroc
- Pakistan International
- Malaysia Airlines
- TAP
- TAM Linhas Aereas
- Thai Airways
- Tataristan Airlines
- US Airways
- United Airlines

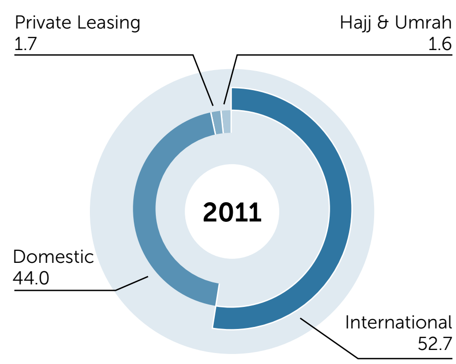
In 2010 Turkish Airlines flew to 42 domestic and 132 foreign airports. With the addition of 21 new destinations in 2011, that number reached 196 of which 44 are domestic and 152 are international. At end-2011, Turkish Airlines was flying in and out of 196 airports in 189 cities, in 82 countries. Additional flights were also planned and operated in order to respond to extra passenger demand on heavily traveled routes. In 2011, 1,670 extra flights were operated on which 183,665 passengers were carried.

In addition to regularly-scheduled flights, 3,683 Hajj and Umrah flights were operated. 509,634 passengers were carried on these flights, which number corresponds to a year-on rise of 30%. The remaining capacity from scheduled flights are planned for charter flights. A total of 3,072 charter flights were operated on which 549,674 passengers were carried.

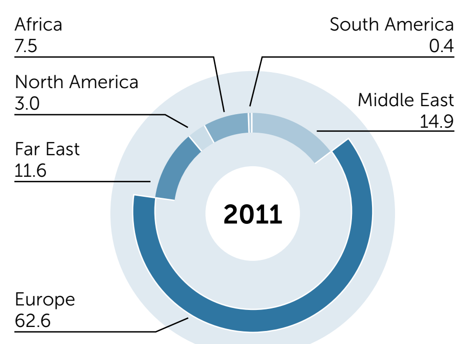
Continuing to carry out marketing and sales both in its home market and internationally in 82 countries, Turkish Airlines seeks to expand the scope of its intercontinental reach. An analysis of total international passengers carried on both scheduled and unscheduled flights shows that the majority (63%) are associated with European destinations. When growth in capacity and passenger numbers is considered however, the most outstanding regions are the Americas and the Far East.

Change (%)	Available seat - kms	Revenue Passenger - kms	Total passengers carried	Cargo + mail (tons)
Middle East	19.7	18.9	15.4	9.4
Europe	9.5	12.5	12.4	13.2
Far East	45.5	34.4	33.6	51.9
North America	83.1	68.2	61.6	23.0
Africa	13.4	14.7	3.7	49.0
South America	66.2	42.5	36.7	100.7

Passenger breakdown by operation type (%)



Passenger breakdown by region (%)

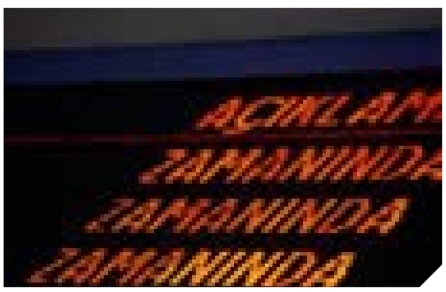


Turkish Airlines registered a 25% rate of growth in its total capacity while the total number of its passengers increased by 12%.

77%

load factor in domestic routes

Despite steadily growing competition on domestic routes in 2011, Turkish Airlines increased its capacity there by 7% and maintain the 77% load factor it had in 2010.



Despite steadily growing competition on domestic routes in 2011, Turkish Airlines decided to increase its capacity there by 7%. What with a 7% rise in total traffic, the company was able to maintain the 77% load factor it had in 2010.

With the addition of new wide-body aircraft, there was a 28% increase in capacity on Turkish Airlines' international routes. Although natural and nuclear disaster in Japan and political developments in Africa and the Middle East adversely affected the company's international route traffic for a time, it began to recover beginning with the second quarter of the year. It eventually surpassed the previous year's level by 17% and reached 18.1 million passengers.

Overall Turkish Airlines registered a 25% rate of growth in its total capacity in 2011 while the total number of its passengers increased by 12% and reached 32.6 million.

Domestic flights

	2011	2010	2009	2008	2007
Revenue passenger (000)	14,488	13,645	11,692	11,063	9,984
Available seats-kms (million)	11,164	10,437	9,038	8,488	8,117
Revenue passenger-kms (million)	8,584	8,007	6,819	6,417	5,924
Passenger load factor (%)	76.9	76.7	75.4	75.6	73.0
Number of destinations	44	42	38	34	33
Number of landings	120,677	112,842	97,697	92,593	87,162
Kms flown (000)	70,757	65,576	56,313	53,372	51,016
Cargo (ton)	34,415	35,353	33,037	34,305	35,518
Mail (ton)	3,025	3,971	3,549	3,427	3,555
Excess baggage (ton)	1,879	1,700	1,450	1,589	1,538
Available ton - kms (million)	1,273	1,191	1,047	1,000	946
Revenue ton - kms (million)	813	757	652	615	570
Overall load factor (%)	63.9	63.6	62.3	61.5	60.3

International flights

	2011	2010	2009	2008	2007
Revenue passenger (000)	18,160	15,474	13,410	11,534	9,652
Available seats-kms (million)	70,029	54,663	47,536	37,855	33,502
Revenue passenger-kms (million)	50,349	39,943	33,311	27,848	24,327
Passenger load factor (%)	71.9	73.1	70.1	73.6	72.6
Number of destinations	152	132	120	111	109
Number of landings	149,941	132,384	116,256	96,735	81,737
Kms flown (000)	348,356	292,794	255,556	208,752	181,131
Cargo (ton)	340,627	267,630	197,672	157,629	141,990
Mail (ton)	9,711	7,002	3,802	3,529	3,159
Excess baggage (ton)	2,291	1,929	2,284	2,163	1,924
Available ton - kms (million)	10,653	7,845	6,748	5,147	4,589
Revenue ton - kms (million)	6,654	5,137	4,132	3,378	2,979
Overall load factor (%)	62.5	65.5	61.2	65.6	64.9

Total traffic results

	2011	2010	2009	2008	2007
Revenue passenger (000)	32,648	29,119	25,102	22,597	19,636
Available seats-kms (million)	81,193	65,100	56,574	46,343	41,619
Revenue passenger-kms (million)	58,933	47,950	40,130	34,265	30,251
Passenger load factor (%)	72.6	73.7	70.9	73.9	72.7
Number of destinations	196	174	158	145	142
Number of landings	270,618	245,226	213,953	189,328	168,899
Kms flown (000)	419,113	358,370	311,869	262,124	232,147
Cargo (ton)	375,042	302,983	230,709	191,934	177,508
Mail (ton)	12,796	10,973	7,351	6,956	6,714
Excess baggage (ton)	4,170	3,629	3,734	3,752	3,462
Available ton - kms (million)	11,926	9,036	7,795	6,147	5,535
Revenue ton - kms (million)	7,467	5,894	4,784	3,993	3,549
Overall load factor (%)	62.6	65.2	61.4	65.0	64.1

72%

load factor in international routes

Despite many developments that adversely affected the company's international route traffic, the load factor was 72% thanks to 28% capacity increase.

Fleet

The addition of 31 new aircraft made 2011 the year during which Turkish Airlines' fleet grew the faster than in any other twelve-month period in the company's 78-year history.

Meeting the demands of growing passenger traffic and changing customer needs while always attaching importance to passengers' comfort as well as safety, and purchasing only advanced technology-equipped, fuel-economizing, and environment-friendly aircraft, **Turkish Airlines takes significant steps towards strengthening its brand.**

Rejuvenated its fleet by ordering 92 aircraft Turkish Airlines continuously raises the standards by which its success is measured.

179

aircraft

Turkish Airlines' fleet, which numbered 65 at the beginning of 2004, reached 179 as of end-2011.

As our fleet continues to grow, its average age goes down.
Meeting the demands of growing passenger traffic and changing customer needs while always analyzing costs, attaching importance to passengers' comfort as well as safety, and purchasing only advanced technology-equipped, fuel-economizing, and environment-friendly aircraft, Turkish Airlines takes significant steps towards strengthening its brand.

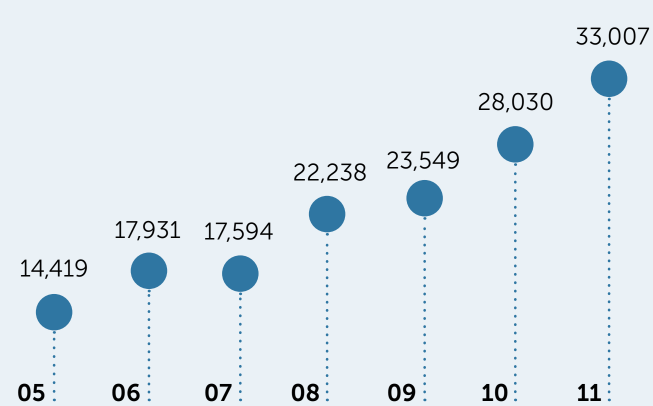
Turkish Airlines launched its initial expansion with a decision to purchase 51 new aircraft in 2004. That was followed up in 2005 with the exercise of its option to order another 8. The company's current expansion process is being governed by its "2008-2023 Fleet Projection". Turkish Airlines' fleet, which numbered 65 at the beginning of 2004, reached 179 as of end-2011. This corresponds to a 175% rate of growth over the interval that was nourished by 65 narrow-body passenger, 22 wide-body passenger, and 5 cargo aircraft whose purchase decisions were made in 2009, 2010, and 2011.

With its priority goal of joining the ranks of the top three airlines in Europe, Turkish Airlines reviews and updates its fleet plan at the end of every year in light of such considerations as exploiting opportunities, managing risks, ensuring sustainability, and dynamically planning capacity through its strategies of increasing both the size and the density of its flight network. In line with this and in keeping with its announcement in October 2008 of its intention to purchase a total of 105 aircraft (75 confirmed with options on another 30), the company rejuvenated its fleet by ordering 92 aircraft (65 narrow-body and 22 wide-body passenger plus 5 cargo). Such purchases decisions are one way that Turkish Airlines continuously raises the standards by which its success is measured.

Twenty-two wide-body orders were placed consisting of ten A330-300 (for delivery in 2010-2012) and of twelve B777-300ER (for delivery in 2010-2011). As of end-2011, all of the latter and seven of the former had been taken in delivery.

In the case of the company's narrow-body acquisitions, orders were placed for 6 A319-100, 24 A321-200, 20 B737-800, and 15 B737-900ER aircraft of which all of the A319-100 and two each of the B737-800 and B737-900ER are now in operation. Deliveries of the remaining aircraft on order are scheduled to take place over a four-year period beginning with the current one (2012-2015). In addition to these purchases, Turkish Airlines decided to order another three A330-200F, following up the two for which it placed orders in 2009. These additional aircraft will be delivered before the end of 2014.

Total seat capacity

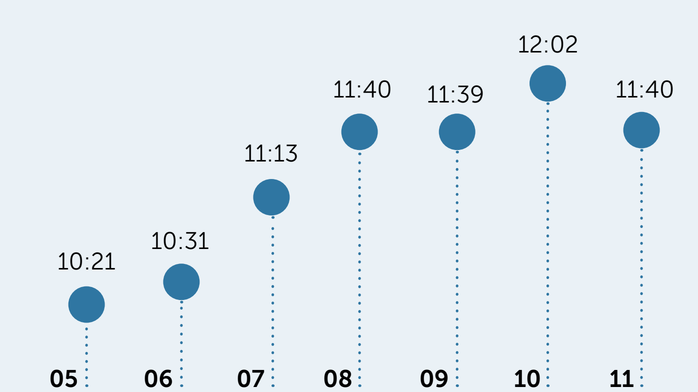


Fleet (as of end-2011)

Aircraft type	Number	Fleet age	Total capacity (Seat)
Commercial aircraft			
A340-300	9	15.2	2,574
A330-200	7	6.7	1,812
A330-300	7	1.1	2,023
B777-300ER	12	1.0	4,044
A319-100	10	2.7	1,320
A320-200	27	4.7	4,322
A321-200	28	4.0	5276
B737-400	3	19.9	450
B737-800	54	8.4	8,898
B737-700	14	5.7	1,986
B737-900	2	0.1	302
Cargo aircraft			
A310-300F	4	23.5	-
A330-200F	2	0.3	-
Total	179	6.4	33,007
Commercial aircraft-average age	6.0		

Taking its own aircraft order delivery dates into account, Turkish Airlines leases aircraft in order to meet its interim demand and fleet-renewal requirements. Turkish Airlines makes these leasing decisions in such a way as to refrain from increasing the average age of its fleet and to maintain the overall unity of its aircraft family.

Daily utilization rate



Turkish Airlines fleet characteristics

young

comfortable

latest technology

efficient

dynamic

flexible

family concept - compatible

environment-friendly

competitive

reliable


TURKISH
CARGO

Cargo

With its fleet of 179 passenger and cargo aircraft and with direct flights to 196 airports as well through its logistical services arrangements, Turkish Airlines has become an airline that supplies efficient air cargo services to its customers in the national and international arenas.

By the end of the year, the company had increased the number of its aircraft to six and was operating **scheduled air cargo flights to 33 destinations.**

Turkish Airlines increased its total air cargo revenues by 39% to USD 637 million in 2011.

23%

increase in total carried freight

Total carried freight increased by 23% year-on to 388 thousand tons.

Strong cargo services in the national and international arenas

At end-2011, Turkish Airlines ranked among the world's fastest-growing airlines in the international arena. At a time when European airlines were averaging air cargo FTK (freight ton kilometer) growth rates on the order of 2.8%, Turkish Airlines' 38.7% performance represents a truly outstanding successful achievement. With its fleet of 179 passenger and cargo aircraft and with direct flights to 196 airports as well through its logistical services arrangements, Turkish Airlines has become an airline that supplies efficient air cargo services to its customers in the national and international arenas.

Strong growth in air cargo revenues despite the economic crisis

Despite the economic crisis prevailing in 2010, Turkish Airlines performed well, increasing its total air cargo revenues of USD 457 million in 2010 by 39% to USD 637 million in 2011 and, during the same period, its average unit revenue by 13% from USD 1.45/kg to USD 1.64/kg. Total carried freight also increased by 23% year-on from 313,956 tons to 387,838 tons.

At the beginning of 2011 Turkish Airlines was operating five cargo aircraft (4 A310-300F and 1 A330-200F) on scheduled flights to 26 destinations. By the end of the year, it had increased the number of its aircraft to six with the addition of another A330-200F and was operating scheduled air cargo flights to 33 destinations.

The A330-200F cargo aircraft added to the fleet in 2011 made it possible to open many new routes to destinations such as Riyadh, Bombay, and Lagos. Air cargo flights to Frankfurt and Milan, two major freight destinations for Turkish Airlines in Europe, were also supported by its pair of A330-200F aircraft.

Paralleling increases in its air cargo capacity resulting from changes in fleet size and composition, the share of its air cargo revenues in its total revenues in Europe, Asia, and the Americas increased significantly year-on. The most significant rise in total volume of cargo carried in 2011 took place in freight taken out of Turkey to international destinations, which was up by 27.6% though there was also a hefty 42.5% rise in the company's transit cargo revenues as well. The ratio of transit cargo to the total increased by one percentage point to the 53% level.

In 2011 the company secured USD 14 million in net revenues on all of its air cargo transport (scheduled, unscheduled, chartered) activities.

Scheduled air cargo destinations:

Turkish Airlines secured USD 10.6 million in income on its air cargo chartered flights in 2011.

Turkish Cargo shapes its freight-carrying network according both to market developments and to growth in capacity.

Steadily growing performance in air cargo charter flights

Thanks particularly to the competitive advantages afforded by its A330-200F aircraft, Turkish Airlines registered significant year-on growth in its air cargo chartered flights. A total of 105 such flights were conducted, of which 64 were commercial and 41 were in the nature of humanitarian aid. The company secured USD 10.6 million in income on its air cargo chartered flights in 2011.

	2011	2010	11/10 (% Change)
Number of cargo aircrafts	6	5	20.0
Cargo destinations	33	26	26.9
Number of landings	270,618	245,226	10.4
Passenger flights	265,674	241,188	10.2
Cargo flights	4,944	4,038	22.4
Cargo+mail (tons)	387,838	313,956	23.5
Passenger flights (tons)	271,209	222,982	21.6
Cargo flights (tons)	116,629	90,974	28.2

Although there was an absolute decline in domestic freight transport aboard passenger aircraft in 2011, the rise in international cargo was such as to result in overall increases of 21.5% and 33.1% respectively in volume and income.

Turkish Cargo shapes its freight-carrying network according both to market developments and to growth in capacity. It has been expanding its flight network by conducting flights to developing countries and to destinations where air cargo transport is growing rapidly in addition to the flights on its existing routes to air cargo centers in Asia and Europe.

Scheduled flights are made to Asia's developing markets such as Almaty, Bishkek, and Tashkent as well as to such major markets as those in China and India. Cargo flights have been launched to destinations in Russia and Eastern Europe where there is also strong growth. With the addition of Stockholm, Moscow, Budapest, and Tirana, the number of European destinations to which scheduled cargo flights are made has reached 14.

Seeking to transform the market vigor resulting from political changes in the Middle East and from rapid recovery in Africa into business opportunities through long-term investments, Turkish Cargo increased the number of flight destinations in the Middle East and Africa to 12. The company has been expanding its air cargo network by conducting scheduled flights to such developing markets as Saudi Arabia, Nigeria, and Ethiopia as well as to North African countries whose air cargo markets have been burgeoning such as Libya, Morocco, and Algeria.

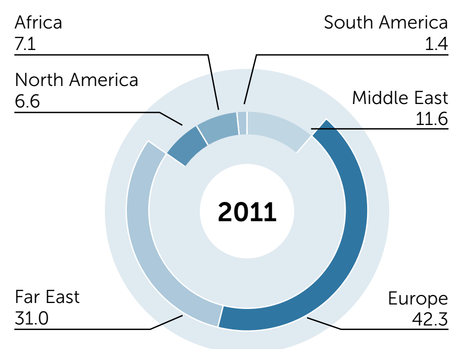
The addition of developing markets in Africa, the Middle East, Eastern Europe, and Russia to the company's air cargo network has contributed significantly towards the fulfillment of Turkish Airlines' vision of making İstanbul a regional cargo transport hub by increasing air cargo traffic between Asia and Europe.

Two factors contributed significantly towards the growth in revenue yields in 2011. The first of these was an increase in the movement of "special cargo", which is freight that needs special handling (such as live animals, hazardous materials, human remains, and delicate/fragile items). Although such freight commands higher unit costs than general cargo, it differs hugely in terms of its carrying/handling requirements and varies considerably from one region to another. The total volume of the cargo in this category that was carried was up by 12% year-on, increasing from 49 million kilograms to 56 million kgs while the income generated by such cargo increased by 20% from USD 73 million to USD 92 million during the same 12-month period.

The second important reason for the rise in revenue yields was higher FSC (fuel surcharge) resulting from worldwide higher oil prices throughout the world. Among the company's goals in 2012 and the years that follow is to increase the volume of pharmaceutical and other heat-sensitive cargo and also to offer a wider range of express cargo items as such business lines contribute significantly to revenue optimization because they command higher unit income charges. Improvements are currently being made in the company's operational and technological infrastructures in order to achieve these goals.

In 2011 particular attention was given to operating Turkish Airlines' wide-body passenger planes along the world's east-west routes in parallel with growth in the demand for cargo capacity. There was a 45% year-on increase in the amount of freight carried aboard B777 and A330-340 passenger aircraft. Although the belly cargo capacity utilization rate fell (owing to the higher capacity available on these aircraft), the company was able to keep the rate on its wide-body passenger planes above 60%.

Cargo breakdown by region (%)



MRO

The services which Turkish Technic provides its customers consist primarily of line maintenance, station maintenance, and component maintenance.

Working through new joint ventures, in 2011 Turkish Technic began working on projects which, when completed, will enable it to enter three more business lines: **industrial gas turbines, engine propulsion systems and engine housing systems, and cabin interior equipment.**

Turkish Technic's four hangars have a total combined enclosed space of 73,500 m² in which it provides maintenance and repairs services for airlines and for VIP jet operators.

>600

customers

While its most important customer is Turkish Airlines, Turkish Technic also serves more than 600 others from Europe, Asia, the Americas, and Africa.

A leading aircraft maintenance center in its region

The services which Turkish Technic provides its customers consist primarily of line maintenance, station maintenance, and component maintenance. In 2010 Turkish Technic began making its experience with component pool services for Turkish Airlines aircraft available to the fleets of others. In 2011 there was a significant increase in this business line.

Turkish Technic's four hangars located in İstanbul and Ankara have a total combined enclosed space of 73,500 m² in which it provides maintenance and repairs services for airlines and for VIP jet operators. It is a leading aircraft maintenance center in the region. It also provides component maintenance and repair services through shops specializing in everything from engines and auxiliary power units to landing gear. While its most important customer is Turkish Airlines, Turkish Technic also serves more than 600 others from Europe, Asia, the Americas, and Africa.

Turkish Technic provides line and station maintenance services for the following aircraft: Boeing 737 Classic and Next Generation (NG), Boeing 777, Airbus A320, Airbus A300, Airbus A310, Airbus A330, Airbus A340, Gulfstream G-IV, Gulfstream 550, Cessna 172, and Diamond DA42. In addition, Turkish Technic has the ability to conduct all of the maintenance on an aircraft by providing support for landing gear, avionics components, hydraulic/pneumatic components, brake systems, tires and rims, and mechanical components. Turkish Engine Center, a company in which Turkish Technic controls a stake, provides maintenance and repair services for CFM56 series and V2500 engines. Working through new joint ventures, in 2011 Turkish Technic began working on projects which, when completed, will enable it to enter three more business lines: industrial gas turbines, engine propulsion systems and engine housing systems, and cabin interior equipment.

HABOM: A new international aviation maintenance and repairs center

In order to make more effective use of the experience and skills that it has acquired over the years as well as of the highly-qualified and well-trained people that it employs, to maximize the strategic benefits of its geographical location, and to take greater advantage of a rapidly growing domestic and international aviation market, Turkish Technic decided to set up a new international aviation maintenance and repair center. Called HABOM (Havacılık Bakım Onarım ve Modifikasyon Merkezi / Aviation Maintenance, Repair and Overhaul Center), work continued on this project without letup in 2011.

With an investment cost close to USD 450 million, the center will have 370,000 m² of enclosed space when it becomes operational. Incorporating the very latest in technology as well as all essential amenities, HABOM is a modern aviation maintenance and repair complex whose design is based around the "campus" concept. There will be two separate hangars (one for narrow- and one for wide-body aircraft), workshops capable of maintaining, repairing, and modifying all aircraft components, and a manufacturing and R&D center. It will be possible to perform maintenance simultaneously on 12 narrow-body and 3 wide-body aircraft in their respective hangars.

Operations will begin at HABOM with the opening of the narrow-body hangar in the first quarter of 2012. All construction work at the center is slated for completion by the last quarter of 2013, at which time HABOM will be the biggest aviation maintenance, repair, and overhaul center in the region.

Turkish Technic employs a team of experienced engineers to keep watch on all sectoral developments in order to respond to the increasing demand for its services. Projects which are to be undertaken as laid out in its strategic plan for 2010-2015 are intended to make the company into more than just a traditional supplier of aviation maintenance and repairs services: its goal is to be design, manufacturing, and R&D company as well.

Turkish Engine Center has increased the number of customers it serves.

The Turkish Engine Center (TEC) is Turkish Technic's first joint venture with Pratt & Whitney, one of the world's three biggest manufacturers of aircraft engines. The center continued its maintenance operations in 2011 and increased the number of customers it serves. It is currently providing maintenance services for CFM56 and V2500 engines. The Turkish Engine Center received LEED Gold Standard certification in 2010.

Goodrich Turkish Service Center

Goodrich Turkish Service Center, TEC's other subsidiary, commenced operations in June 2011. The company occupies newly-constructed building with about 4,000 m^2 of indoor space located in the Gebze Industrial Park outside İstanbul. The first undertaking of its kind in this business line in the region, Goodrich Turkish Service Center will be developing its ability to perform maintenance on V2500 and CFM56-7B engines initially. It subsequently plans to provide maintenance, repair, and overhaul services on the thrust reverser and nacelle components which are used in the CFM56 series, V2500, CF6-80, Trent 700/800, GE90, and PW4000 engines as well.

TURKBINE Technical Gas Turbines Maintenance & Repair Inc

Through TURKBINE Technical Gas Turbines Maintenance & Repair Inc, a joint venture with Zorlu O&M, Turkish Technic has entered a new business line in which the two firms combine their abilities, technologies, and experience to carry out maintenance and repair operations on the LM series industrial gas turbines that are used in combined-cycle power plants. The new company will also be providing maintenance and repairs services for CF6-80 series gas turbines.

Turkish Cabin Interior Systems Industries Inc

In December 2010, Turkish Technic and TUSAŞ (Türk Havacılık ve Uzay Sanayi A.Ş.) entered into an agreement to join forces and undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components. The joint venture company, called Turkish Cabin Interior Systems Industries (TCI Kabin İçi Ekipmanları), began working on its first cabin interior product manufacturing project at the beginning of 2011: the design and development of aircraft galleys and equipment. The company has already produced prototypes of G1 and G4 galleys for Boeing 737-800 aircraft and is now testing them. Work is also continuing on developing other galley prototypes for the same aircraft. The company's immediate objective is to have a full shipset ready by March 2012 in time for Boeing's supplier selection procedures.

Aircraft Seat Manufacturing Industry & Trade Inc

While continuing with its other activities in 2011, Turkish Technic took its first step towards becoming an aviation original equipment manufacturer through a joint venture that it entered into with the firm of Assan Hanil. The company, called Uçak Koltuğu Üretimi Sanayi Ticaret A.Ş. (Aircraft Seat Manufacturing Industry & Trade Inc), inaugurated design work in 2011 and plans to release its first prototype during the first quarter of 2012. The company is working on the industrial design aspects of economy-class seats with the aim of making improvements in them.

- Skyscanner 2011 World’s Best On Board Food
- Skytrax 2011 World’s 2nd Best Business Class Catering
- Skytrax 2011 World’s 2nd Best Premium Economy Class Catering
- Skytrax 2011 World’s Best Economy Class Catering

Catering

Committed to offering its guests a delicious as well as an enjoyable experience as they travel across the skies, Turkish Airlines was placed second in Skytrax's rankings of the world's best-catered airlines in both the economy and business classes in 2011.

In a survey conducted by Skyscanner, Europe's premier airline search engine, **Turkish Airlines ranked first among 19 airlines from all over the world whose passengers said they most appreciated the in-flight food which was served to them.**

Catering

Turkish DO & CO recognizes that the best quality and highest passenger satisfaction are its foremost priorities.

Following up the innovative launch of live TV broadcasts, Turkish Airlines has added high-speed Wi-Fi internet connectivity as well.

Flying Chefs: Turkish Airlines' "Fine Dining Ambassadors"

The excellent food and service provided by Turkish DO & CO, a joint venture set up in 2007 in which Turkish Airlines controls a 50% stake, made a substantial contribution to the awards which the company received in 2011. Under Turkish DO & CO's "Flying Chefs" program, which was inaugurated in 2010 and which was extended to encompass all of the airline's extended-range (more than 8-hour) intercontinental flights in 2011, food service professionals support cabin crews in the preparation of meals served to Business and First class passengers. Never resting on its laurels, Turkish DO & CO constantly improves the quality of its food and service based on passenger feedback.

As Turkish Airlines' "Fine Dining Ambassadors", Flying Chefs help ensure that the goods and services supplied by catering firms anywhere in the world comply with the same standards as apply to those on aircraft departing from Turkey. They do this by providing feedback and, when necessary, on-location training.

Another Turkish Airlines program for which passengers have expressed great appreciation is "Sky Picnic", which was launched on domestic flights in 2011.

A world first: Live TV and Wi-Fi internet on intercontinental flights

Making use of the Global Communication Suite (GCS) which was developed by Panasonic Avionics Corporation and which gives passengers with worldwide connectivity during flight via the PLANET IFE platform, Turkish Airlines has begun providing passengers with live TV service for the first time in the world on intercontinental flights aboard aircraft equipped with this system. In the first stage of the GCS rollout, passengers have access to real-time broadcasts on the BBC World, BBC Arabic, Euronews, and Barclay's Premier League channels. Turkish Airlines plans to add Turkish-language channels and sport channels to the lineup of offerings in the near future.

Following up the innovative launch of live TV broadcasts, Turkish Airlines has added high-speed Wi-Fi internet connectivity as well.

Initially made available free of charge at its introduction, Wi-Fi connectivity gives Turkish Airlines passengers high-speed, uninterrupted access to the internet from any wireless-equipped device which they may have with them such as a laptop, tablet, IPhone, IPad, Blackberry etc. Users can even send and receive emails with large attachments and link up to their own virtual private networks via the Turkish Airlines-provided service.

The system is very easy to use. After the introductory phase, accessing the system will be subject to a charge. During flight, passengers will be required to obtain user ID and password information, which they will be able to pay for using their credit card information. In addition total wireless internet connectivity, passengers will have access to the latest Turkish and international news, to the Miles&Smiles accounts, and to other online customer services via the PLANET portal from screens on the back of the seat in front of them.

Electrical outlets on seats in all classes aboard all Turkish Airlines aircraft on which the PLANET GCS system is installed will allow passengers to top up the charges on their devices so that they will be able to take full advantage of the internet access they have paid for without interruption.

The PLANET GCS system is currently active on one of Turkish Airlines' B777-300ER aircraft. The company plans to complete system installation and activation on the other 11 B777-300ER and on the 10 Airbus A330-300 aircraft in its fleet in the near future.

Turkish DO & CO

A joint venture of DO & CO and Turkish Airlines, Turkish DO & CO has been serving the Turkish market since 2007. Turkish DO & CO currently provides service to about 60 airlines operating in and out of Turkey. Having grown rapidly along with Turkish Airlines, Turkish DO & CO now controls about a 70% share of the in-flight catering market in Turkey.

Recognizing that the best quality and highest passenger satisfaction are its foremost priorities, the catering concepts and approaches which Turkish DO & CO has assistant for Turkish Airlines are informed by venerable notions of Turkish hospitality. Menus feature select choices from traditional Turkish cuisine as well as tasty offering from around the world. All meals are hand-prepared each day using nothing but the best and freshest ingredients available and in full compliance with the highest international standards of hygiene. Specially-trained cabin personnel on every flight abide by strict rules as they serve passengers. Along with this new catering concept, new equipment has also gone into use aboard Turkish Airlines aircraft.

Another aspect of this new concept is "Flying Chefs", a service that is to be introduced on all of Turkish Airlines' long-distance flights. A hundred and fifty Flying Chefs are now working on 16 of Turkish Airlines' routes.

To measure in-flight service quality and spot potential problems, surveys are regularly conducted to determine passengers' satisfaction with it. Since the introduction of Turkish Airlines' new catering concept in 2007, the overall level of passenger satisfaction has risen from 49% to 98%.

In a survey conducted in 2010 by Skytrax, the catering service provided by Turkish DO & CO aboard Turkish Airlines' economy-class flights was ranked the best in the world. In a similar Skytrax survey carried out last year, Turkish DO & CO's catering service on all business-, premium economy-, and economy-class Turkish Airlines flights was chosen as the world's second-best.

Lounge İstanbul has opened for service.

Having undergone a complete renovation, the Turkish Airlines International CIP Lounge at Atatürk Airport reopened for service under the management of Turkish DO & CO on 20 July 2011 as the "Lounge İstanbul".

Decorated and furnished in a style that reflects Turkey's rich cultural heritage, Lounge İstanbul is capable of fully meeting all the needs of passengers of every age. Occupying 3,000 m^2 of indoor space, the lounge contains not only every essential amenity but also sports such features as a cinema, a library, private relaxation rooms, a kids' playroom, and much more. Turkish DO & CO employs a staff of 80 people to provide around-the-clock service to passengers at Lounge İstanbul.

150

Flying Chefs

150 Flying Chefs are now working on 16 of Turkish Airlines' routes.


CAE Simfinity
CAE Simfinity

Training

The Turkish Airlines Aviation Academy's academic and technical resources make it an important aviation training center not just in Turkey but in the surrounding region as well.

The academy has defined its high-priority goal as **"becoming a respected brand which enjoys worldwide recognitions, which is preferred, and which first comes to mind whenever members of its target audience have training needs."**

Training

The Flight Training Center supplies training to about 16,000 people a year.

1,522

training courses

In addition to Turkish Airlines' own personnel, 1,522 training courses were provided for about 15,000 people employed by more than 200 firms.

Ground training

The Turkish Airlines Aviation Academy's academic and technical resources make it an important aviation training center not just in Turkey but in the surrounding region as well. Offering a broad curriculum of courses and subjects for study, the academy's goal is to meet all of the sector's training needs in the best way possible while also focusing maximum attention on customer satisfaction. With a wide range of classroom, workshop, onboard, and e-learning training opportunities, the academy provides theoretical and practical training in everything from technical issues to commercial concerns and from ground and passenger services to managerial and behavioral skills. Special courses deal with such matters as overcoming fear of flying, human factors, and aviation-industry-specific English language training. The academy regards obtaining international accreditation for all of its training activities as one of its highest priorities.

Making its presence felt at the international level through its quality-focused service approach, the academy has defined its high-priority goal within the framework of a vision that is in line with Turkish Airlines' own strategies and principles as "becoming a respected brand which enjoys worldwide recognitions, which is preferred, and which first comes to mind whenever members of its target audience have training needs."

In addition to Turkish Airlines' own personnel, 1,522 training courses were provided for about 15,000 people employed by more than 200 firms consisting of domestic and international aviation companies, maintenance centers, cargo carriers, travel agencies, universities, and airport management companies.

The Turkish Airlines Aviation Academy has been awarded IATA certification as a training center. Besides holding formal qualifications in their respective fields, all of its training personnel have hands-on, practical experience which they have acquired over many years in the conduct of their professionals and which they impart to their students.

Having performed maintenance on aircraft for lengthy periods of time, the academy's technical trainers make the practical knowledge and experience which they have built up over the years available in the classroom. At the same time, technical trainers also refresh and update their own professional knowledge and certification by attending long-term training programs conducted at the training centers of such aircraft manufacturers as Boeing and Airbus.

Cargo training is also provided by specialists who have practical experience working in cargo-handling units.

The Turkish Airlines Aviation Academy achieved its strategic target of Regional Training Partnership with IATA which it had set for 2011. Our strategic objectives for 2012 are to expand the academy's EASA 147 theoretical training authorization and obtain practical training authorization as well and to set up a 147 Basic Training School. At present there is no facility either in Turkey or in its hinterland that is certified to provide basic aviation training.

Another of the academy's 2012 objectives is to plan and conduct aviation training in collaboration with the national carriers of developing countries, particularly those in Africa and Central Asia.

Flight training

The Flight Training Center has been responsible for and actively providing all flight-related training to cockpit and cabin personnel since 1994. With seventeen years of experience in the field, the center supplies training to about 16,000 people a year.

Equipped with 14 training aircraft (ten single-engine Cessna C-172s, two twin-engine Diamond DA 42s, and two jet-engine Cessna Citation C510s), eight flight simulators, two cabin emergency evacuation trainers (CEET), one flight and navigation procedures trainer (FNPT II), four integrated procedure trainers (IPT), two cabin services trainers (CST), four computer base trainers (CBT) as well as 32 classrooms and an auditorium, the center is professional training facility that serves national and international customers while also providing ongoing flight training to Turkish Airlines personnel.

The growth momentum that Turkish Airlines has achieved in the course of the last decade creates opportunities for the Flight Training Center to collaborate with its business partners. In line with this, the center works continuously with domestic and international simulator centers and with other training agencies and organizations in the sector in order to support greater market integration.

Professional training

At a time when many other airlines are cutting back or postponing operational and training investments owing to the global economic crisis, Turkish Airlines has been keeping pace with the increased operational and training demands imposed by the rapid growth in its fleet by acquiring simulators and training aircraft and by increasing training time in order to maintain its cockpit and cabin training standards.

As a Type Rate Training Organization (TRTO) and Flight Training Organization (FTO) certified by the Turkish Civil Aviation Authority, the Flight Training Center holds IQNet-accredited TSE 9001, 14001, and 18001 quality standard certifications. It is also authorized in Turkey by the health ministry as a first aid center and by the education ministry as a educational institution.

During 2011, training was provided to 4,548 cockpit personnel with each receiving training in at least one of 29 different areas with particular attention being given to conversion, type, and recurrent training activities. Owing to the first-time recruitment of foreign national pilots with the introduction of Turkish Airlines' B777 fleet, the newcomers were successfully integrated into the company through basic as well as corporate culture training.

The Flight Training Academy, which is part of the Flight Training Center, provided training to 296 cadet pilots through activities that included the use of external resources in 2011. One important goal of the academy is to reduce Turkish Airlines' need to recruit personnel from outside the company in order to meet the requirements imposed by pilot rotations.

Turning now to cabin training, training was provided to 11,437 cabin personnel with each receiving training in one or more areas in parallel with the growth in the company's fleet. Cabin training is carried out by the Cabin Training Department in thirteen different categories, including first-aid and defibrillator training.

During 2011 the Flight Training Center continued to provide training to the personnel of 24 different companies operating across a broad region in Asian, Caucasian, Middle Eastern, North African, and European countries.

Last year the center also engaged in academic cooperation and developed business collaboration models with such respected national and international training concerns as İstanbul Technical University, İstanbul Culture University, Anadolu University, and the Florida Institute of Technology Aviation School.

The Flight Training Center is subject to continuous and periodic oversight by national and international authorities. The center successfully passed its IOSA and similar inspections in 2009 and 2011 with no instances of non-compliance.

11,437

cabin personnel

Cabin training was provided to 11,437 cabin personnel in parallel with the growth in the company's fleet.


TGS
URKISH
IRLINES

Ground Handling Services

Employing close to 6,000 personnel and an equipment park of more than 3,500 units, TGS adheres to the strictest international quality standards.

Turkish Ground Services (TGS) is a joint venture of Turkish Airlines and HAVAŞ (an airport ground handling services company) in which each controls a 50% stake. Founded under an agreement signed on 12 March 2009, TGS become operational on 1 January 2010.

Acting in line with its mission of being a leader in every important part of the ground handling services sector, TGS currently conducts operations at six airports in Turkey: İstanbul Atatürk, Ankara Esenboğa, İzmir Adnan Menderes, Antalya, Adana, and İstanbul Sabiha Gökçen.

During 2011 TGS provided ground handling services to 322,277 domestic and international flights at these six locations. Employing close to 6,000 personnel and an equipment park of more than 3,500 units, TGS adheres to the strictest international quality standards in the conduct of all of its ground handling services and operations.

Adhering to its principle of ensuring customer satisfaction, TGS qualified for ISO 9001:2000 Quality Management System certification in 2011. The company's compliance with these standards was certified as a result of independent audits conducted by TÜV Thüringen and MEYER at its headquarters and all six stations.

Other Services

- AnadoluJet
- Information Technologies
- Cabin
- Call Center and Customer Relations
- E-Commerce
- Miles&Smiles
- Corporate Communication

Other Services

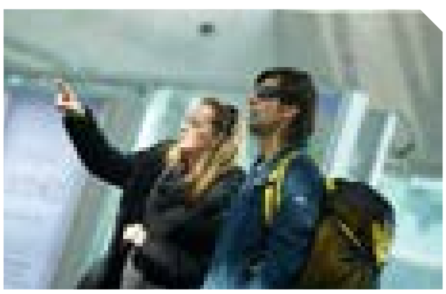
AnadoluJet conducts flights to 56 destinations as it continues to provide aviation services with a fleet of 22 aircraft.

AnadoluJet

149%

capacity increase

Last year AnadoluJet increased its passenger capacity by 13%. Steady growth has raised the company's total capacity by 149% over the last three years.



22 aircraft, 56 destinations, 911 flights a week

Founded in April 2008 and based in Ankara, AnadoluJet commenced operations with five aircraft. AnadoluJet conducts flights to 56 destinations as it continues to provide aviation services with a fleet of 22 aircraft.

In 2011 AnadoluJet increased the number of its weekly flights to 911, of which 892 were scheduled and 19 were additional.

Last year AnadoluJet increased its passenger capacity by 13%. Steady growth has raised the company's total capacity by 149% over the last three years.

AnadoluJet's traffic results

Domestic flights

	2011	2010	2009	2008
Revenue passenger (000)	5,300	4,705	2,812	1,716
Available seats-kms (million)	3,814	3,293	2,062	1,249
Revenue passenger-kms (million)	3,058	2,726	1,675	1,019
Passenger load factor (%)	80.2	82.8	81.2	81.5
Cargo (ton)	2,011	2,010	1,722	1,140
Mail (ton)	210	316	288	199
Number of landings	41,558	35,635	20,971	12,728

International flights

	2011	2010	2009	2008
Revenue passenger (000)	614	632	64	16
Available seats-kms (million)	1,398	1,318	32	6
Revenue passenger-kms (million)	933	938	20	4
Passenger load factor (%)	66.8	71.2	62.6	70.4
Cargo (ton)	251	184	2	-
Mail (ton)	3	4	-	-
Number of landings	5,819	5,514	632	134

AnadoluJet - Total

	2011	2010	2009	2008
Revenue passenger (000)	5,914	5,337	2,876	1,732
Available seats-kms (million)	5,212	4,611	2,094	1,255
Revenue passenger-kms (million)	3,991	3,664	1,695	1,023
Passenger load factor (%)	76.6	79.5	80.9	81.5
Number of landings	47,377	41,149	21,603	12,862

Registering a growth rate of 11% in the number of passengers, AnadoluJet enriched its flight network with the addition of new destinations.

A flight network enriched by codeshare agreements

In 2011 AnadoluJet enriched its flight network with the addition of new destinations from its Ankara based flights.

In early 2011 AnadoluJet began taking measures to improve the performance of low profitable destinations. Under an agreement made with Borajet Airlines, AnadoluJet expanded its regional flight network through code-shared flights. The result of this agreement is to give AnadoluJet an expanded range of domestic flight offerings in addition to its own Ankara-based network.

The codesharing agreement went into effect initially in May with flights to Balıkesir, Çanakkale, Bursa, Çorlu, Siirt, Tokat, Kahramanmaraş, Adıyaman, Gazipaşa, Uşak, Zonguldak, and Isparta. It was further expanded with the addition of flights to Sivas, Kayseri, Balıkesir Körfez, and Batum in June. Flights on the Gökçeada route, which were inaugurated in August, were terminated in October but they will be resumed with the return of the summer resort season in 2012.

The company also plans to operate code-shared flights on the Sabiha Gökçen-Eskişehir-İzmir-Eskişehir-Sabiha Gökçen, Ankara-Adıyaman, and Ankara-Dalaman routes in 2012.

Capacity Increase in routes

AnadoluJet continued to increase its passenger capacity on its Sabiha Gökçen-Ankara, Diyarbakır, Gaziantep, Van, Kars, Trabzon, İzmir, Antalya, Erzurum, Adana, and Ankara-Kıbrıs routes during 2011.

Information Technologies

The textual and visual content of the Turkish Airlines website was renewed. Functional improvements were also made such as inclusion of online ticketing, Miles&Smiles, and check-in modules.

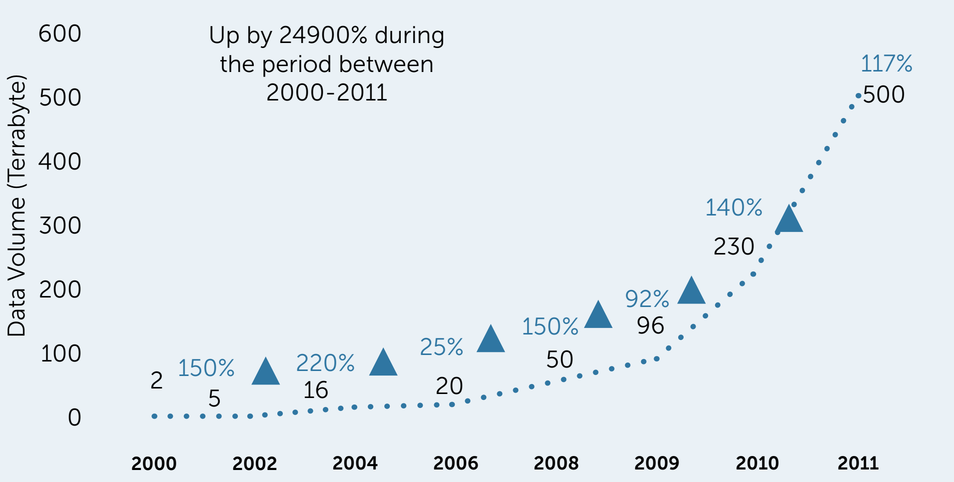
2011: The transformation continues
The transformation initiatives that were launched in the areas of corporate development and information technologies in 2010 continued in 2011 as well. Transformation projects concerned with many aspects of practical concern to critical business processes were undertaken, infrastructure was reorganized so as to more effectively meet the company's ever-increasing needs (or demand) in this field, corporate sustainability investments were made, and corporate development activities in such areas as demand management, project portfolio management, and business intelligence were strengthened through these transformation initiatives.

The five-year IT roadmap whose original version was laid out in 2010 was updated in 2011. Efforts were made to design the most appropriate infrastructure and application architecture to support the company's growth objectives.

During 2011 a series of projects were completed whose overall aims were to allow operations to be carried out more effectively and to systematically strengthen the company's business continuity.

- The capacity of the mainframe on which the reservation system operates was increased so as to ensure that the resources which would be needed in future would be available.
- Renovations and consolidations made in mainframe systems resulted in a 28% increase in their operational speed and efficiency.
- Improvements made in wired and wireless networks not only increased overall capacity but also allowed centralized network management.
- The goal of making savings of 3.5 million dollars a year was achieved with the commissioning of alternative message channels in the special aviation messaging infrastructure.
- The installation of an intrusion prevention system (IPS) has made it possible to spot and eliminate potential security weaknesses.

Increase in IT data volume of Turkish Airlines 2000-2011



The transformation initiatives that were launched in the areas of corporate development and information technologies in 2010 continued in 2011 as well.

Productivity improvements, energy conservation, and alternative delivery channel enhancements were achieved through application development and customization.

- The reservation system's interface was visually redesigned to better reflect the company's corporate identity and service quality.
- Access to Miles&Smiles and customer relations material was made possible from seatback screens aboard aircraft.
- The installation of information screens in the 20 boarding gates at the Atatürk Airport passenger terminals help reduce delays by speeding up passenger boardings.
- Mobile boarding passes have been introduced on some international flights at Atatürk Airport.
- "IPad kiosks" providing access to a number of online services such as looking up schedules, making reservations, buying tickets, and accessing Miles&Smiles accounts have been put into service.
- A new Turkish Cargo website provides access to a map that optimizes routings among international air cargo carriers.

A number of strategic IT projects are currently in progress that will result in substantial improvements on the efficiency of the company's critical business processes.

- Renovation of the revenue management system, completion of which is planned in 2013, is intended to achieve increases of 0.5-2.0% in the company's revenues.
- A new revenue accounting system that is to be commissioned in early 2013 is intended to make improvements thanks to which losses in revenues will be prevented.
- A CRM system that is to go live in 2013 is intended to contribute towards making Turkish Airlines a more customer-focused company by making a 360° customer view possible.
- A new team planning system whose adaptation will be completed in 2012 is intended to reduce team management costs by at least 1% a year.
- Standardization of airport and ticking office IT infrastructures in 2012 is intended to improve information technology system performance while also reducing both management and maintenance costs.

In 2012 Turkish Airlines once again pursued a mission of carrying out IT activities which give it advantages that will contribute to its leadership of the sector, which will support its growing structure, and which will add to its cost effectiveness. Making Turkish Airlines a leader in technology through investments that will keep its systems up to date, ensure its uninterrupted operation, safeguard its infrastructure security, reduce its energy consumption, and lower its information management overhead costs is another of the company's fundamental goals.

The Galileo Sales Office, which is responsible for the conduct of Galileo General Distribution System sales in Turkey, was the recipient of an award in the "International General Distribution and Reservation System" category at the 14th annual SKALITE 11 awards, the "Oscars" of the Turkish tourism industry.

Thanks to improvements that were made in "Orange Line", through which information technology-related problems may be reported, the quality of IT service support management processes was increased.

An 180^0 Performance Evaluation System taking a total quality approach was introduced at Turkish Airlines.

Cabin

The purpose of the Flight Evaluation System is to maximize cabin crew performance.

In July 2011 an 180^0 Performance Evaluation System was introduced at Turkish Airlines. In this system, cabin personnel rate both their immediate supervisors and their immediate subordinates taking a total quality approach whose aim is to ensure that onboard service quality standards are sustainable and to maximize the competencies of cabin crew personnel.

The Flight Evaluation System is a web-based application that is designed to identify the degree to which cabin crews have been successful, to monitor performance statistics, and to encourage individual productivity. The success of a flight's cabin crew is measured on the basis of the following criteria:
• Professional competency
• Compliance with corporate identity and ethics
• Behavioral and attitudinal adequacy
• Service performance
• Managerial competencies.

Once every three months, data compiled by this system is provided to individuals in the form of personalized reports that serve as feedback whose aim is to encourage improvement by shedding light on cabin crew performance and identifying areas where additional development is needed. Condensed "corporate scorecards" that are shown on the Flight Evaluation System screen provide users with information which has been enhanced with graphics created from information from the Comparative Evaluation System and which can be grasped at a single glance.

By making it possible for the company's goals to be reduced to the departmental and even individual level, this system not only increases productivity but also allows training and career progression to be planned more efficiently and to achieve greater effectiveness in such vitally important human resources practices as promotions and rewards.

The purpose of the Flight Evaluation System is not to rank company employees on the basis of whether they are "good" or "bad" but rather to reveal the degree to which all cabin crewmembers understand and identify with company objectives, to ensure that everyone works to fulfill these objectives, to maintain consistently high standards, and to maximize cabin crew performance.

In 2011, the customer satisfaction rate of The Turkish Airlines Call Center was 96%.

Call Center (444 0 894) and Customer Relations

The Turkish Airlines Call Center is one of the company's most important marketing and sales channels.

The Turkish Airlines Call Center is one of the company's most important marketing and sales channels. The center achieved a call response rate of 99% in 2011. Year-on, the increase in the number of calls was 5%, the number of calls responded to was down by 29%, and the average amount of time spent on an individual call was up by 7%.

Compared with 2010, the revenue generated by the call center through sales was down by 2% while there was an overall 2% rise in the number of tickets sold. Ticket sales made through the call center (which are paid for by credit card) contributed a 1.58% of Turkish Airlines' total sales turnover and 4.37% of the total number of tickets sold.

The Turkish Airlines Call Center continued to respond to international reservation and sales calls routed from callers located in the United States, Germany, France, Russia, Switzerland, Holland, Denmark, Austria, Cyprus, Italy, Norway, and South Africa. Calls originating in Belgium also started to be routed to the center in 2011 as well.

In September 2010 a customer satisfaction survey was added to the call center's interactive voice response system in order to begin evaluating the center's service quality. According to the results of this survey, 96% of callers said they were satisfied with the call center's service. The reasons for dissatisfaction were queried and analyzed. Based on the findings of these activities, action was taken in order to make improvements in service.

Since February 2009, Turkish Airlines has been outsourcing its call center services to two different companies (Assistt Rehberlik ve Müşteri Hizmetleri A.Ş. and Vodatech Bilişim Proje Danışmanlık Sanayi ve Dış Ticaret Ltd) at four different locations. The reasons for such outsourcing include raising the level of service, improving service quality, and reducing operational costs. Outsourcing also helps improve resource utilization efficiency in service provision.

The average number of files per passenger handled at the Customer Relations Department increased by 4% year-on in 2011 while the average number of complaints per passenger decreased by 16%.

During the same 12-month period, the number of files responded to within seven days' time increased by 9% while the turnaround response time on "priority" files shortened by 65%.

Online sales revenues increased by 25% year-on in 2011 and accounted for nearly 10% of total sales.

E-Commerce

turkishairlines.com received two first-place accolades from the "Altın Örümcek" web awards in the "Corporate" and "Tourism/Travel" categories.

A new "Click&Fly" look for Turkish Airlines online
Turkish Airlines' official website located at turkishairlines.com received two first-place accolades from the "Altın Örümcek" web awards in the "Corporate" and "Tourism/Travel" categories. Having pocketed these recognitions, Turkish Airlines set about raising the bar even higher. Its official website, which is one of the most important points of interaction with customers, was completely made over in line with passengers' expectations and its new look made its first appearance on 13 September 2011.

With its "Click&Fly" motto, the new Turkish Airlines website was the product of eight months' work in which a team of about 20 people took part. The project's mission was to make online ticket purchasing faster and more aesthetically pleasing while also making it easier and more practical for users to gain access to flights and promotional campaigns by completely reorganizing the way in which such information is presented. The Turkish Airlines website was also made more interactive through social media integration while passengers and all other stakeholders' access to information was made faster and more convenient.

Online sales are up by 25% as total sales increase day-by-day.
Sales revenues generated by online services made available through turkishairlines.com and Fly Turkish mobile applications increased by 25% year-on in 2011 and accounted for nearly 10% of total sales. The rapid rise in sales made through the company's website is an indication that the online service which is being provided to passengers is meeting their expectations. Of the mobile applications which are provided by Turkish Airlines under the "Fly Turkish" name, the iPhone version application alone was downloaded more than 300,000 times. Improvements are constantly being made in the company's mobile applications in order to increase their use.

Richer online services on offer
Encouraging online accessibility and making it possible for passengers to obtain all of the service they need conveniently, quickly, and enjoyably via the internet is an important goal for Turkish Airlines. In line with this, a number of new features were introduced in 2011.

- It is now possible to make changes online in route, time, date, and seating on domestic flight tickets on the website. Work is currently in progress to allow international flight tickets to be changed in the same way and this should be possible in the near future.
- Having purchased tickets online, passengers who are interested in also buying travel insurance are given access to a portal where they are presented with a selection of packages and options that suit their particular needs.
- An agreement was reached with Global Collect, a leading international payment services company, in order to increase the range of online payment options offered via the website and mobile applications in addition to the existing credit card, debit card, and bank transfer methods.

Miles&Smiles

22%

increase in number of members

The number of Miles&Smiles members increased by 22% to 2,509,106 in 2011.

Miles&Smiles is the Turkish Airlines frequent flyer program. This program makes it possible for the company to establish long-term relationships with passengers by offering customer-focused, individualized offers, campaigns, and advantages while at the same time creating regular and indirect revenue streams through agreements and collaborations which the airline has entered into.

Having steadily expanded the benefits that it provides in the course of its 21 years of operation, Miles&Smiles continues to shine among the world's frequent flyer programs. Last year the program added three new participating firms, bringing the total number to 57. By constantly broadening the scope of its collaborations and agreements, Miles&Smiles also steadily increases its influence and popularity as well. Thanks to agreements with 30 airlines, 16 hotels, 7 vehicle rental companies, one telecommunications firm, one technology market, one health services chain, and one bank, Miles&Smiles offers an increasingly greater range of ways in which travel miles may be earned and spent while also contributing significantly to the company's revenue streams.

In 2011 a number of innovations were introduced to increase both program awareness and the number of its members. A "viral" advertising spot that was released on social media drew millions of clicks. Important progress was towards increasing program participation by introducing new methods of recruiting and signing up members such as Skylife and onboard screens. As a result of these, the number of Miles&Smiles members increased by 22% from 2,051,036 in 2010 to 2,509,106 in 2011.

CLASSIC	2,402,090
CLASSIC PLUS	55,960
ELITE	40,066
ELITE PLUS	10,990
Number of Miles&Smiles members	2,509,106

With the inauguration of new routes, there was a 12% year-on rise in the total number of miles earned. Thanks to successful campaigns and to the introduction of new ways in which to use miles, there was also a 17% increase in the number of miles spent last year. The year-on-year increase in the number of members' paid-for flights was also up by 12% and reached 5.2 million.

The miles which members earn on tickets and from Miles&Smiles program partners can be exchanged not only for Turkish Airlines tickets but also for flights of AnadoluJet and other airlines that are members of Star Alliance.

Under a credit card agreement with GarantiBank which has been in effect since 2000, Miles&Smiles members earn miles on purchases which they make using qualifying credit cards. Not only does this generate a significant source of revenue but it also allows members to convert points that they earn on shopping purchases into Turkish Airlines tickets.

In 2011 Turkish Airlines continued to invest in sports.

Corporate Communication

Turkish Airlines conducted primary communication campaigns involving high-profile teams and athletes in such sports as football, basketball, tennis, and golf.

Globally Yours

As it pursues steady growth in the civil aviation industry, Turkish Airlines is constantly strengthening its position in the international market. Focusing on its identity as a global carrier, the company continued to deliver high-quality, superior service to both its domestic and international customers.

In keeping with its "We are Turkish Airlines, We are Globally Yours" slogan, in 2011 Turkish Airlines continued to invest in sports. By conducting primary communication campaigns involving high-profile teams and athletes in such sports as football, basketball, tennis, and golf, the company further reinforced the stature of its brand in world markets.

Sponsorships

Turkish Airlines was a prime sponsor for the WTA Championship 2011 tennis tournament when it was held in İstanbul last year. Barcelona and Manchester United, two football teams which the airline sponsors, competed in the final of the Champions League, which is one of the world's biggest international sports events, and their games were watched by millions of spectators all over the world. Turkish Airlines' B777 ER aircraft was decked out with visuals of FC Barcelona players for the Champions League finals.

Turkish Airlines was the main sponsor of the Turkish Airlines Ladies Open Golf Tournament when it took place in Antalya on 4-8 May 2011. This was the Turkish round of the European Women's Golf Tournament, one of the world's most prestigious golf meets and one whose events are staged all over the world from New Zealand to Austria, from Morocco to Spain, from France to Great Britain, and from Portugal to China.

A large number of international media representatives from different European countries attended a press conference that was organized as part of the "Turkish Airlines Euroleague", for which Turkish Airlines was the name sponsor, when it took place in Barcelona on 6-8 May 2011. One Turkish Airlines aircraft was also decked out in the Euroleague colors for the occasion as well.

Other Activities

CurioCity Play Areas

On 1 August 2011, Turkish Airlines opened three "CurioCity" play areas for children at İstanbul Atatürk Airport. One, 60 m^2 in size, is located in the İstanbul Lounge. The other two, measuring 8 m^2 and 16 m^2 respectively, are located at boarding gates. Children's play areas were also created at gates 218-219 and 220 at the Atatürk Airport International Departures Terminal. Fitted out with playsets and other activity equipment, Turkish Airlines' CurioCity play areas provide children with safe and clean spaces in which to play and pass the time while they and their parents are waiting for flights.

Social Responsibility Projects

Turkish Airlines and its employees come to Somalia's aid

Even before it became headline news, the human drama being played out in Somalia attracted the attention of Turkish Airlines employees, who began making suggestions to cope with the problems there. The ideas which the company's personnel came up with were carefully assessed and systematically put into effect without loss of time.

In the first stage of the campaign, which took place during the month of Ramadan, large numbers of Turkish Airlines personnel sent zekah in aid of the people of Somalia. A large number of them also donated sums corresponding to their monthly meal allowances for the same cause.

Concurrent with this, aid packages prepared by such organizations as the Turkish International Cooperation and Development Agency, the Turkish Red Crescent Society, and the Presidency of Religious Affairs were delivered to Somalia aboard specially scheduled Turkish Airlines flights.

A total of 165 tons of food and other assistance was sent to Somalia. As part of the same campaign, Turkish Airlines volunteer personnel and the company's CEO Dr Temel Kotil flew to Somalia on 11 September 2011 where they visited the refugee camps and turned over the aid. Fourteen children who were identified as being in critical need of medical attention during this visit were brought back to İstanbul along with their families. During a small ceremony held at the conclusion of the campaign, a check symbolizing the aid was turned over to the Red Crescent.

Turkish Airlines extends a helping hand to Van

Immediately after the disastrous earthquake that struck the town of Erciş in Van on 23 October 2011, members of the Turkish Airlines family quickly mobilized to bind up the wounds of the local people and to ease their pain even if only by a little. In line with this, it was decided to cooperate with the Turkish Red Crescent Society in order to ensure that essential aid was delivered to victims in the fastest and most systematic way possible.

In the second stage of the campaign, materials which had been identified as being the most in need based on information received from the disaster area was collected and delivered to Van also with the support of Turkish Airlines personnel. Approximately 300 tons of aid consisting of tents, blankets, stoves, medicine, food, and similar necessities was taken to the disaster area aboard seven cargo flights. Less than two hours after the earthquake struck, teams of search & rescue and of medical personnel were flown to Van aboard more than ten specially arranged flights.

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Human Resources

Dynamically and soundly sustaining its growth with a youthful yet experienced team, Turkish Airlines was the author of great successes with 15,384 employees in 2011.

In order to maintaining the highest standards of service, Turkish Airlines personnel employed in all capacities perform their jobs **with a focus on effective use of technology under the most ideal quality conditions.**

Turkish Airlines has been a preferred employer in the country every since it was established in 1933.

88

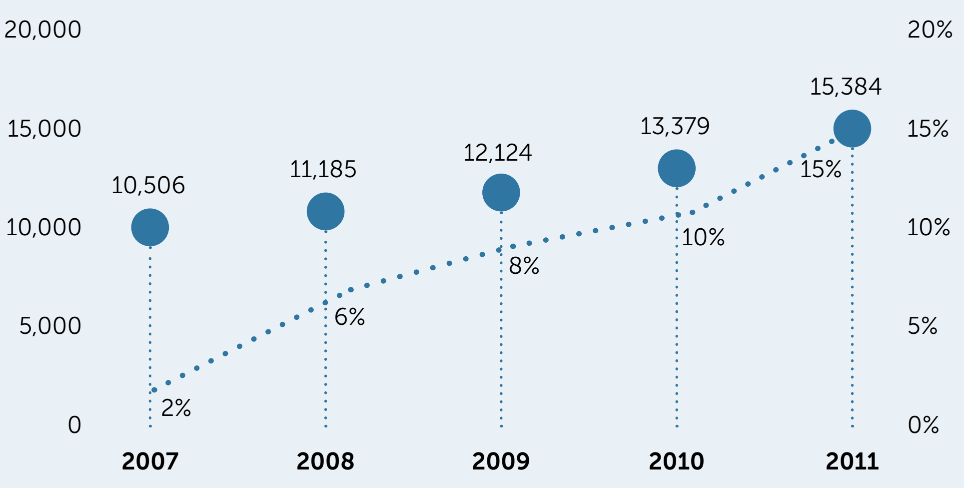
personnel per aircraft

For every aircraft in its fleet, Turkish Airlines employed an average of 88 personnel in 2011.

Dynamically and soundly sustaining its growth with a youthful yet experienced team, Turkish Airlines was the author of great successes with 15,384 employees in 2011.

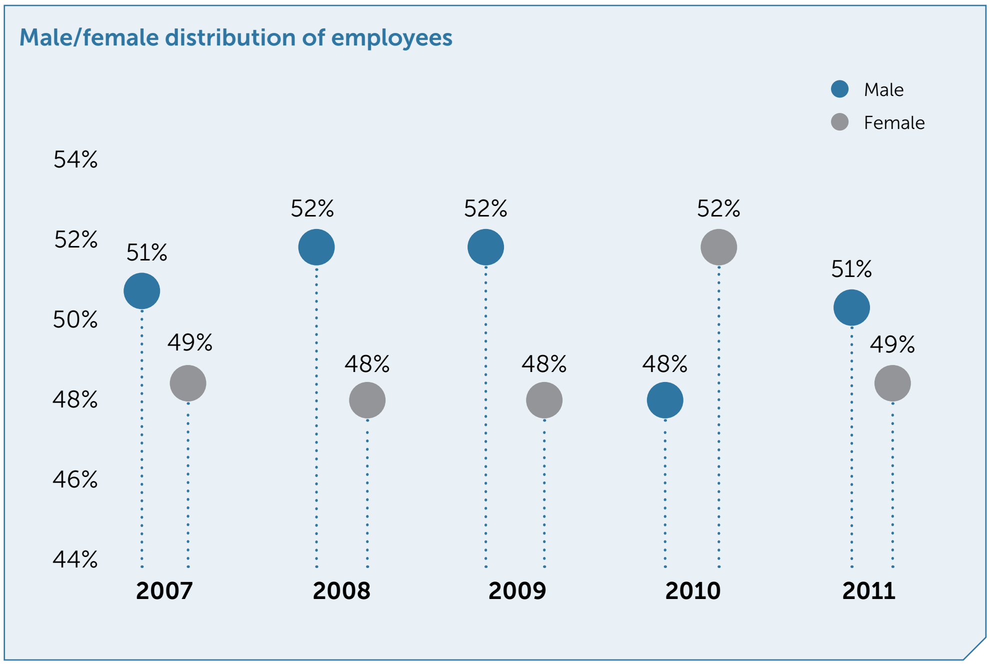
Owing to the nature of the aviation industry, employees' cockpit experience is a matter of great importance. Only people with proven cockpit experience are employed in such duties at Turkish Airlines.

Number of employees



For every aircraft in its fleet, Turkish Airlines employed an average of 88 personnel in 2011. In order to maintaining the highest standards of service, Turkish Airlines personnel employed in all capacities perform their jobs with a focus on effective use of technology under the most ideal quality conditions.

In 2011, the average length of employee service time at the company was 7.2 years while the average rate of employee turnover was 7.12 people a year.



A total of 2,775 people were newly hired last year and, after being put through essential training, began their duties.

Hiring and Orientation

As the first and most important member of the civil aviation industry in Turkey, Turkish Airlines has been a preferred employer in the country every since it was established in 1933. In 2011 new personnel continued to be recruited in parallel with the company's growth. A total of 2,775 people were newly hired last year and, after being put through essential training, began their duties. Of these new hires, 17% were employed as cockpit personnel, 28% as cabin personnel, and 41% as ground personnel.

Health Management

24,195 people availed themselves of polyclinic services at the company's medical facilities, where first-stage health care is provided. Attention is given to preventive medicine, thanks to which potential health problems were headed off and lost work time due to illness was minimized.

Employee safety is a matter of the utmost concern for Turkish Airlines. Preventing serious injury is an issue to which all due attention must be given. During 2011 there were 474 job-related accidents, because of which a total of 1,945 workdays were lost. While the average frequency of accident at Turkish Airlines is 13.16%, the average accident severity is only 0.054. Both figures are well below international averages.

Turkish Airlines' "Health Automation Program" will go into active use in May 2012.

A "Cultural Unity and Common Behavioral Model Project" has been launched in parallel with Turkish Airlines' successes in recent years.

The underlying objective of currently ongoing and planned safety programs at Turkish Airlines is to achieve maximum levels of health and safety. To achieve this, medical as well as health and safety personnel are employed at all of the company's workplaces. Work has also begun on projects to obtain OHSAS 18001 Occupational Health & Safety Assessment Series certification. These projects, which involve field inspections, on-location measurements and evaluations, risk analysis, and training, are being carried out rapidly.

Turkish Airlines' "Health Automation Program" will go into active use in May 2012. Under this system it will be possible to record and monitor all health- and safety-related information.

Projects

With more than 15,000 employees, Turkish Airlines provides strategically vital air transport services in Turkey. Providing personnel with a suitable work environment and enabling them to perform their jobs productively and confidently is only possible through effective human resources management.

To this end, a number of projects were initiated in 2011.

Sales manager evaluation project

A "Competency Assessment Project" was initiated to determine the kinds of skills and behavior that impact favorably on how managers do their jobs and to identify the competencies that distinguish one manager from another. This project will make it possible to plan training and progression programs according to managers' needs by identifying those competencies which will result in higher levels of success for the company. In addition to this project, preparations are also being made to create the infrastructure necessary for a "Performance Management System" that will make it possible to quantify managers' objectives and competencies. Under this system, the degree to which annually set targets are achieved will be monitored and performance will be measured, after which managers' development will be supported through feedback.

Cultural Unity and Common Behavioral Model Project

A "Cultural Unity and Common Behavioral Model Project" has been launched in line with changes which are planned to take place in Turkish Airlines' corporate culture in parallel with its successes in recent years.

Under this project, priority was given first of all to identifying needs arising within the company in parallel with the growth which has been experienced in recent years. In line with this, such needs as internalizing growth, evolving from a state-owned to a privately-owned company, adopting globally-accepted styles of doing business, and eliminating potential conflicts within the organization provide the foundations of the project.

Under the heading of "corporate culture" activities, which are seen as being capable of affording the company a significant competitive advantage in the sector, a large number of interviews were carried out and two workshops, consisting of about 120 people representing the two different groups that are most characteristic of Turkish Airlines' employee profile, were conducted. During the workshops, elements of Turkish Airlines' corporate culture were identified as being either worthy of being preserved (and therefore essential) or else as needing to be changed or eliminated. In line with this, five core values were identified as capable of carrying Turkish Airlines into the future and/or as desirable components of the company's corporate culture:

- A sense of vision and innovation
- Systematic and professional flexibility
- A sense of ownership and pride
- An ability to manage and harmonize diversity
- Accessibility and hospitality.

The underlying objective of all of these activities is to develop a commonly recognized and accepted behavioral model that involves:

- Appreciating how cultural values exist and should be kept alive within the company
- Prioritizing, improving, developing, and supporting Turkish Airlines' cultural values
- Devising ways in which to keep these values alive.

These activities are still in progress and have the strong support of senior management as well as of Turkish Airlines employees who, as hitherto has been the case, represent different units of the company and are known as "cultural ambassadors".

The most essential objective of this project its to develop Turkish Airlines' corporate culture and, in that respect, it calls for making deep-rooted changes. It is also a long-term project whose ongoing aims are to:

- Develop cultural values that will carry Turkish Airlines forward into a successful future
- Create a common behavioral model which all employees will embrace and which will be internalized by everyone
- Achieve a stronger corporate structure as the company moves forward as a truly global brand.

The "Cultural Unity and Common Behavioral Model Project" aims to achieve a stronger corporate structure as the company moves forward as a truly global brand.

Social Responsibility

Turkish Airlines makes an ongoing effort to leave a cleaner and more livable environment for future generations.

During 2011, units of the company engaged in a variety of efforts in the areas of their responsibility **to make the most efficient use of fuels and thus reduce greenhouse gas emissions while simultaneously focusing on flight safety.**

Turkish Airlines strives to adhere to a proactive behavior model as it seeks to fulfill all of the requirements of its safety, security, and risk management systems.

67.5

thousand tons

There was a decline of 21,400 tons in the amount of fuel consumed while the amount of CO_2 generated decreased by about 67,500 tons.

Environmentally-sensitive fuel economy in 2011...

Although advances in technology make aspects of our everyday lives more and more convenient, they also posed increasingly greater risks for the natural and human environment. The greenhouse gas emissions produced by many advanced industries not only cause pollution but also play a significant role in climate change.

According to IATA-published figures, it is estimated that the total number of people traveling by air in the five years to end-2014 will reach 3.5 billion. In order to do its own part towards minimizing, as much as possible, the adverse impact that such an increasing number of passengers have on the environment, Turkish Airlines abides by an environmental policy that calls, while also and always giving maximum attention to flight safety and security, for making an ongoing effort to achieve the most appropriate levels of fuel consumption and to leave a cleaner and more livable environment for future generations through the most efficient use of natural resources.

During 2011, units of the company engaged in a variety of efforts in the areas of their responsibility to make the most efficient use of fuels and thus reduce greenhouse gas emissions while simultaneously focusing on flight safety. Thanks to such efforts, there was a year-on decline of 21,400 tons in the amount of fuel consumed while the amount of CO_2 generated decreased by about 67,500 tons during the same period. These gains were achieved largely through more efficient piloting practices during flight as well as through significantly reducing total aircraft weight by only taking on as much fuel as necessary for a flight. The results of these practices may be seen in Turkish Airlines' fuel consumption ratios, which went from 3.41 liters per hundred available seat kilometers (lt/100 ASK) in 2010 to 3.37 lt/100 ASK in 2011.

Quality assurance

A matter of tremendous importance for the company is to make certain that its principal business activities (transporting passengers and cargo) and its training and maintenance processes are all conducted in accordance with national and international regulations and in compliance with both the company's own rules and its commitments to its customers. To this end, Turkish Airlines' Quality Assurance Program continued to be adhered to strictly in all of the company's activities so as to ensure that the services provided to customers are supplied in a way that is safe, secure, and quality-consistent.

Important progress was made towards fully integrating all customer satisfaction, occupational health and safety, and environment management systems into the Turkish Airlines Quality Management System in order to better hear what customers say, to respond to their views and wishes without loss of time, and to maximize their satisfaction; to give the greatest attention to employees' health and safety; and to manage the company's relations with the environment in the best way possible.

Because the industry in which it is active is an especially sensitive one and because there is such an enormous diversity of factors that can impact on the service which its provides to its customers, Turkish Airlines strives to adhere to a proactive behavior model as it seeks to fulfill all of the requirements of its safety, security, and risk management systems.

To ensure that Turkish Airlines advances sure-footedly towards the fulfillment of its vision, is consistently profitable, and achieves sustainable success, an ongoing effort is made to abide by corporate process and target management throughout the company, to create and operate the documentation and system infrastructure necessary for this, and to synchronize their functions in all units.

In 2011 Turkish Airlines' Quality Assurance Program continued to be adhered to strictly in all of the company's activities.

In the management of its risks, Turkish Airlines gives priority to “natural” hedging techniques.

Within the framework of its financial risk management policies, the company has defined the following elements of risk as being fundamental to the healthiness of its future cash flows and liquidity:

- Cash flow risk: The possibility of the company’s being prevented from achieving its business objectives by changes taking place in its short-, medium-, and long-term cash position and in its portfolio investments.
- Commodity price risk: The financial impact of changes in aviation fuel and in carbon emission certificate prices.
- Interest rate risk: The financial impact of changes in the market value of aircraft financing, of FC-denominated debt, and of cash owing to movements in interest rates.
- Exchange rate risk: The possibility that earnings and expenditures may be mismatched owing to differences in the exchange rate of one currency against another.
- Counterparty risk: The potential for losses if a domestic or foreign financial institution or its counterparties default on deposit, derivative, or other transactions.

To manage such risks, priority is given to making use of “natural” hedging methods. In situations where this approach is insufficient or impossible, recourse is had to financial risk hedging in derivative markets through the employment of strategies developed to protect the company against potential risks arising from possible movements in commodity prices and/or in currency-translation and interest rates. The effectiveness of existing strategies which are developed to hedge against such financial risks is constantly monitored by the Turkish Airlines Treasury and Risk Management Commission so that alterations and improvements may be made based on changes taking place in market conditions.

Cash Flow Risk Management

“Cash flow risk” is defined as the possibility that medium- and long-term movements (incoming and outgoing) which take place in the company’s portfolio investments and/or cash positions are such as to prevent the company from achieving its business objectives. Financial transactions in the aviation industry tend to be of much longer term than is the case in many other lines of business. Because of this fact, having a sound cash management policy is one of the issues that are of prime concern for the company.

In order to enable the company to manage its medium- and long-term liquidity and financial risks in the most effective way possible, EUR, USD, and TL cash flow projections are made and updated every month. For these projections, the company’s exchange rate and fuel price forecasts for the period ahead are reconsidered and revised monthly so as to be certain that the information on which the projections are based is both current and reliable. The results of cash flow projections are presented to the Turkish Airlines Treasury and Risk Management Commission, thereby providing it with essential information on which to base the company’s investment and financing decisions. Each month’s actual performance figures are also compared and contrasted with the projections and the results of these studies are analyzed.

Commodity Risk Management

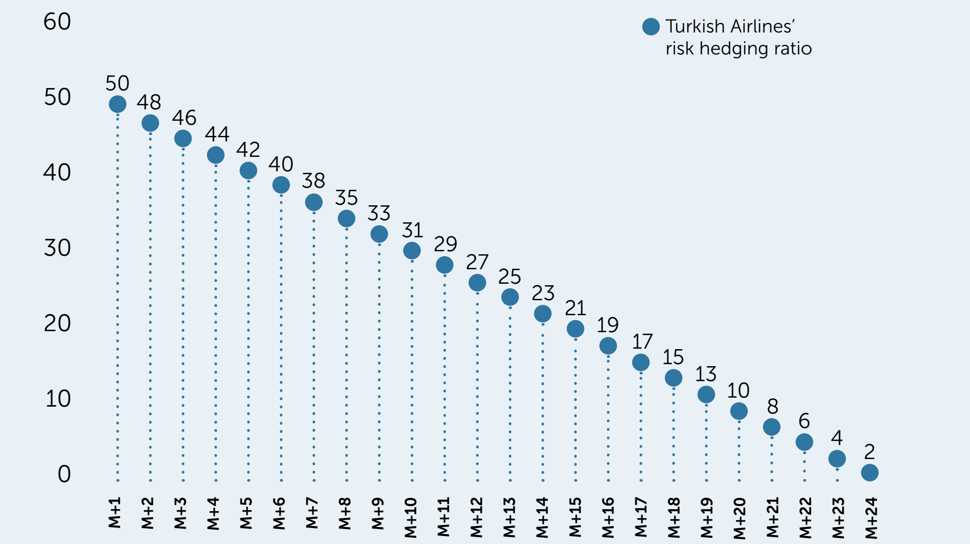
Fuel price risk management

The company makes use of swap- and option-based derivative instruments for the purpose of mitigating the impact that movements in fuel prices have on its aviation fuel costs and of ensuring that such costs are at least kept within predetermined limits if they cannot actually be anchored. In order to shield both its profitability and its cash flows against volatilities that may be caused by movements in fuel markets, Turkish Airlines engages in progressive hedging by means of crude-oil- and jet-fuel-based derivative instruments whose contractual amounts correspond to about 50% of its annualized jet-fuel consumption figures as projected for the next twenty-four months

Hedging plan implementation methodology

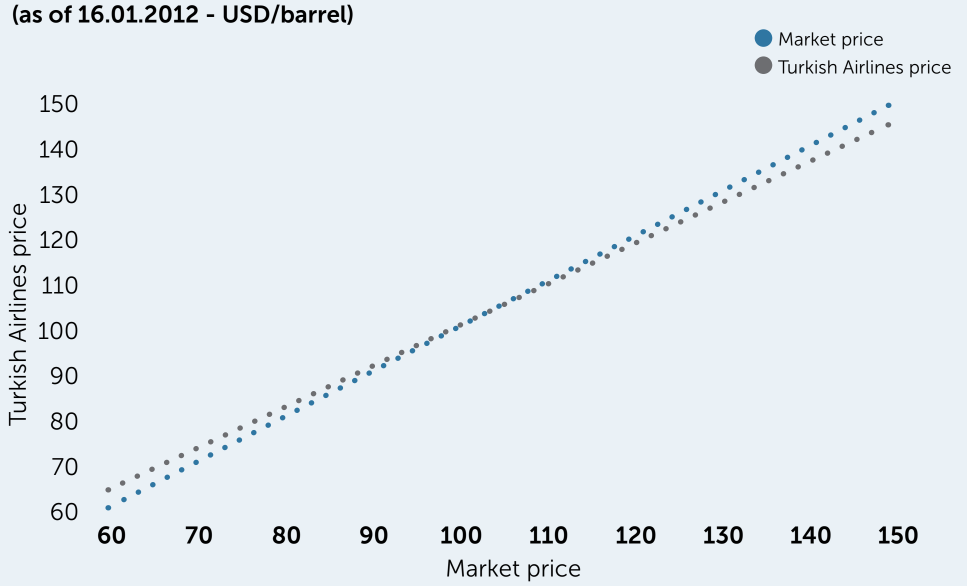
A close watch is kept on structural changes occurring in fuel-price and market dynamics in parallel with the latest developments taking place in the global economy. In addition to fuel-market issues, consideration is also given to other strategies which may be employed in the aviation industry in order to keep oneself in alignment with the market in general and methods of protecting the company against fuel-price risk are developed accordingly. To the same end, constant attention is given to changes whose occurrence in the near term is a possibility.

Turkish Airlines risk hedging strategy
(%)



The accompanying chart shows an examination of the possible impact that changes taking place in Brent crude oil prices might have on the company's fuel costs according to different pricing scenarios.

Turkish Airlines petroleum market pricing scenario
(as of 16.01.2012 - USD/barrel)



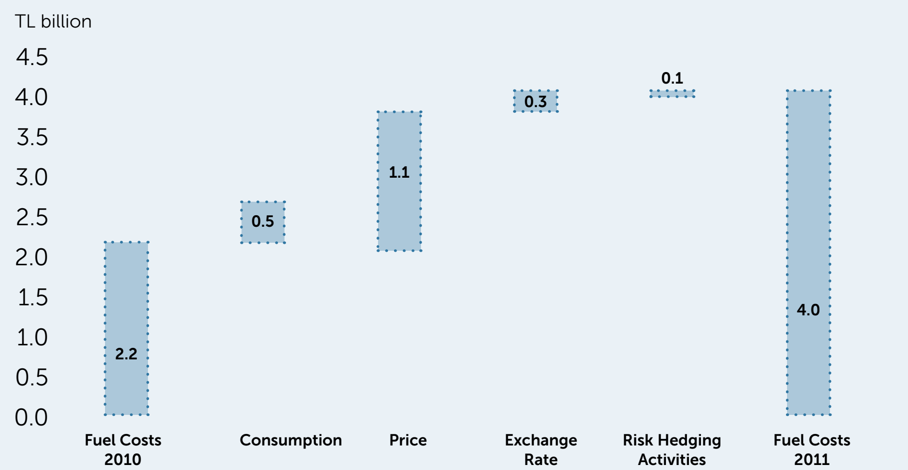
When the price of a barrel of crude oil is...	...the cost to the company is
$180	$175
$150	$146
$120	$119
$90	$91
$60	$64
$30	$34

In 2009, 2010, and 2011, Turkish Airlines engaged in various hedging transactions in order to mitigate the impact that sudden changes in fuel market prices might have on its costs. An examination of scenario analyses which were carried out as of 1 January 2012 leads to the following conclusions:

- A 10% rise or fall in fuel prices will cause a corresponding 8% increase or decrease in the company's fuel costs.
- A 20% rise or fall in fuel prices will cause a corresponding 17% increase or decrease in the company's fuel costs.

When a comparison is made between the company's fuel costs in 2010 and those which it incurred in 2011, one observes that, despite the positive contributions made by hedging transactions, fuel costs increased by approximately TL 1.8 billion during this two-year period owing both to increases in fuel prices and to movements in exchange rates.

2010-2011Turkish Airlines' fuel cost variations
(as of 16.01.2012)



Carbon Emissions Risk Management

Effective 1 January 2012, the aviation industry was included within the scope of the European Union Emission Trading Scheme (EU ETS). As a result of this inclusion, Turkish Airlines (like all other airlines flying in or out of European airports) is required to comply with EU ETS regulations.

Under this emission trading scheme, airlines must buy "carbon credits" off the market in situations where they exceed the maximum carbon emission limit prescribed by the authorities to which they are responsible. To this end, Turkish Airlines has developed hedging strategies to protect itself against the financial risks which might arise from its having to purchase such credits. The plan is to make use of derivative instruments as a way of mitigating this risk.

Interest rate risk management

Under the heading of interest rate risk management activities, the company keeps regular track of possible changes in its costs arising from movements in interest rates by monitoring and analyzing interest rate markets, managing its debt structure, and determining its sensitivity to interest rate movements based on analyses of the weighted average terms of its debt exposures. In order to better manage interest rate risk, the company engages in hedging with the aim of locking in the interest rates on part of its debt portfolio for the duration of loans if that is possible or at least of ensuring that the interest rates remain within a predetermined band if it is not.

At the same time, the company manages the interest rate risk arising as a result of yield-focused assessments of its cash holdings in order to optimize the relationship between maturities and returns. This information is used primarily as input for cash flow planning. While seeking to maximize return potential, yield projections are developed by making use of market data about the possible courses which interest rates may be taking in the near future. This information is used to determine what maturities will generate the best returns.

Exchange rate risk management

Exchange rate risk is defined as the potential for changes taking place in the company's cash flows and revenues on account of movements in exchange rates. The company secures a substantial volume of its earnings in euros but it also has to make significant expenditures in US dollars and Turkish liras. For the company, such a revenue and expenditure structure exposes it to serious risks caused by relative movements in these currencies' exchange rates, which have been quite changeable lately and are likely to remain so in the period ahead as well.

The company's exchange rate risk management activities focus on lessening the impact of volatilities in exchange rates by ensuring that the relative currency mixes of its income and expenditure items are reasonably close to one another. To this end, the particular currency (or currency mix) on the basis of which a contract is to be signed is determined in such a way as to balance the company's ingoing and outgoing revenue streams and avoid the emergence of situations which are disadvantageous to the company. Hedging is the primary method to which recourse is had in order to manage the company's exchange rate risk exposures. However derivative instruments may also be deployed to manage exchange rate risks in situations where hedging is insufficient or impossible. Furthermore although the biggest part of its exchange rate risk exposure stems from relative movements in EUR, USD, and TL rates, Turkish Airlines also has not insubstantial volumes of earnings and expenditures denominated in other foreign currencies as well. These positions are also managed through hedging and/or derivative contracts as circumstances warrant in order to minimize the company's exposure to such risks.

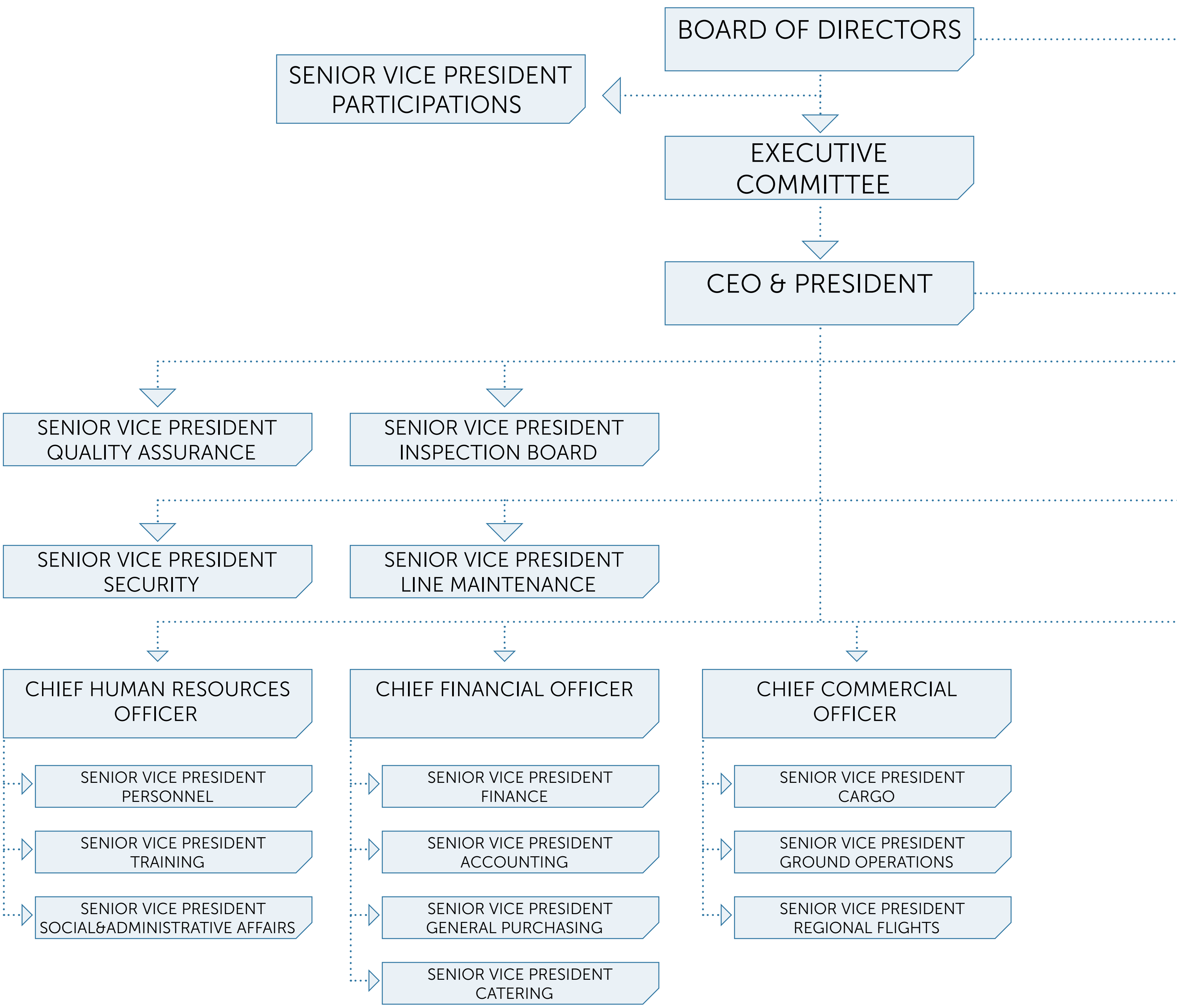
Counterparty risk management

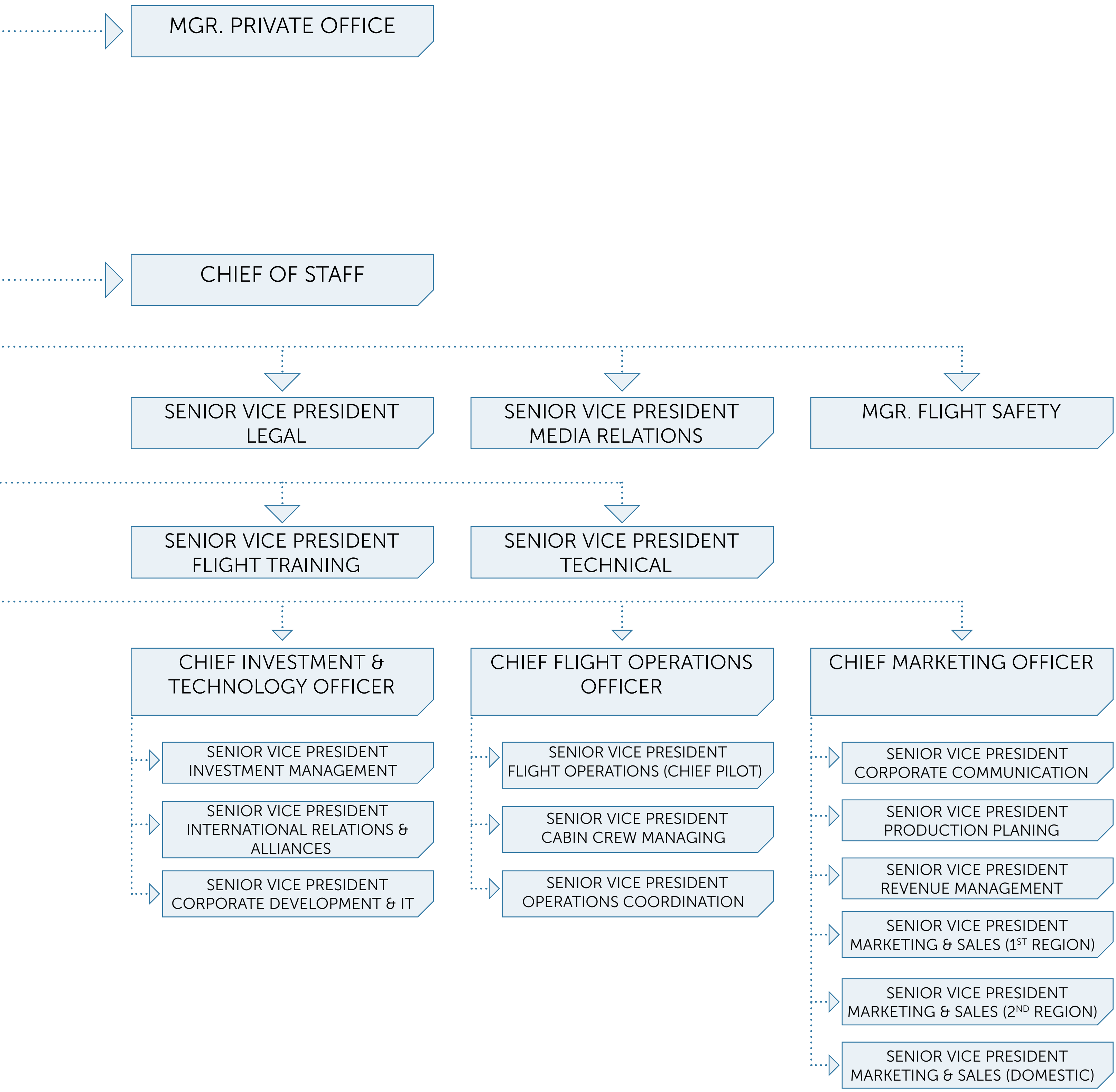
In order to limit the impact which the ongoing global economic crisis has on Turkish Airlines, the nature of whose business requires it to interact with many domestic and international financial institutions across a broad range of subjects, a variety of measures are taken to deal with the company's exposure to the risk of default by one or more of the counterparties with which it has dealings. The company adheres to an approach that involves abiding by equally-applicable, objective criteria for every counterparty with which there is a deposit or derivative relationship. The underlying aim is to reduce counterparty risk on a long-term basis. In particular, the company enters into agreements with financial institutions covering the risks arising from derivative contracts.

When entering into deposit and derivative agreements, attention is given to the credit risk ratings assigned to financial institutions by international rating agencies. Wherever possible, the company avoids dealing with any financial institution whose rating lies below a predetermined threshold. In the case of those financial institutions which pass the threshold, the company assigns limits based on risk levels which are determined according to a specified credit risk assessment methodology and it works with them on that basis. The credit ratings of financial institutions with which the company has dealings and their assigned limits are also reviewed periodically. If it should be ascertained that a financial institution's credit rating has deteriorated or that it has become riskier (as evidenced by higher credit default spreads), the company starts keeping a much closer watch on its dealings with that concern and it may even unilaterally sever its relationships with it if need be.

To manage the credit risk to which it may be exposed through the use of derivative instruments, the company enters into framework agreements with domestic financial institutions, into ISDA (International Swaps and Derivatives Association) agreements with foreign financial institutions, and into other agreements and conventions as may seem necessary. Issues specifically related to credit risk management are governed by a separate CSA (credit support annex) agreement. Based on such agreements, credit risk is reduced through offsets that take place at regular intervals.

Organization Chart




MGR. PRIVATE OFFICE
CHIEF OF STAFF
SENIOR VICE PRESIDENT LEGAL
SENIOR VICE PRESIDENT MEDIA RELATIONS
MGR. FLIGHT SAFETY
SENIOR VICE PRESIDENT FLIGHT TRAINING
SENIOR VICE PRESIDENT TECHNICAL
CHIEF INVESTMENT & TECHNOLOGY OFFICER
SENIOR VICE PRESIDENT INVESTMENT MANAGEMENT
SENIOR VICE PRESIDENT INTERNATIONAL RELATIONS & ALLIANCES
SENIOR VICE PRESIDENT CORPORATE DEVELOPMENT & IT
CHIEF FLIGHT OPERATIONS OFFICER
SENIOR VICE PRESIDENT FLIGHT OPERATIONS (CHIEF PILOT)
SENIOR VICE PRESIDENT CABIN CREW MANAGING
SENIOR VICE PRESIDENT OPERATIONS COORDINATION
CHIEF MARKETING OFFICER
SENIOR VICE PRESIDENT CORPORATE COMMUNICATION
SENIOR VICE PRESIDENT PRODUCTION PLANING
SENIOR VICE PRESIDENT REVENUE MANAGEMENT
SENIOR VICE PRESIDENT MARKETING & SALES (1ST REGION)
SENIOR VICE PRESIDENT MARKETING & SALES (2ND REGION)
SENIOR VICE PRESIDENT MARKETING & SALES (DOMESTIC)

Corporate Governance Principles Compliance Report

1. Declaration of Compliance with Principles of Corporate Governance

The Company has embraced the concept of fairness, transparency as well as promoting Turkey and Turkish Aviation sector internationally by upholding fully to these Principles of Corporate Governance of Capital Market Board (CMB)

2. Shareholder Relations Unit

The Investor Relations Department, which reports to the CFO, has been established as an unit that oversees the communication of accurate and timely information to our investors, maintaining relations and exchanging information with capital market supervisors, monitoring capital increases and public offering transactions and organizing presentations and informational meetings for domestic and international investors. Contact information for the Investor Relations Manager, Suna ÇELEBİ, is as follows: Contact Details: Phone 212- 463-6363, Extension 13630, Fax 212-465-2307, E-mail ir@thy.com

3. Shareholder's Right to Obtain and Evaluate Information

50.88% of our Company's share is Free Floating at Istanbul Stock Exchange (ISE). During the year 2011, 186 requests for information have been submitted to our Company by e-mail. All of the requests mostly related to financial and operational data, were responded to without delay. In addition to those requests, a large number of investors and shareholders were provided with information by telephone. The Company does not discriminate among shareholders on the issue of exercise of shareholders' right to obtain and evaluate information. The Company has created a web site in order to allow shareholders to exercise their right to obtain information effectively.

4. Information on General Assembly Meeting

Pursuant to Article 6 of our Articles of Association, all share certificates of our Company are registered and are categorized into two groups: A and C. There is only one outstanding Group C share, which belongs to the Privatization Administration of the Prime Ministry (OIB) incase such duties of OIB are transferred then the transferee institution. Presently, 49.12% of Group A shares belong to OIB, and 50.88% are traded publicly.

In the course of 2011:
An Ordinary General Assembly Meeting was held on April 08, 2011 to review 2010 accounts and operations. Shareholders representing TL 516,105,263 of our Company's TL 1 billion issued share capital attended the Ordinary General Assembly.

Invitations to the Ordinary General Assembly were promulgated by way of announcements in the agenda of the Trade Registry Gazette and in one newspaper circulated across the country, as well as through announcements on the Investor Relations page of our website. Information is provided on the grants and donations made during the reporting period at the General Assembly Meeting within the frame of a dedicated agenda item.

As per article 362 of the Turkish Commercial Code (TCC), the income statement, balance sheet, annual report and proposals for the method of distribution of net income will be made available to shareholders at the Head Office of the Company at least 15 days prior to the Ordinary General Assembly, accompanied by the report to be issued by auditors. In the General Assembly Meeting, existing practice endeavors to respond to shareholder questions orally and to address more comprehensive questions in writing; however, since no questions requiring a written answer were encountered during this period, verbal explanations were deemed adequate.

The powers of authority of the General Assembly are set out in Article 27 of our Articles of Association; as such, the General Assembly is that body holding the powers of authority as stipulated in TCC and other laws. Under Article 14 of our Articles of Association, the validity of any resolution to be adopted by the Board of Directors on the matters listed below is contingent upon the participation of the Board member representing the Group C share in any meeting where such resolutions are to be adopted and upon that member casting an affirmative vote.

- Resolutions which will clearly adversely affect the mission of the Incorporations as indicated in Article 3.1 of this Articles of Association;
- Any suggestion to be made to the Shareholders Assembly for any modification in the Articles of Association;
- Increase of the share capital;
- Approval of transfer of registered shares and registration of the transfer in the Share Register;
- Any transaction, based on each contract, which exceeds 5 % of the total assets of the Incorporation as indicated in the latest balance sheet submitted to the Capital Market Board and which is directly or indirectly binding for the Incorporation, any resolution which will bring the Incorporation under any commitment, (provided that in case the share of the public in the Incorporation has decreased below 20% of the Incorporation's share capital, then the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution about the cancellation of any flight route or for a remarkable decrease in the number of flights, excluding the routes which do not even have revenue to meet its own operating costs based on exclusive market conditions or through other sources.

The privileges of Group C share may only be limited by the High Commission of Privatization or any other public institution which has taken over such duties.

Minutes of General Assembly Meetings are made available to shareholders within our Company all the time and are delivered to shareholders upon request. Furthermore, General Assembly minutes and attendance list are made available on the Investors' Relations section of our website.

5. Voting Rights and Minority Rights

1. Voting Rights are set out in Article 31 of our Articles of Association, as appearing below. "Each shareholder or proxy attending the ordinary or extraordinary Shareholders Assembly Meetings will be vested with one vote for each share, provided that the provisions of Article 6/d of this Articles of Association are reserved."

2. Under Clause 5 of Article 14 of our Articles of Association, it is required for the Board member representing Group C share to attend the meeting and his affirmative vote is required for the effectiveness of the resolutions of the Board of Directors regarding the followings issues:

- Resolutions which will clearly adversely affect the mission of the Incorporations as indicated in Article 3.1 of this Articles of Association;
- Any suggestion to be made to the Shareholders Assembly for any modification in the Articles of Association;
- Increase of the share capital;
- Approval of transfer of registered shares and registration of the transfer in the Share Register;
- Any transaction, based on each contract, which exceeds 5% of the total assets of the Incorporation as indicated in the latest balance sheet submitted to the Capital Market Board and which is directly or indirectly binding for the Incorporation, any resolution which will bring the Incorporation under any commitment, (provided that in case the share of the public in the Incorporation has decreased below 20% of the Incorporation's share capital, then the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution about the cancellation of any flight route or for a remarkable decrease in the number of flights, excluding the routes which do not even have revenue to meet its own operating costs based on exclusive market conditions or through other sources.

The privileges of Group C share may only be limited by the High Commission of Privatization or any other public institution which has taken over such duties.

3. No mutually-affiliated relationship exists with any other company.

4. Our Articles of Association do not contain provisions for accumulated voting.

6. Dividend Policy and Timing of Distribution

The determination and distribution of profits from our Company are set forth in Article 36 of our Articles of Association, as follows. The net profit, as indicated in the annual balance sheet, found after deducting from the revenue of the Incorporation, the amounts required to be paid or reserved by the Incorporation like general expenses and various depreciations and the taxes required to be paid by the Incorporation, following the deduction of the losses of the past years, will be distributed in compliance with the Capital Market regulations and in the following priority:

a) Legal reserve fund in the rate of 5% will be reserved. Our Dividend Policy is published at our web site.

b) First dividend in the rate and amount as determined by Capital Market Board will be deducted from the balance.

c) After deducting from the net profit the amounts indicated in clauses (a) and (b) above, the Shareholders Assembly will be entitled to resolve either to distribute as second dividend or to reserve as extraordinary reserve fund, the entire or any portion of the balance.

d) Second reserve fund will be reserved according to Article 466, paragraph 2, clause 3 of Turkish Commercial Code in the rate of one tenth of the amount found after deducting the profit share in the rate of 5% of the issued share capital from the amount resolved to be distributed to the shareholders and those entitled to participate the profit.

e) Unless legal reserves required by law and the first dividend determined in the Articles of Association for the shareholders are reserved, no resolution may be adopted to reserve other reserve funds, to transfer profit to the coming year, and unless first dividend is paid in cash and/or in share certificates, no resolution may be adopted to distribute profit to the privileged shareholders in profit distribution, to the holders of participation, founder and ordinary interest certificates, to the members of the Board and officers, employees and workers, to the trusts established for various purposes and similar persons and/or institutions.

The General Assembly shall determine the time and method of payment of dividends in accordance with the directives of Capital Market Board. In this regard, our Company's dividend distribution policy as formulated by the Board of Directors by taking the strategic targets, growth trend, financial needs and the expectations of the shareholders of the Incorporation into consideration and under the provisions of the Turkish Commercial Code, Capital Markets Law, other related legislation and its Articles of Association, and the Incorporation will basically distribute profit at the minimum ratio determined by the Capital Markets Board by means of cash and/or bonus shares and upon taking of the potential of the Incorporation to be able to distribute profit, it is always possible for the Board of Directors to resolve for distributing profit above the minimum ratio and submit it to the approval of the General Assembly and the profit share distribution shall be carried out within their legal terms.

7. Transfer of Shares

Article 6 of our Articles of Association;

Shareholders Nature
The shares held by the foreigner shareholders may not exceed 40% of the issued share capital of the Incorporation. In calculating the rates of the shares held by the foreigner shareholders, the rate of foreign shareholding in the shares held by the shareholder holding Group A shares which are not open for public will be taken into consideration as well.

Foreign shareholder shall mean:
- foreign natural or legal persons;
- Turkish companies, share capital of over 49% of which are owned by foreigners;
- Turkish companies in which majority members of administrative and representative boards are not Turkish citizens and in which majority votes are not on Turkish partners according to their articles of associations;
- Turkish companies under actual control of the aforementioned.

In order to ensure that the aforementioned share rate limitations on the foreigner partners will be complied with the provisions of the Articles of Association, the Incorporation will use separate parts for foreign shareholders in registering the shareholders and their related share rates in the Share Register.

It is obligatory to promptly notify the Incorporation of any share purchase and sale reaching to 1% of the issued share capital of the Incorporation. Moreover, the shareholders who have reached or exceeded the maximum foreign shareholding rates as indicated in this Articles of Association, are obliged to promptly notify the Incorporation as they become aware of this. The purpose of such notification is to follow the foreigner element and remarkable share movements and to ensure the Board of Directors to perform its powers based on these, and only notification will not result with the nature of being a shareholder unless registered in the Share Register, and only the records in the Share Register will be relied on in such cases.

In cases where it is understood through the notifications or through other means that the total shares held by the foreigner shareholders have exceed 40% of the issued share capital of the Incorporation, then the Board of Directors will be under the obligation, to promptly notify the related shareholders lately within 7 (seven) days, starting from the latest share transfer, to dispose of the shares which exceed the foreign shareholding limit, in amounts and rates to be in conformity to the foreign shareholding limit and otherwise the Incorporation will be entitled to apply any of the measures indicated below. The foreign shareholder to whom the notice to dispose of its exceeding shares has been served, will be under the obligation to sell such shares which have caused the foreign shareholding limit to be exceeded, to a person who is not included in the foreign shareholder definition in this Articles of Association, within the period stated in the notice. In case such shares are not disposed despite the notification, then the Board of Directors will be under the obligation to meet in 3 (three) days and to take a resolution to cover the measures indicated below in regard to the shares exceeding the limit.

(i) To redeem with the nominal value, the shares held by the foreign shareholder which has caused the foreign shareholding limit to be exceed, through decreasing the share capital; with this purpose, the Incorporation will first notify the shareholder who has exceed the foreign shareholding limit that his shares will be redeemed. In case such a notice may not be served then the fact will be announced in two newspapers published at the place where the head office of the Incorporation is located. Expenses related with such redemption, will be collected from the shareholder who has caused the redemption, through deduction from the redemption amount.
(ii) In cases where the total share rate of the foreign shareholder is over the limit indicated in this Articles of Association, then the Board of Directors will be entitled to increase the share capital in order to reduce the rate of the shares exceeding the limit. In this case, new shares may be issued by limiting the preferential purchase options of the existing shareholders according to the rules of the Capital Market Board.

REASONING FOR THE ARTICLE

The reasoning for the rule in this Article is provided in the final paragraph of Article 7 of our Articles of Association and in paragraph below. The regulations to which our company is subject in its capacity as an airline and to which it must adhere are also explained.

a) An airline company that does not qualify as Turkish on account of provisions listed in Articles 31 and 49 of Turkish Civil Aviation Act No. 2920 may not obtain an operating license or, if it does possess an operating license, such operating license shall be revoked in the event it ceases to qualify as Turkish due such factors or events such as the transfer or sale of shares of the airline or due to the majority of the members of its Board of Directors being foreign, etc.

b) In order for flights to be possible from one state to another, that is, to secure rights to international traffic, bilateral inter-governmental aviation treaties must first be executed between the two given countries, and the majority ownership of the airline to be designated by the Turkish Government and the control of such company must lie in the hands of Turks (natural or legal persons). The criteria of nationality that qualifies our company as Turkish is a also a sine qua non condition for holding the right to traffic under the bilateral aviation treaties executed between states.

Hence, since the right of traffic may only be granted to an airline domiciled in Turkey if the majority of its shares of effective control thereof belong to Turkish citizens or companies, and since in the event such airline ceases to qualify as Turkish (or it fails to prove that it has not ceased to do so or if other contracting states to which flights will be made fail to believe that it has not done so) then the relevant airline shall lose its right to traffic, the criterion of nationality is an element of vital importance for an airline.

Hence, Article 6 of our Articles of Association contains provisions governing the foreign element in order to ensure that our airline's operating license and also our international traffic rights are secured, as explained above. Accordingly, restrictive rules were set out in terms of the limitations imposed on the foreign shareholding ratio for the protection of the traffic rights of our Company based on the criterion of nationality, should such limit be exceeded.

2- Articles of Association Article 7 (Transfer of Shares)
Transfer of shares is subject to the provisions of Turkish Commercial Code, Capital Market regulations and Civil Aviation regulations.

Transfer of registered shares will be effective with regard to the Incorporation upon registration in the Share Register. The shareholders will be under the obligation to evidence when required, according to the format as determined by the Board of Directors, their identities and nationalities and, if available, the "Foreign shareholding" relation as indicated in Article 6, before registration of the registered shares in the Share Register.

Until registration of the share transfer in the Share Register, the holder registered in the Share Register will be deemed as the holder of the shares by the Incorporation.

Share transfers will be registered in the Share Register upon resolution of the Board of Directors. The Board of Directors may refrain from registering any share transfers in the share Register in cases which are not in consistency with this Articles of Association or the law or without indicating any reason therefore.

Share transfers which are not in compliance with the foreign shareholding rate limits as indicated in Article 6 above, may not be registered in the Share Register. The Board of Directors will be under the obligation to reject the registration of such share transfers in the Share Register. Share transfers which are not registered in the Share Register by the Board of Directors will not be recognized by the Incorporation and the related transferee will not be granted to be a shareholder. The affirmative vote of the member, appointed to the Board of Directors to represent Group C share is required in the resolutions of the Board of Directors to affirm the share transfer and to register this in the Share Register.

Group C share may be transferred to any Turkish public institution substantially having the same powers granted to the Prime Ministry Privatization Directorate by Law No: 4046. In case of such a transfer then this will promptly be registered in the Share Register without requirement for any resolution of the Board of Directors.

The Board of Directors will be under the obligation to limit the transfer of the shares to the foreigners, in order to comply with the provisions of Civil Aviation and/or other laws, it is subject to, and with the limitations as indicated in this Articles of Association and to avoid from endangering the traffic and cabotage rights held by the Incorporation.

8. Company Public Disclosure Policy
Our Board of Directors has established Disclosure Policy to share information on the performance and forward looking developments within the scope of generally accepted accounting principles and Capital Market Legislation (CML), Capital Markets Board and Istanbul Stock Exchange regulations and Capital Markets Board Corporate Governance Guidelines in a fair, complete, accurate and comprehensible way with the capital market participants equally and keep an active and open dialogue always available.

Turkish Airlines' policy to give correct, complete, understandable, analyzable and cost effective easily accessible information, except trade secrets, to the capital market participants and personnel about its activities and related strategies, critical subjects, risks and developments. The comprehensive public disclosure policy of our Company as approved by the Board of Directors may be found on our Company's website.

9. Material Disclosure
Our Company made 68 Material Disclosures during 2011 fiscal year in accordance with CMB's Directive Series: VIII, No: 54 on Public Announcements of Special Circumstances, and no supplementary announcements were required by the CMB and ISE regarding such announcements. Our company has used its best efforts to ensure that its material disclosures were communicated to investors, deposit holders, agencies and organizations simultaneously, in due time and in an understandable, accurate and interpretable form. Since no Material Disclosure was made by our Company that was not delivered in a timely manner, no sanctions were imposed by the CMB or ISE during the applicable period. Furthermore, since our Company shares are not listed on any International Stock Exchange, no Material Disclosures were made to any International Stock Exchange.

10. Company's Website and Its Contents

Our Company's web address is www.turkishairlines.com, and the Investors' Relations page may be accessed via this website. The website also has an English version. The Investor Relations page contains information on shareholding composition, Minutes of General Assemblies, proxy specimens, annual reports, financial statements, commercial operating data, presentations, Corporate Governance Guidelines, details on the Board of Directors, Material Disclosures, share information, analyst information, Articles of Association, Board Committees and contact information. Furthermore, a section with live data as well as historical data on Share performance of the Company procured from a data distribution company is available on the relevant page.

11. Disclosure of Natural Person(s) with Final Controlling Shareholding

No natural person exists with final controlling shareholding in our Company.

12. Disclosure of Ultimate Controlling Individual(s)

The members of the company's Board of Directors, Statutory Auditors, CEO, Executive Vice Presidents, and Presidents, Directors and staff who have access to insider information, as well as real persons and legal entities who become aware of such information during the course of their duties by reason of their professions or fields of activity take place in the List of Insiders on the Central Registry System. Individuals named in this list are informed on the obligations contained in applicable laws and legislation, and on the sanctions imposed in case of misuse or improper distribution of such information.

13. Informing the Stakeholders

In our announcements to the public of information regarding our Company, in addition to forecast and material disclosure announcements other information and statements that are deemed to be of interest to other beneficiaries are delivered to the public in a timely and clear manner through the appropriate communications channels.

Not only stakeholders and investors, but also suppliers, financial institutions and other interested parties may obtain information about our company via our website. Personnel receive information regarding the Company's general practices and operations through internal announcements through the Company intranet site.

14. Human Resource Policy

Our Company adheres to a Human Resource Code established by our Board of Directors, and the Company act in accordance with Labor Law No. 4857 regarding the personnel policies. In addition, our Company's personnel are unionized and as such work under a collective bargaining system. Employee/ employer relations are conducted in an effective and result-oriented manner at all levels and on any subject concerning collective bargaining and representatives appointed by the union in numbers and percentages as specified in Article 34 of Unions Law No. 2821 and by union directors. Training services are provided to all our personnel.

No complaints of discrimination have been received from any employee.

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. Announcements for tenders are made in newspapers that have highest circulation nationwide within the timeframes set forth by Company, and also announced on the website www.turkishairlines.com.

To achieve our objectives of enhancing the service quality and becoming a five-star airline, customer satisfaction measurement, customer loyalty analyses and Skytrax service quality measurement have been taken on within the frame of Customer Relationship Management (CRM). Collaboration is ongoing with Star Alliance, to which our company belongs, in an effort to improve international products and services, and take part in the global information sharing and auditing mechanisms.

Customer grievances may arise due to faults that occur from time to time in our Company's operations and services. We strive to address such grievances and restore passenger satisfaction in the shortest time possible, and are looking to create a loyal customer profile. To make sure that the activities carried out by the Customer Relations Department are brought to completion quickly, the Department Performance Measurement model has been introduced across the company to ensure that inspection results of units from which information is requested are forwarded to the Customer Relations Department in the shortest time possible, and the statistical results obtained are also monitored by the General Management.

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. 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.

Members of the Board in 2011:
Hamdi TOPÇU - Chairman of the Board
Prof. Cemal ŞANLI - Deputy Chairman of the Board
Temel KOTİL, Assoc. Prof. - Member of the Board and CEO
Gülsüm AZERİ - Member of the Board
İsmail GERÇEK - Member of the Board
Muzaffer AKPINAR - Member of the Board
Mehmet BÜYÜKEKŞİ - Member of the Board

The résumés of Board Members are presented in the Annual Report and under the "Investor Relations" menu on the company's website.

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. Article 11 of the Articles of Association is 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 Assembly may grant permission for the cases defined in Articles 334 and 335 of the Turkish Commercial Code. At least five Board members (including those who represent Class C shares) must be Turkish citizens.

19. Mission, Vision and Strategic Targets of the Company

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.

In addition, through its leadership position in the Civil Aviation Transport (SHT) sector of the Republic of Turkey, to be a premier European airline with global operations which is preferred for its flight safety, security, product range, service quality and competitive approach.

Vision:

a) Maintaining the growth trend that exceeds sector averages

b) Zero accidents

c) An understanding of service that captures the world's attention

d) Unit prices that are competitive with those of low-cost carriers

e) Sales and distribution costs that are below sector averages

f) Loyal customers who carry out reservation, ticketing and boarding activities themselves.

g) Personnel who understand that the added value they create is directly proportional to the Company's gains and who are committed to their own development

h) A commercial approach that creates business for partners who are members of the Star Alliance and which harnesses the potential that those partners offer

i) An airline that stands out with its Management that is recognized for its embrace of the principles of modern management, respecting the interests of its shareholders and all other stakeholders.

20. Risk Management and Internal Control

We believe that having an effective risk management strategy at our Company is critical to taking potential risks under control in the airline industry, which is scene to fierce competition, and to ensuring sustainable growth. In an effort to provide a reasonable degree of security against possible shocks by minimizing the fluctuations particularly relating to fuel and carbon emission prices, interest rates, cash flow and exchange rates, as well as counterparty risk, the Financial Risk Management Department is devising the Company's Financial Risk Management strategy and works towards the management of actual/potential financial risks the Company is exposed to.

Addressed as a matter of first priority in this frame, hedging in relation to fuel prices from amongst Financial Risks the Company is exposed to was started in June 2009. From November 2009, the hedging ratio was increased and the transaction maturity was extended, while the instruments used were diversified and the strategy was updated from January 2011 in addition to increased hedging ratio and extended transaction maturity; hedging is ongoing within the frame of the relevant strategy. In order to minimize the impact of exchange rate fluctuations regarded as a major risk element in view of the Company's field of activity, and to keep under control the risks that will arise from possible differences between forecasted and actualized income and expenses on the basis of exchange rates, a proactive exchange rate policy is implemented based first and foremost on natural risk management for exchange rates, taking into account the investment of the available cash portfolio.

In addition, the Company established its liability in relation to carbon emissions, laid down the strategy to protect against carbon emission risk, and works as necessary within the frame of the Carbon Emission Trading System.

In the period ahead, the Company is intending to update the existing methodology and continue with active control of fuel price, exchange rate, interest rate, and carbon emission risks and the credit risk of financial institutions with our Company.
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 Assembly Meeting:

Orhan BİRDAL - Member of Auditing Board
Naci AĞBAL - Member of Auditing Board
Prof. Dr. Ateş VURAN - Member of Auditing Board

The auditors have a one year term of office. An auditor whose term has expired may be reelected.

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. Authorities and 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 are specified in Article 14 of the Articles of Association. 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.

During 2011, the Board of Directors met 50 times and passed 203 decisions.

23. Prohibition to Deal and Compete 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 Turkish Airlines' Human Resources Regulations No. 07-001, which prohibits Company personnel from providing services to other organizations.

24. Code of Ethics

Our Company has set forth its Code of Ethics within the scope of the Principals of Corporate Governance, which is published on our Website.

25. The Number, Structure, and Independence of the Board Committees

Committees have been set up under the Board of Directors within the frame of the Turkish Commercial Code and CMB legislation. The scope of these committees' duties, and their operating principles are set by the Board of Directors.

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.

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

Introduction

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

Management Responsibility on Financial Statements

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

Auditor's Responsibility

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

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

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

Conclusion

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

Emphasis of Matter

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

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

İstanbul, 12 April 2012

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

Berkman Özata
Partner

Türk Hava Yolları Anonim Ortaklığı and its Subsidiaries

Audited Consolidated Balance Sheet as of 31 December 2011

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

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

ASSETS	Notes	Current Period 31 December 2011	Prior Period 31 December 2010
Current Assets		4.073.526.998	3.491.777.500
Cash and cash equivalents	6	1.549.524.710	813.936.552
Financial assets	7	213.899.678	84.070.372
Trade receivables	10	760.396.929	577.622.814
Other receivables	11	811.695.889	1.649.525.777
Inventories	13	251.785.807	172.076.283
Other current assets	26	206.751.785	194.545.702
Non-current assets held for sale	34	279.472.200	-
Non-current Assets		12.331.420.131	7.157.108.485
Other receivables	11	583.806.507	214.636.988
Financial assets	7	1.767.872	1.750.943
Investments accounted for using the equity method	16	294.960.592	193.562.028
Investment property	17	54.720.000	49.570.000
Tangible assets	18	11.092.594.872	6.443.437.235
Intangible assets	19	46.962.939	33.099.101
Other non-current assets	26	256.607.349	221.052.190
TOTAL ASSETS		16.404.947.129	10.648.885.985

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

Türk Hava Yolları Anonim Ortaklığı and its Subsidiaries

Audited Consolidated Balance Sheet as of 31 December 2011

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

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

LIABILITIES	Notes	Current Period 31 December 2011	Prior Period 31 December 2010
Current Liabilities		3.951.410.408	2.540.819.554
Financial debt	8	790.159.337	493.120.594
Other financial liabilities	9	158.483.592	63.750.323
Trade payables	10	1.001.609.621	735.874.026
Other payables	11	216.512.852	162.798.563
Current tax liabilities	35	5.368.643	-
Provisions	22	26.224.798	20.480.602
Provisions for employee benefits	24	251.298.892	102.214.757
Passenger flight liabilities	26	1.076.598.617	673.843.879
Other current liabilities	26	425.154.056	288.736.810
Non- current Liabilities		7.954.609.080	4.360.659.447
Financial debt	8	7.122.723.496	3.684.958.785
Other payables	11	11.439.394	9.831.914
Provisions for employee benefits	24	191.632.448	170.505.529
Deferred tax liability	35	574.679.843	435.385.525
Other non- current liabilities	26	54.133.899	59.977.694
SHAREHOLDERS' EQUITY			
Equity Attributable to Shareholders' of Parent		4.498.927.641	3.747.406.984
Share capital	27	1.200.000.000	1.000.000.000
Inflation difference on shareholders' equity	27	1.123.808.032	1.123.808.032
Restricted reserves assorted from profit reserves	27	39.326.341	39.326.341
Currency translation differences	27	798.590.878	3.589.635
Cash flow hedge fund	27	(46.613.446)	15.383.772
Retained earnings	27	1.365.299.204	1.278.855.843
Net profit for the year	27	18.516.632	286.443.361
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		16.404.947.129	10.648.885.985

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

Türk Hava Yolları Anonim Ortaklığı and its Subsidiaries

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2011

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

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

	Notes	Current Period 1 January- 31 December 2011	Prior Period 1 January- 31 December 2010
Sales revenue	28	11.815.424.727	8.422.771.140
Cost of sales (-)	28	(9.787.529.272)	(6.652.115.477)
GROSS PROFIT		2.027.895.455	1.770.655.663
Marketing and sales expenses (-)	29	(1.304.775.986)	(980.877.520)
Administrative expenses (-)	29	(384.604.722)	(327.017.860)
Other operating income	31	159.756.551	141.579.534
Other operating expenses (-)	31	(397.182.482)	(122.151.211)
OPERATING PROFIT		101.088.816	482.188.606
Share of investments' profit/(loss) accounted for using the equity method	16	10.074.016	(36.800.970)
Financial income	32	277.453.552	72.851.263
Financial expenses (-)	33	(242.727.392)	(152.549.546)
PROFIT BEFORE TAX		145.888.992	365.689.353
Tax expense		(127.372.360)	(79.245.992)
Current tax expense (-)	35	(16.770.183)	(10.387.347)
Deferred tax expense (-)	35	(110.602.177)	(68.858.645)
PROFIT FOR THE YEAR		18.516.632	286.443.361
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Change in currency translation differences		795.001.243	(1.051.704)
Change in cash flow hedge fund		(77.496.523)	21.418.876
Tax expense (-)/income (+) on items in other comprehensive income		15.499.305	(4.283.775)
OTHER COMPREHENSIVE INCOME (AFTER TAX)		733.004.025	16.083.397
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		751.520.657	302.526.758
Earnings per share (Kr)	36	0,02	0,24

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

Türk Hava Yolları Anonim Ortaklığı and its Subsidiaries

Audited Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2011

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

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

	Notes	Share capital	Inflation difference on shareholders' equity	Restricted reserves assorted from profit reserves	Currency translation differences	Cash flow hedge fund	Net profit for the year	Retained earnings	Total shareholders' equity
As of 31 December 2009		875.000.000	1.123.808.032	22.686.727	4.641.339	(1.751.329)	559.076.280	861.419.177	3.444.880.226
Capital increase	27	125.000.000	-	-	-	-	(125.000.000)	-	-
Transfer of previous years' profit to capital reserves	27	-	-	16.639.614	-	-	(16.639.614)	-	-
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	(417.436.666)	417.436.666	-
Total comprehensive income/ (loss) for the year		-	-	-	(1.051.704)	17.135.101	286.443.361	-	302.526.758
As of 31 December 2010		1.000.000.000	1.123.808.032	39.326.341	3.589.635	15.383.772	286.443.361	1.278.855.843	3.747.406.984
As of 31 December 2010	27	200.000.000	-	-	-	-	(200.000.000)	-	-
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	(86.443.361)	86.443.361	-
Total comprehensive income/ (loss) for the year		-	-	-	795.001.243	(61.997.218)	18.516.632	-	751.520.657
As of 31 December 2011		1.200.000.000	1.123.808.032	39.326.341	798.590.878	(46.613.446)	18.516.632	1.365.299.204	4.498.927.641

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

Türk Hava Yolları Anonim Ortaklığı and its Subsidiaries

Audited Consolidated Statement of Cash Flows

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

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

CASH FLOW FROM OPERATING ACTIVITIES	Notes	Current Period 1 January- 31 December 2011	Prior Period 1 January- 31 December 2010
Net profit before taxes		145.888.992	365.689.353
Adjustments to obtain net cash flow generated from operating activities:			
Depreciation and amortization	18-19	811.848.621	458.539.301
Provision for retirement pay liability	24	43.712.634	48.486.761
Provisions, net	22	5.765.448	13.193.248
Interest income	32	(90.492.295)	(38.397.854)
Gain on sales of fixed assets	31	(5.400.013)	(45.206.644)
Increase in provision for impairment	18	329.671.432	5.356.560
(Profit)/loss on equity investments accounted for using the equity method	16	(10.074.016)	36.800.970
Interest expense on finance leases	33	217.312.422	87.999.221
Change in manufacturers' credit	26	(3.746.701)	(2.728.629)
Unrealized foreign exchange loss on finance leases	32,33	17.326.207	13.262.857
Increase in provision for doubtful receivables	10	25.733.253	37.489.876
Impairment on investment property	17	5.169.703	(760.000)
Change in fair value of derivative instruments	32-33	8.879.487	5.787.041
Operating profit before working capital changes		1.501.595.174	985.512.061
Increase in trade receivables		(74.080.593)	(171.422.465)
Increase in other short and long term receivables		(149.193.114)	(35.459.709)
Increase in inventories	13	(36.746.558)	(23.080.351)
Decrease in other current assets	26	27.370.907	8.798.815
(Increase)/decrease in other non-current assets	26	11.918.075	(137.480.236)
Increase in trade payables	10	90.682.688	176.764.204
Increase in other short-term and long-term payables	11	15.065.985	7.055.483
Increase in other short and long term liabilities		39.474.917	104.740.795
Increase in short-term employee benefits	24	111.816.923	47.480.277
Increase in passenger flight liabilities	26	224.050.649	87.318.600
Cash flow from operating activities		1.761.955.053	1.050.227.474
Payment of retirement pay liability	24	(27.610.423)	(29.856.794)
Interest paid		(168.515.067)	(86.727.275)
Taxes paid	35	(13.587.608)	(72.477.652)
Net cash flow from operating activities		1.552.241.955	861.165.753
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible and intangible fixed assets	18-19-31	20.246.527	116.003.254
Interest received		94.039.511	34.658.151
Purchase of tangible and intangible fixed assets (*)	18-19	(1.088.704.104)	(629.433.434)
Prepayments for the purchase of aircrafts	11	929.467.323	(415.301.558)
(Increase)/decrease in financial investments	7	(117.786.293)	175.000.000
Cash outflow resulting from purchase of joint ventures		(11.681.249)	(34.162.146)
Net cash used in investing activities		(174.418.285)	(753.235.733)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal in finance lease liabilities		(628.472.899)	(371.225.019)
(Decrease)/increase in financial borrowings		(15.750.096)	(13.503.240)
Increase/(decrease) in other financial liabilities	9	1.987.483	270.916
Net cash used in financing activities		(642.235.512)	(384.457.343)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		735.588.158	(276.527.323)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		813.936.552	1.090.463.875
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.549.524.710	813.936.552

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

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

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

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

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

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

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

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

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

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

Air Transport ("Aviation")

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

Technical Maintenance Services ("Technical")

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

Approval of Financial Statements

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Preparation for Financial Statements and Significant Accounting Policies

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

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

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

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

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

Currency Used In Financial Statements

Change in the functional currency

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

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

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

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

Translation to the presentation currency

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

(a) Assets and liabilities in the balance sheet as of 31 December 2011 are translated into TL at the prevailing exchange rates of the Central Bank of Turkish Republic (TL 1,8889 TL = US Dollar $ 1);

(b) The income statement prepared for the year ended as of 31 December 2011 is translated into TL by using the 2011 average US Dollar exchange rates; and

(c) All differences are recognized as a separate equity item under exchange differences.

Adjustment of Financial Statements in Hyperinflationary Periods

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

Comparative Information and Restatement of Prior Period Financial Statements

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

Basis of the Consolidation

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

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

The table below sets out the consolidated Subsidiaries and participation rate of the Group in these subsidiaries as of 31 December 2011:

		Participation Rate		
Name of the Company	Principal Activity	31 December 2011	31 December 2010	Country of Registration
THY Teknik	Aircraft Maintenance Services	100%	100%	Turkey
HABOM	Aircraft Maintenance Services	100%	-	Turkey

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

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

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

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

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

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

(**) Established in the year 2011.

According to the equity method, subsidiaries are stated as the cost value adjusted as deducting the impairment in subsidiary from the change occurred in the subsidiary's assets after the acquisition date that is calculated by the Group's share in the consolidated balance sheet. Subsidiary's losses that exceed the Group's share are not considered (actually, that contains a long term investment which composes the net investment in the subsidiary).

2.2 Changes in Accounting Policies

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

2.3 Offsetting

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

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

2.4 New and Revised International Financial Reporting Standards

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

Amendments to IAS 1 *Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)*	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.

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

None.

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

IAS 24 *Related Party Disclosures (as revised in 2009)*	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.
Amendments to IFRS 3 Business Combinations	As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').
Amendments to IAS 32 *Classification of Rights Issues*	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

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

Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss. The application of IFRIC 19 had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	Except for the amendments to IAS 1 described earlier in section (a), the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

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

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

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

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

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

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

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

Key requirements of IFRS 9 are described as follows:

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

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

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

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

Key requirements of these five Standards are described below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.5 Summary of Significant Accounting Policies

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

2.5.1 Revenue

Rendering of services:

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

The Group develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions to relating to the passenger revenue are recognized as expense when the transportation service is provided.

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

Dividend and interest income:

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

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

2.5.2 Inventories

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

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

2.5.3 Tangible Assets

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

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

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

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

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

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

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

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

	Useful Life (Years)	Residual Value
- Buildings	25-50	-
- Aircrafts and Engines	20	10%
- Cargo Aircraft and Engines	20	10%
- Overhaul maintenance for aircrafts' fuselage	6	-
- Overhaul maintenance for engines	3-6-8-13	-
- Components	7	-
- Repairable Spare Parts	3-7	-
- Simulators	10-20	10%
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-
- Leasehold improvements	Lease period	-

2.5.4 Leasing Transactions

Leasing - the Group as the lessee

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

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

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

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

2.5.5 Intangible Assets

Intangible assets include leasehold improvements, rights, information systems and software. Intangible assets are carried at the beginning cost including the restatement to the equivalent purchasing power for those accounted on or before 31 December 2004 less accumulated depreciation. Other intangible assets are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with infinite useful life, once there are no time restrictions on them time.

2.5.6 Non-current Assets Held For Sale

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

2.5.7 Impairment on Assets

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

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

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

Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations account. Changes in value due to exchange rate changes are shown under group of financial income/expenses.

2.5.8 Borrowing Costs

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

2.5.9 Financial Instruments

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

a) Financial assets

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

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets at amortized cost, the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

Cash and cash equivalents

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

b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below.

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

2.5.10 Foreign Currency Transactions

Transactions in foreign currencies are translated into US Dollar at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date.

Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

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

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

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

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

2.5.11 Earnings per Share

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

2.5.12 Events Subsequent to the Balance Sheet Date

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

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

2.5.13 Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

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

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

Onerous Contracts

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

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

2.5.14 Segmental Information

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

2.5.15 Investment Property

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

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

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

2.5.16 Taxation and Deferred Tax

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

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

Current tax

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

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the period

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

2.5.17 Government Grants

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

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

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

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

2.5.18 Employee Benefits/Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard 19 (revised) “Employee Benefits” (“IAS 19”). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

2.5.19 Statement of Cash flows

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

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

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group. Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

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

2.5.20 Share Capital and Dividends

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

2.5.21 Manufacturers’ Credits

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

2.5.22 Maintenance and Repair Costs

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

2.5.23 Frequent Flyer Program

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s). A portion of the fair value of the consideration received in respect of the initial sale shall be allocated to the award credits and the consideration allocated to award credits should be recognized as revenue when awards credits are redeemed.

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

2.6 Changes and Errors in Accounting Estimates

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

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

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

2.7 Important Accounting Estimates and Assumptions

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

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

The Determination of Impairment on Long Term Assets:

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

Calculation of the Liability for Frequent Flyer Program:

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

Useful Lives and Salvage Values of Tangible Assets:

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

Deferred Tax:

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

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

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

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

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

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

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

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

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

3. BUSINESS COMBINATIONS

None.

4. JOINT VENTURES

See Note 16.

5. SEGMENTAL REPORTING

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

5.1 Total Assets and Liabilities

Total Assets	31 December 2011	31 December 2010
Aviation	16.342.114.312	10.539.002.128
Technic	1.097.317.847	775.767.109
Total	17.439.432.159	11.314.769.237
Less: Eliminations due to consolidation	(1.034.485.030)	(665.883.252)
Total assets in consolidated financial statements	16.404.947.129	10.648.885.985

Total Liabilities	31 December 2011	31 December 2010
Aviation	11.748.214.373	6.791.595.144
Technic	248.997.863	192.513.058
Total	11.997.212.236	6.984.108.202
Less: Eliminations due to consolidation	(91.192.748)	(82.629.201)
Total liabilities in consolidated financial statements	11.906.019.488	6.901.479.001

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

5.2 Net Operating Profit/(Loss)

Segment Results:

1 January 2011-31 December 2011	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	11.602.840.576	212.584.151	-	11.815.424.727
Inter-segment sales	29.362.804	614.148.458	(643.511.262)	-
Segment revenue	11.632.203.380	826.732.609	(643.511.262)	11.815.424.727
Cost of sales	(9.742.933.483)	(683.918.768)	639.322.979	(9.787.529.272)
Gross profit/(loss)	1.889.269.897	142.813.841	(4.188.283)	2.027.895.455
Marketing, sales and distribution expenses	(1.296.606.993)	(8.653.848)	484.855	(1.304.775.986)
Administrative expenses	(327.838.866)	(60.147.481)	3.381.625	(384.604.722)
Other operating income	148.986.937	17.881.114	(7.111.500)	159.756.551
Other operating expense	(382.879.487)	(15.637.879)	1.334.884	(397.182.482)
Operating profit/(loss)	30.931.488	76.255.747	(6.098.419)	101.088.816
Share of investment profit/(loss) accounted for using the equity method	40.112.749	(30.038.733)	-	10.074.016
Financial income	287.540.045	(3.253.302)	(6.833.191)	277.453.552
Financial loss	(242.719.153)	(8.299)	60	(242.727.392)
Profit/(loss) before tax	115.865.129	42.955.413	(12.931.550)	145.888.992

1 January 2010-31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	8.223.653.220	199.117.920	-	8.422.771.140
Inter-segment sales	50.470.804	521.588.023	(572.058.827)	-
Segment revenue	8.274.124.024	720.705.943	(572.058.827)	8.422.771.140
Cost of sales	(6.640.428.539)	(584.975.934)	573.288.996	(6.652.115.477)
Gross profit/(loss)	1.633.695.485	135.730.009	1.230.169	1.770.655.663
Marketing, sales and distribution expenses	(974.598.462)	(6.677.116)	398.058	(980.877.520)
Administrative expenses	(277.110.210)	(54.533.025)	4.625.375	(327.017.860)
Other operating income	120.345.974	25.608.193	(4.374.633)	141.579.534
Other operating expense	(95.970.306)	(28.963.851)	2.782.946	(122.151.211)
Operating profit/(loss)	406.362.481	71.164.210	(4.661.915)	482.188.606
Share of investment profit/(loss) accounted for using the equity method	(12.034.246)	(24.766.724)	-	(36.800.970)
Financial income	20.168.084	57.422.792	4.739.613	72.851.263
Financial loss	(100.988.494)	(51.638.750)	(77.698)	(152.549.546)
Profit before tax	313.507.825	52.181.528	-	365.689.353

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

Income statement items related to investments accounted for equity method

1 January-31 December 2011	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/(loss) accounted for using the equity method	40.112.749	(30.038.733)	-	10.074.016

1 January-31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/(loss) accounted for using the equity method	(12.034.246)	(24.766.724)	-	(36.800.970)

5.3 Investment Operations

1 January-31 December 2011	Aviation	Technic	Inter-segment elimination	Total
Purchase of tangible and intangible fixed assets	4.091.389.794	233.547.254	-	4.324.937.048
Current period amortization and depreciation	753.118.045	58.730.576	-	811.848.621
Investments accounted for using the equity method	209.705.888	85.254.704	-	294.960.592

1 January-31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Purchase of tangible and intangible fixed assets	2.040.545.247	148.994.905	-	2.189.540.152
Current period amortization and depreciation	405.284.021	53.255.280	-	458.539.301
Investments accounted for using the equity method	139.869.760	53.692.268	-	193.562.028

6. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Cash	5.959.669	760.094
Banks - Time deposits	1.291.657.138	686.094.724
Banks - Demand deposits	213.883.414	92.757.084
Other liquid assets	38.024.489	34.324.650
	1.549.524.710	813.936.552

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

Time Deposits:

Amount Currency Opening Date Interest Rate Maturity	Currency	Interest Rate	Maturity	31 December 2011
193.850.000	TL	6,30%-12,25%	February 2012	204.608.315
322.754.001	EUR	5,30%-6,25%	March 2012	790.619.702
153.906.163	USD	4,50%-6,25%	March 2012	296.429.121
				1.291.657.138

Amount Currency Opening Date Interest Rate Maturity	Currency	Interest Rate	Maturity	31 December 2010
194.300.000	TL	8,03% - 9,45%	February 2011	195.646.658
41.490.000	EUR	3,25% - 3,60%	March 2011	85.094.255
261.895.582	USD	3,06% - 3,60%	March 2011	405.353.811
				686.094.724

7. FINANCIAL ASSETS

Short-term financial assets are as follows:

	31 December 2011	31 December 2010
Time deposits with maturity more than 3 months	133.533.101	-
Derivative instruments at fair values (Note 39)	80.366.577	84.070.372
	213.899.678	84.070.372

Time deposits with maturity of more than 3 months:

Amount	Currency	Interest Rate	Maturity	31 December 2011
20.000.000	TL	8,16%-9,60%	April 2012	20.000.000
46.457.607	EUR	4,67%-5,50%	June 2012	113.533.101
				133.533.101

Long-term financial assets are as follows:

	31 December 2011	31 December 2010
Sita Inc.	1.679.619	1.679.619
Star Alliance GMBH	44.465	44.465
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
UATP Inc.	16.929	-
	1.767.872	1.750.943

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

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

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

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

8. FINANCIAL BORROWINGS

Short-term financial borrowings are as follows:

	31 December 2011	31 December 2010
Finance lease obligations	790.159.337	478.423.865
Bank loans	-	14.696.729
	790.159.337	493.120.594

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

31 December 2010

Maturity	Interest Rate	Currency	Original Amount	Interest Accrual	TL
October 2011	Libor+3,50%	USD	9.422.728	83.565	14.696.729

Long-term financial borrowings are as follows:

	31 December 2011	31 December 2010
Finance lease obligations	7.122.723.496	3.684.958.785
	7.122.723.496	3.684.958.785

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

Financial lease obligations are as follows:

	31 December 2011	31 December 2010
Less than 1 year	964.312.250	574.170.632
Between 1 - 5 years	3.599.737.058	1.904.550.140
Over 5 years	4.498.997.066	2.205.369.454
	9.063.046.374	4.684.090.226
Less: Future interest expenses	(1.150.163.541)	(520.707.576)
Principal value of future rentals stated in financial statements	7.912.882.833	4.163.382.650
Interest Range:		
Floating rate obligations	3.984.803.923	1.956.645.410
Fixed rate obligations	3.928.078.910	2.206.737.240
	7.912.882.833	4.163.382.650

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

9. OTHER FINANCIAL LIABILITIES

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

	31 December 2011	31 December 2010
Fair value of derivative instruments (Note 39)	154.871.082	62.632.636
Borrowings to banks	3.612.510	1.117.687
	158.483.592	63.750.323

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

10. ACCOUNTS RECEIVABLE AND PAYABLE

Short-term trade receivables are as follows:

	31 December 2011	31 December 2010
Trade receivables	830.595.090	613.963.860
Due from related parties (Note 37)	6.969.060	31.289.397
Allowance for doubtful receivables	(77.167.221)	(67.630.443)
	760.396.929	577.622.814

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

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

	1 January - 31 December 2011	1 January - 31 December 2010
Opening Balance	67.630.443	41.791.892
Charge for the period	25.733.253	37.489.876
Collections during the period	(13.071.676)	(11.136.802)
Currency translation adjustment	476.370	(74.649)
Receivables written-off	(3.601.169)	(439.874)
Closing Balance	77.167.221	67.630.443

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

Short-term trade payables are as follows:

	31 December 2011	31 December 2010
Trade payables	816.357.993	672.370.479
Due from related parties (Note 37)	180.943.942	61.509.126
Other	4.307.686	1.994.421
	1.001.609.621	735.874.026

11. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables are as follows:

	31 December 2011	31 December 2010
Prepayments made for aircrafts, to be received back in cash (net)	710.354.962	1.610.230.030
Restriction on transfer of funds from banks (*)	55.060.221	15.851.565
Receivables from training of captain candidates	28.526.223	9.382.173
Receivables from purchasing transactions abroad	7.779.605	7.813.311
Receivables from employees	2.808.754	1.321.982
Deposits and guarantees given	2.265.376	906.115
Receivables from foreign technical suppliers	1.049.534	1.656.654
Nontrading receivables from related parties (Note 37)	58.082	-
Other receivables	3.793.133	2.363.947
	811.695.889	1.649.525.777

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

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

Long-term other receivables are as follows:

	31 December 2011	31 December 2010
Prepayments made for aircrafts, to be received back in cash (net)	409.666.323	166.510.045
Receivables from purchasing transactions abroad	65.136.878	7.306.887
Receivables from investment assistance (Note 2.7)	31.563.519	-
Interest swap agreement deposits	44.013.416	14.656.095
Receivables from employees	13.673.264	11.207.991
Deposits and guarantees given	9.232.914	6.234.707
Advance payments for operating leases	9.036.180	7.498.785
Receivables from Sita deposit certificates	1.484.013	1.222.478
	583.806.507	214.636.988

Short-term other payables are as follows:

	31 December 2011	31 December 2010
Miscellaneous charge order advances	67.762.338	63.227.440
Social security premiums payable	55.938.507	32.540.402
Taxes and funds payable	34.707.756	32.434.572
Payables to insurance companies	24.514.696	16.448.096
Other advances received	24.359.807	13.314.559
Other advances received	5.256.463	1.001.100
Charter advances	2.202.096	1.124.749
Other liabilities	1.771.189	2.707.645
	216.512.852	162.798.563

Long-term other payables are as follows:

	31 December 2011	31 December 2010
Deposits and guarantees received	11.439.394	9.831.914
	11.439.394	9.831.914

12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS

None (31 December 2010: None).

13. INVENTORIES

	31 December 2011	31 December 2010
Spare parts	224.154.746	150.027.358
Other inventories	45.186.647	36.417.572
	269.341.394	186.444.930
Provision for impairment (-)	(17.555.587)	(14.368.647)
	251.785.807	172.076.283

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

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

	1 January - 31 December 2011	1 January - 31 December 2010
Provision at the beginning of the period	14.368.647	14.368.647
Foreign currency translation reserve	3.186.940	-
Provision at the end of the period	17.555.587	14.368.647

14. BIOLOGICAL ASSETS

None (31 December 2010: None).

15. ASSETS FROM CONSTRUCTION CONTRACTS IN PROGRESS

None (31 December 2010: None).

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	31 December 2011	31 December 2010
Sun Ekspress	26.515.230	23.360.765
Turkish DO&CO	60.594.468	46.516.347
TEC	74.626.727	53.692.268
TGS	72.672.672	56.501.684
THY Opet	37.295.786	13.490.964
TCI	1.703.496	-
Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş.	8.182.875	-
Goodrich	1.744.878	-
Air Bosna	11.574.460	-
Uçak Koltuk	50.000	-
	294.960.592	193.562.028

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

	31 December 2011	31 December 2010
Total assets	714.361.841	574.856.563
Total liabilities	661.331.381	528.135.034
Shareholders' equity	53.030.460	46.721.529
Group's share in associate's shareholders' equity	26.515.230	23.360.765

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	1.519.249.857	994.879.582
Profit/(loss) for the period	(5.563.201)	(3.810.100)
Group's share in profit/(loss) for the period	(2.781.600)	(1.905.050)

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

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

	31 December 2011	31 December 2010
Total assets	212.403.249	154.372.009
Total liabilities	91.214.313	61.339.316
Shareholders' equity	121.188.936	93.032.693
Group's share in associate's shareholders' equity	60.594.468	46.516.347

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	410.959.134	332.540.555
Profit/(loss) for the period	37.681.048	29.923.513
Group's share in profit/(loss) for the period	18.840.524	14.961.757

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

	31 December 2011	31 December 2010
Total assets	225.887.983	221.389.592
Total liabilities	73.588.541	111.813.535
Shareholders' equity	152.299.442	109.576.057
Group's share in associate's shareholders' equity	74.626.727	53.692.268

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	170.833.111	115.968.274
Profit/(loss) for the period	(58.227.661)	(50.544.335)
Group's share in profit/(loss) for the period	(28.531.554)	(24.766.724)

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

	31 December 2011	31 December 2010
Total assets	69.857.068	50.735.303
Total liabilities	46.235.721	58.714.113
Shareholders' equity	23.621.347	(7.978.810)
Group's share in associate's shareholders' equity	11.574.460	-

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	36.523.173	33.146.759
Profit/(loss) for the period	(12.052.361)	(33.963.163)
Group's share in profit/(loss) for the period	(5.905.657)	(16.641.951)

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

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

	31 December 2011	31 December 2010
Total assets	191.800.346	199.967.385
Total liabilities	46.455.002	86.964.018
Shareholders' equity	145.345.344	113.003.367
Group's share in associate's shareholders' equity	72.672.672	56.501.684

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	304.587.085	159.317.791
Profit/(loss) for the period	32.819.926	(13.960.968)
Group's share in profit/(loss) for the period	16.409.963	(6.980.484)

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

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

	31 December 2011	31 December 2010
Total assets	415.486.059	190.798.801
Total liabilities	340.894.488	163.816.873
Shareholders' equity	74.591.571	26.981.928
Group's share in associate's shareholders' equity	37.295.786	13.490.964

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	2.271.152.114	431.015.063
Profit/(loss) for the period	27.352.122	(2.937.036)
Group's share in profit/(loss) for the period	13.676.061	(1.468.518)

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

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

	31 December 2011	31 December 2010
Total assets	5.693.147	-
Total liabilities	2.352.958	-
Shareholders' equity	3.340.189	-
Group's share in associate's shareholders' equity	1.703.496	-

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	593.771	-
Profit/(loss) for the period	(402.477)	-
Group's share in profit/(loss) for the period	(205.262)	-

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

	31 December 2011	31 December 2010
Total assets	16.714.081	-
Total liabilities	348.330	-
Shareholders' equity	16.365.751	-
Group's share in associate's shareholders' equity	8.182.875	-

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	304.185	-
Profit/(loss) for the period	(558.554)	-
Group's share in profit/(loss) for the period	(279.277)	-

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

	31 December 2011	31 December 2010
Total assets	5.489.742	-
Total liabilities	1.127.545	-
Shareholders' equity	4.362.197	-
Group's share in associate's shareholders' equity	1.744.878	-

	1 January - 31 December 2011	1 January - 31 December 2010
Revenue	195.432	-
Profit/(loss) for the period	(2.872.955)	-
Group's share in profit/(loss) for the period	(1.149.182)	-

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

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

	1 January - 31 December 2011	1 January - 31 December 2010
Sun Ekspress	(2.781.600)	(1.905.050)
Turkish DO&CO	18.840.524	14.961.757
P&W T.T. Uçak Bakım Merkezi Ltd. Şti.	(28.531.554)	(24.766.724)
Bosnia and Herzegovina Airlines	(5.905.657)	(16.641.951)
TGS	16.409.963	(6.980.484)
THY Opet	13.676.061	(1.468.518)
TCI	(205.262)	-
Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (*)	(279.277)	-
Goodrich (*)	(1.149.182)	-
Total	10.074.016	(36.800.970)

17. INVESTMENT PROPERTY

	1 January - 31 December 2011	1 January - 31 December 2010
Opening balance	49.570.000	49.570.000
Foreign currency translation reserve	10.319.703	-
Additions	-	-
Loss due to the change in fair value	(5.169.703)	-
Closing balance	54.720.000	49.570.000

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

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

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

18. TANGIBLE ASSETS

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
Cost									
Opening balance at 1 January 2011	155.789.647	366.891.008	109.351.091	9.080.064.151	362.331.413	327.545.636	65.684.659	73.716.649	10.541.374.255
Foreign currency translation reserve	35.931.072	77.611.097	22.353.109	2.318.163.981	93.871.278	76.143.305	23.990.255	56.073.020	2.704.137.117
Additions	2.724.334	31.911.392	26.138.173	3.623.965.020	230.449.737	68.915.393	20.436.376	307.112.467	4.311.652.892
Disposals	-	(15.228.236)	(9.388.939)	(204.879.583)	(71.385.963)	(72.940.280)	(316.644)	-	(374.139.645)
Transfer to Assets held-for-sale	-	-	-	(1.953.802.761)	-	-	-	-	(1.953.802.761)
Other transfers	-	-	-	-	-	-	1.637.311	(1.637.311)	-
Closing balance at 31 December 2011	194.445.053	461.185.261	148.453.434	12.863.510.808	615.266.465	399.664.054	111.431.957	435.264.825	15.229.221.858
Accumulated depreciation									
Opening balance at 1 January 2011	50.832.184	263.568.628	60.901.609	3.419.063.346	114.334.463	152.551.380	36.685.410	-	4.097.937.020
Foreign currency translation reserve	10.808.549	53.927.571	157.035	747.360.282	31.613.763	38.423.601	13.384.734	-	895.675.535
Depreciation charge for the period	2.956.914	20.276.951	18.766.183	642.602.948	64.197.367	39.430.049	15.380.299	-	803.610.711
Disposals	-	(16.253.062)	(10.614.536)	(215.609.543)	(71.040.475)	(45.369.196)	(84.415)	-	(358.971.227)
Transfer to Assets held-for-sale	-	-	-	(1.301.625.053)	-	-	-	-	(1.301.625.053)
Closing balance 31 December 2011	64.597.647	321.520.088	69.210.291	3.291.791.980	139.105.118	185.035.834	65.366.028	-	4.136.626.986
Net book value 31 December 2011	129.847.406	139.665.173	79.243.143	9.571.718.828	476.161.347	214.628.220	46.065.929	435.264.825	11.092.594.872

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
Cost									
Opening balance at 1 January 2010	164.645.538	412.550.821	85.721.454	7.249.124.682	329.298.094	319.829.494	54.616.332	17.713.151	8.633.499.566
Additions	7.315.558	67.662.041	26.305.032	1.875.568.427	33.703.592	76.359.882	10.322.737	65.082.621	2.162.319.891
Disposals	(23.718.680)	(113.962.039)	(2.675.394)	(44.628.958)	(670.273)	(68.643.740)	(146.117)	-	(254.445.201)
Transfers	7.547.231	640.185	-	-	-	-	891.707	(9.079.123)	-
Closing balance 31 December 2010	155.789.647	366.891.008	109.351.091	9.080.064.151	362.331.413	327.545.636	65.684.659	73.716.649	10.541.374.255
Accumulated depreciation									
Opening balance at 1 January 2010	58.398.566	339.478.389	49.606.259	3.098.522.003	102.344.734	147.045.447	27.085.124	-	3.822.480.522
Depreciation charge for the period	5.287.256	15.702.036	13.675.105	352.087.287	15.014.904	42.340.502	9.641.439	-	453.748.529
Disposals	(12.853.638)	(92.260.928)	(2.379.755)	(38.984.407)	(294.141)	(36.834.569)	(41.153)	-	(183.648.591)
Real increase/(decrease) at impairment	-	649.131	-	7.438.463	(2.731.034)	-	-	-	5.356.560
Closing balance 31 December 2010	50.832.184	263.568.628	60.901.609	3.419.063.346	114.334.463	152.551.380	36.685.410	-	4.097.937.020
Net book value 31 December 2010	104.957.463	103.322.380	48.449.482	5.661.000.805	247.996.950	174.994.256	28.999.249	73.716.649	6.443.437.235

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

19. INTANGIBLE ASSETS

	Slot Rights	Other Rights	Total
Cost			
Opening balance at 1 January 2011	20.007.450	87.477.119	107.484.569
Foreign currency translation reserve	4.437.616	15.444.865	19.882.481
Additions	-	13.284.156	13.284.156
Disposals	-	(2.466.016)	(2.466.016)
Closing balance at 31 December 2011	24.445.066	113.740.123	138.185.189
Accumulated Depreciation			
Opening balance at 1 January 2011	-	74.385.468	74.385.468
Foreign currency translation reserve	-	11.386.793	11.386.793
Amortization charge for the period	-	8.237.910	8.237.910
Disposals	-	(2.787.921)	(2.787.921)
Closing balance at 31 December 2011	-	91.222.250	91.222.250
Net book value 31 December 2011	24.445.066	22.517.873	46.962.939

	Slot Rights	Other Rights	Total
Cost			
Opening balance at 1 January 2010	-	80.264.956	80.264.956
Additions	20.007.450	7.212.811	27.220.261
Disposals	-	(648)	(648)
Closing balance at 31 December 2010	20.007.450	87.477.119	107.484.569
Accumulated Depreciation			
Opening balance at 1 January 2010	-	69.595.344	69.595.344
Amortization charge for the period	-	4.790.772	4.790.772
Disposals	-	(648)	(648)
Closing balance at 31 December 2010	-	74.385.468	74.385.468
Net book value 31 December 2010	20.007.450	13.091.651	33.099.101

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

20. GOODWILL

None (31 December 2010: None).

21. GOVERNMENT GRANTS AND INCENTIVES

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

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

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions for short-term liabilities are as follows:

	31 December 2011	31 December 2010
Provisions for legal claims	26.224.798	20.480.602

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

	1 January - 31 December 2011	1 January - 31 December 2010
Provision at the beginning of the period	20.480.602	7.287.354
Charge for the period	6.236.668	13.944.777
Provisions released	(581.703)	(751.529)
Foreign currency translation differences	89.231	
Provision at the end of the period	26.224.798	20.480.602

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

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

	31 December 2011		31 December 2010	
	Foreign currency amount	TL equivalent	Foreign currency amount	TL equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	97.177.999	-	94.785.952
-Collaterals				
TL	10.419.036	10.419.036	6.035.525	6.035.525
EUR	7.536.458	18.417.595	5.550.118	11.372.746
USD	35.434.308	66.931.865	48.939.024	75.659.732
Other	-	1.409.503		1.717.949
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
	-	97.177.999	-	94.785.952

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

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

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

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

23. COMMITMENTS

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

	31 December 2011	31 December 2010
Less than 1 year	335.010.923	357.740.489
Between 1 - 5 years	1.000.864.431	902.887.434
More than 5 years	218.425.929	319.073.603
	1.554.301.283	1.579.701.526

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

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

	31 December 2011	31 December 2010
Less than 1 year	1.934.734	1.187.021
Between 1 - 5 years	12.572.518	8.704.819
More than 5 years	58.055.544	50.669.488
	72.562.796	60.561.328

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

24. EMPLOYEE BENEFITS

Short-term employee benefits are as follows:

	31 December 2011	31 December 2010
Salary accruals	129.494.899	50.239.944
Labor union agreement accrual (*)	106.364.433	37.574.079
Provisions for unused vacation	11.914.374	13.859.404
Due to personnel	3.525.186	541.330
	251.298.892	102.214.757

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

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

	31 December 2011	31 December 2010
Provisions for retirement pay liability	191.632.448	170.505.529

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

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

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

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

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

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

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

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

	1 January - 31 December 2011	1 January - 31 December 2010
Provisions at the beginning of the period	170.505.529	151.875.562
Foreign Exchange Translation Reserves	5.024.708	-
Charge for the period	32.271.975	29.993.375
Interest charges	6.220.836	8.990.304
Actuarial gain/(loss)	5.219.823	9.503.082
Payments	(27.610.423)	(29.856.794)
Provisions at the end of the period	191.632.448	170.505.529

25. RETIREMENT BENEFITS

None (31 December 2010: None).

26. OTHER ASSETS AND LIABILITIES

Details of other current assets are as follows:

	31 December 2011	31 December 2010
Deferred VAT	48.561.653	6.062.222
Technical maintenance income accruals	47.204.715	42.533.116
Prepaid sales commissions	18.467.423	10.456.293
Other prepaid expenses	18.297.778	12.178.549
Prepaid operating lease expenses	17.968.896	19.457.461
VAT to be refunded	12.815.278	11.091.767
Prepaid taxes and funds	12.807.153	59.670.760
Advances given for orders	12.040.036	1.680.460
Prepaid insurance expenses	8.693.312	7.697.001
Advances for business purposes	4.764.395	1.368.189
Interline passenger income accruals	3.359.270	2.554.403
Income accruals on withholding tax return	911.899	-
Advances given to personnel	779.083	982.743
Credit note accruals for received aircrafts and simulators	-	18.743.129
Other current assets	80.894	69.609
	206.751.785	194.545.702

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

Other non-current assets are as follows:

	31 December 2011	31 December 2010
Advances given for fixed asset purchases	116.072.898	169.283.390
Maintenance reserves for engines	90.967.384	35.285.248
Prepaid aircraft financing expenses	30.613.937	12.735.035
Income accruals on withholding tax return	13.918.869	-
Prepaid operating lease expenses	2.516.897	2.455.512
Prepaid expenses	2.289.548	810.338
Prepaid Eximbank guarantee and exposure fee	227.816	482.667
	256.607.349	221.052.190

Other short-term liabilities are as follows:

	31 December 2011	31 December 2010
Accruals for maintenance expense	392.633.037	231.895.137
Unearned revenue from share transfer of TGS (Note 16)	13.806.320	11.300.000
Incentive premium accruals	4.473.928	17.466.706
Unearned revenue accruals	3.751.411	6.360.139
Credit note for received aircrafts and simulators	1.034.502	12.495.245
Accruals for other expenses	8.284.231	9.058.900
Other liabilities	1.170.627	160.683
	425.154.056	288.736.810

Other long-term liabilities are as follows:

	31 December 2011	31 December 2010
Gross manufacturer's credits	49.451.906	40.474.695
Accumulated depreciations of manufacturer's credit	(22.930.646)	(15.301.108)
Unearned revenue from share transfer of TGS (Note 16)	27.612.639	33.900.000
Unearned revenue accruals	-	904.107
	54.133.899	59.977.694

Passenger flight liabilities are as follows:

	31 December 2011	31 December 2010
Flight liability generating from ticket sales	689.801.850	342.348.911
Frequent flyer program liability	192.757.250	131.606.808
Flight liability generating from mileage sales	194.039.517	199.888.160
	1.076.598.617	673.843.879

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

27. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

a) As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
b) Suggesting change in the Articles of Association at General Assembly,
c) Increasing share capital,
d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
e) Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),
f) Making decisions relating to merges and liquidation,
g) Making decisions to cancel flight routes or significantly decrease number of flights except for the ones that cannot recover even its operational expenses subject to the market conditions.

Restricted Reserves Assorted from Profit

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

Foreign Currency Translation Differences

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

Distribution of Dividends

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hedge Fund against the Cash Flow Risk

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

28. SALES AND COST OF SALES

Details of gross profit are as follows:

	1 January - 31 December 2011	1 January - 31 December 2010
Scheduled flights		
Passenger	10.259.401.917	7.387.449.566
Cargo and mail	966.114.928	626.771.496
Total scheduled flights	11.225.516.845	8.014.221.062
Unscheduled flights	138.603.969	68.549.374
Other revenue	451.303.913	340.000.704
Net sales	11.815.424.727	8.422.771.140
Cost of sales (-)	(9.787.529.272)	(6.652.115.477)
Gross profit	2.027.895.455	1.770.655.663

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

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

	1 January - 31 December 2011	1 January - 31 December 2010
- Europe	3.823.409.344	2.889.916.772
- Far East	2.412.184.832	1.493.066.719
- Middle East	1.530.241.615	1.036.566.346
- America	952.638.688	523.157.884
- Africa	707.902.793	521.520.175
Total international flights	9.426.377.272	6.464.227.896
Domestic flights	1.799.139.573	1.549.993.166
Total revenue	11.225.516.845	8.014.221.062

The details of the cost of sales are as follows:

	1 January - 31 December 2011	1 January - 31 December 2010
Fuel expense	3.984.326.099	2.161.733.716
Personnel expense	1.640.829.647	1.300.526.286
Landing and navigation expense	888.159.416	610.543.663
Ground services expenses	785.500.939	523.017.629
Depreciation expenses	764.523.411	426.492.568
Passenger service and catering expenses	512.939.146	419.134.868
Operating lease expenses	396.538.392	367.477.243
Maintenance expenses	384.995.476	505.364.905
Other airlines' seat rents	158.170.704	134.361.438
Insurance expenses	56.258.201	41.858.518
Service expenses	49.738.978	22.276.927
Other rent expenses	35.903.438	30.682.204
Short term leasing expenses	24.062.482	42.235.496
Aircraft finance administrative fees	17.414.308	13.239.816
Tax expenses	9.577.799	7.456.084
Utility expenses	9.470.581	8.234.983
Transportation expenses	8.621.090	6.682.619
Cost of other sales	60.499.165	30.796.514
	9.787.529.272	6.652.115.477

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

	1 January - 31 December 2011	1 January - 31 December 2010
Marketing, sales and distribution expenses	1.304.775.986	980.877.520
Administrative expenses	384.604.722	327.017.860
	1.689.380.708	1.307.895.380

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

Marketing, sales and distribution expenses are as follows:

	1 January - 31 December 2011	1 January - 31 December 2010
Personnel expenses	378.990.790	277.956.963
Commissions and incentive expenses	337.844.291	263.302.642
Reservation systems expense	220.889.868	165.359.495
Advertising expenses	146.497.444	124.418.782
Special passenger program mileage expenses	43.582.812	25.995.372
Service expenses	34.719.604	25.974.923
Rent expenses	22.029.930	17.740.737
Communication expense	15.438.177	12.843.288
Transportation expense	14.953.929	11.341.558
Membership fees	11.640.656	8.810.512
Tax Expenses	10.102.599	8.334.247
Utility expenses	4.587.680	3.753.851
Maintenance expenses	2.881.519	2.364.886
Depreciation expense	2.165.732	1.006.904
Fuel expense	1.587.250	757.054
Insurance expenses	1.065.909	776.036
Other sales and marketing expenses	55.797.796	30.140.270
	1.304.775.986	980.877.520

General administrative expenses are as follows:

	1 January - 31 December 2011	1 January - 31 December 2010
Personnel expenses	216.908.569	185.591.789
Depreciation expenses	45.159.478	31.039.829
Service expenses	17.524.775	16.485.952
Rent expenses	17.283.307	13.727.308
Fuel expense	15.174.366	11.352.455
Communication expense	11.717.857	16.301.068
Tax expenses	7.218.867	16.789.756
Insurance expenses	5.752.145	627.991
Utility expenses	4.781.641	2.756.973
Other administrative expenses	43.083.717	32.344.739
	384.604.722	327.017.860

30. EXPENSES ACCORDING TO CATEGORIES

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

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

31. OTHER OPERATING INCOME/EXPENSES

Other operating income/expense consist of the following:

	1 January - 31 December 2011	1 January - 31 December 2010
Income from investment assistance (Note 2.7)	43.866.276	-
Discounts received from maintenance spare parts suppliers	25.096.497	17.329.148
Insurance, indemnities, penalties income	15.521.333	25.624.334
Provisions no longer required	13.653.379	11.888.331
TGS share premium (Note:16)	11.354.928	11.300.000
Returns and discounts received from services	8.991.457	-
Fixes asset sales gain	5.400.013	45.206.644
Banks protocol revenue	5.020.748	5.000.000
Purchase discounts	4.294.173	4.287.088
Star Alliance membership revenue	3.687.065	3.945.375
Other operating income	22.870.682	16.998.614
	159.756.551	141.579.534

	1 January - 31 December 2011	1 January - 31 December 2010
Real decrease in provision on assets held-for-sale and impairment of fixed assets (2011, Note: 34; 2010, Note:18)	329.671.432	5.356.560
Provision expenses	31.969.921	51.434.653
Indemnity and penalty expense	11.775.618	-
Valuation differences from investment property (Note:17)	5.169.703	-
Collective agreement payment differences	-	51.130.281
Other operating expense	18.595.808	14.229.717
	397.182.482	122.151.211

32. FINANCIAL INCOME

Financial income consists of the following:

	1 January - 31 December 2011	1 January - 31 December 2010
Foreign exchange rate income (*)	180.838.908	38.397.854
Interest income	90.492.295	21.142.242
Rediscount interest income	6.122.349	13.311.167
	277.453.552	72.851.263

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

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

33. FINANCIAL EXPENSES

Finance expenses are as follows:

	1 January - 31 December 2011	1 January - 31 December 2011
Finance lease interest expense	217.312.422	120.231.843
Rediscount interest expense	9.779.121	3.252.322
Cost of ETB interest	6.220.836	8.990.304
The fair value of derivatives exchange expense	8.879.487	5.787.041
Financial liabilities foreign exchange loss	-	386.332
Finance lease foreign exchange rate expense	-	12.876.525
Other financial expense	535.526	1.025.179
	242.727.392	152.549.546

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

	31 December 2011
Net book value of non-current assets held-for-sale (Note 18)	652.177.708
Provision for decrease in value (Note 31)	(329.671.431)
Foreign currency translation differences	(43.034.077)
Adjusted net book value of non-current assets held-for-sale	279.472.200

35. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

	31 December 2011	31 December 2010
Provisions for corporate tax	18.956.251	10.387.347
Prepaid taxes and funds	(13.587.608)	(70.058.107)
(Tax asset)/tax liability (*)	5.368.643	(59.670.760)

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

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

Tax liability consists of the following items:

	1 January - 31 December 2011	1 January - 31 December 2010
Current period tax expense	16.770.183	8.213.633
Change in corporate tax for the year 2009	-	2.173.714
Deferred tax expense	110.602.177	68.858.645
Tax expense	127.372.360	79.245.992

Tax effect regarding other comprehensive income is as follows:

	1 January - 31 December 2011		
	Amount before tax	Tax (expense) /income	Amount after tax
Foreign currency translation differences	795.001.243	-	795.001.243
Change in cash flow hedge fund	(77.496.523)	15.499.305	(61.997.218)
Other comprehensive income for the period	717.504.720	15.499.305	733.004.025

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

Corporate Tax

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

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

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

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

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

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

Income Withholding Tax

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

Deferred Tax

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

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

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

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

	31 December 2011	31 December 2010
Fixed assets	(901.848.053)	(525.486.010)
Provisions for ticket sales advance	(56.547.535)	(57.133.510)
Adjustment on inventories	(42.833.609)	(19.172.440)
Accumulated loss	207.976.984	19.490.674
Accruals for expenses	119.292.064	70.912.827
Provisions for ETB	38.326.490	33.895.715
Income and expense for future periods	14.950.671	(1.420.257)
Long-term lease obligations	13.141.314	19.236.155
Labor union accruals	12.041.158	-
Short-term lease obligations	7.288.257	13.647.501
Allowance for doubtful receivables	6.360.975	4.352.313
Provisions for unused vacation	2.382.874	2.771.881
Provisions for impairment in inventories	2.873.729	2.873.729
Other	1.914.838	645.897
Deferred tax assets/(liabilities)	(574.679.843)	(435.385.525)

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

	1 January - 31 December 2011	1 January - 31 December 2010
Opening balance at 1 January	435.385.525	362.243.105
Deferred tax expense	110.602.177	68.858.645
Hedge fund tax income	(15.499.305)	4.283.775
Foreign currency translation differences	44.191.446	0
Closing balance at 31 June	574.679.843	435.385.525

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

	1 January - 31 December 2011	1 January - 31 December 2010
Reconciliation of provision for taxes:		
Profit/(loss) from operations before tax	145.888.992	365.689.353
Domestic income tax rate of 20%	29.177.798	73.137.871
Taxation effects on:		
- income from investment assistance	(8.802.684)	-
- non-deductible expenses	3.547.754	4.029.468
- effect of change in corporate tax for the year 2009	-	2.173.714
-foreign exchange rate translation gain/loss	116.073.387	-
-equity method	(6.539.544)	1.318.913
-other	(6.084.351)	(1.413.974)
Tax charge/(benefit) in the income statement	127.372.360	79.245.992

36. EARNINGS PER SHARE

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

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

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

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

	1 January - 31 December 2011	1 January - 31 December 2010
Number of shares outstanding at 1 January (in full)	100.000.000.000	87.500.000.000
New shares issued (in full)	20.000.000.000	12.500.000.000
Number of shares outstanding at 30 September (in full)	120.000.000.000	100.000.000.000
Weighted average number of shares outstanding during the year (in full)	120.000.000.000	120.000.000.000
Net profit/(loss) for period	18.516.632	286.443.361
(Loss)/earnings per share (Kr) (*)	0,02	0,24

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

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

37. RELATED PARTY TRANSACTIONS

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

	31 December 2011	31 December 2010
Sun Express	5.072.047	1.174.893
Bosnia Herzegovina Airlines	1.526.276	2.737.156
Türkbine Teknik Gaz Türbinleri Bakım A.Ş.	312.350	-
TCI	58.387	-
P & W T.T Uçak Bakım Merkezi Ltd. Şti.	-	30.114.504
Allowance for doubtful receivables (-)	-	(2.737.156)
	6.969.060	31.289.397

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

	31 December 2011	31 December 2010
Goodrich Thy Teknik Servis	38.638	-
TCI Kabiniçi Sistemleri A.Ş.	7.959	-
Türkbine Teknik Gaz Türbinleri Bakım A.Ş.	9.671	-
Uçak Koltuk Üretimi San.ve Tic. A.Ş.	1.814	-
	58.082	-

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

	31 December 2011	31 December 2010
THY Opet Havacılık Yakıtları A.Ş.	127.045.062	25.999.690
TGS	21.907.112	29.890.972
THY DO&CO İkram Hizmetleri A.Ş.	25.136.455	5.618.464
P & W T.T Uçak Bakım Merkezi Ltd. Şti.	6.855.313	-
	180.943.942	61.509.126

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

	1 January - 31 December 2011	1 January - 31 December 2010
Services rendered to Sun Express	29.723.737	15.084.575
Service rendered to P&W T.T.	25.540.358	52.748.735
Service rendered to TGS	12.182.732	52.018.689
Services rendered to Bosnia Herzegovina Airlines	9.652.699	10.564.680
Services rendered to Turkbine	7.408.796	-
Services rendered to Turkish DO&CO	1.939.830	1.743.035
Services rendered to THY Opet	432.893	81.993
Services rendered to TCI	218.619	-
Services rendered to Goodrich	-	-
	87.099.664	132.241.707

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

	1 January - 31 December 2011	1 January - 31 December 2010
Services received from THY OPET	2.074.655.627	424.790.209
Services received from THY DO&CO	349.856.592	280.173.198
Services received from TGS	302.633.375	162.827.775
Services received from P&W T.T Uçak Bakım Merkezi	150.531.810	99.494.701
Services received from Bosnia Herzegovina Airlines	10.003.326	7.935.222
Services received from Sun Express	459.142	29.470.829
Services received from Goodrich	273.226	-
	2.888.413.098	1.004.691.934

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

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

38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

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

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

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.
The overall strategy of the Group remains the same since the year 2010.

	31 December 2011	31 December 2010
Total debts	9.072.976.046	4.977.703.728
Less: Cash and cash equivalents and time deposits with maturity of more than three months		(813.936.552)
Net debt	7.389.918.235	4.163.767.176
Total shareholders' equity	44.498.927.641	3.747.406.984
Total capital stock	11.888.845.876	7.911.174.160
Net debt/total capital stock ratio	0,62	0,53

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

(b) Financial Risk Factors

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

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

b.1) Credit Risk Management

Credit risk of financial instruments	Receivables					
	Trade receivables		Other receivables			
31 December 2011	Related Party	Third Party	Related Party	Third Party	Deposits in Banks	Derivative Instruments
Maximum credit risk as of balance sheet date (*)	6.969.060	753.427.869	58.082	1.395.444.314	1.639.073.653	80.366.577
The part of maximum risk under guarantee with collateral etc. (**)	-	5.168.078	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	6.969.060	577.633.964	58.082	1.395.444.314	1.639.073.653	80.366.577
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	175.793.905	-	-	-	-
-The part under guarantee with collateral etc.	-	2.847.053	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	77.167.221	-	-	-	-
-Impairment(-)	-	(77.167.221)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

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

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

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
31 December 2010	Related Party	Third Party	Related Party	Third Party	Deposits in Banks	Derivative Instruments
Maximum credit risk as of balance sheet date (*)	31.289.397	546.333.417	-	1.864.162.765	778.851.808	84.070.372
The part of maximum risk under guarantee with collateral etc. (**)	-	6.903.023	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	31.289.397	459.996.786	-	1.864.162.765	778.851.808	84.070.372
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	86.336.631	-	-	-	-
-The part under guarantee with collateral etc.	-	2.447.478	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	2.737.156	64.893.287	-	-	-	-
-Impairment(-)	(2.737.156)	(64.893.287)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

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

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

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

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

	Receivables					
31 December 2011	Trade Receivables	Other Receivables	Deposits in Banks	Derivative Instruments	Other	Total
Past due 1-30 days	154.588.150	-	-	-	-	154.588.150
Past due 1-3 month	22.320.528	-	-	-	-	22.320.528
Past due 3-12 months	61.015.941	-	-	-	-	61.015.941
Past due 1-5 years	14.317.716	-	-	-	-	14.317.716
Past due more than 5 years	718.791					718.791
Total past due receivables	252.961.126	-	-	-	-	252.961.126
The part under guarantee with collateral etc	2.847.053	-	-	-	-	2.847.053

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

	Receivables					
31 December 2010	Trade Receivables	Other Receivables	Deposits in Banks	Derivative Instruments	Other	Total
Past due 1-30 days	48.905.501	-	-	-	-	48.905.501
Past due 1-3 month	46.738.115	-	-	-	-	46.738.115
Past due 3-12 months	49.262.290	-	-	-	-	49.262.290
Past due 1-5 years	8.696.618	-	-	-	-	8.696.618
Past due more than 5 years	364.550	-	-	-	-	364.550
Total past due receivables	153.967.074	-	-	-	-	153.967.074
The part under guarantee with collateral etc	2.447.478	-	-	-	-	2.447.478

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

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

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

b.2) Liquidity risk management

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities. The adjustment column shows the item which causes possible cash flow in the future periods. The item in question is included in the maturity analysis and is not included balance sheet amount of financial liabilities in the balance sheet.

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

Liquidity risk table:

31 December 2011

Due date on the contract		Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Finance lease obligations	7.912.882.833	9.063.046.374	229.775.641	734.536.609	3.599.737.058	4.498.997.066
Trade payables	1.001.609.621	1.006.176.118	869.723.250	136.452.868	-	-
Other financial liabilities	3.612.510	3.612.510	3.612.510	-	-	-
Total	8.918.104.964	10.072.835.002	1.103.111.401	870.989.477	3.599.737.058	4.498.997.066

31 December 2010

Due date on the contract		Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	14.696.729	15.022.192	-	15.022.192	-	-
Finance lease obligations	4.163.382.650	4.684.090.226	131.528.838	442.641.794	1.904.550.140	2.205.369.454
Trade payables	735.874.026	749.280.248	662.394.432	86.885.816	-	-
Other financial liabilities	1.117.687	1.117.687	1.117.687	-	-	-
Total	4.915.071.092	5.449.510.353	795.040.957	544.549.802	1.904.550.140	2.205.369.454

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

31 December 2011

Due date on the contract		Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial liabilities						
Derivative cash inflows outflows, net		(56.835.471)	10.220.246	(13.597.247)	(43.600.906)	(9.857.564)
Total	(74.504.505)	(56.835.471)	10.220.246	(13.597.247)	(43.600.906)	(9.857.564)

31 December 2010

Due date on the contract		Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial liabilities						
Derivative cash inflows outflows, net		(49.353.951)	4.171.751	(1.634.342)	(46.158.411)	(5.732.949)
Total	21.437.736	(49.353.951)	4.171.751	(1.634.342)	(46.158.411)	(5.732.949)

b.3) Market risk management

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

Audited Notes to the Consolidated Financial Statements For the Year Ended 31 December 2011

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

b.3.1) Foreign currency risk management

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

	31 December 2011				
	TL Equivalent	US Dollar	Euro	GBP	Other
1. Trade receivables	552.043.752	185.113.977	109.556.908	20.855.509	236.517.358
2a. Monetary financial assets	1.379.232.996	355.589.247	827.874.879	1.037.973	194.730.897
2b. Non monetary financial assets	-	-	-	-	-
3. Other	783.280.900	777.111.536	3.880.392	911.868	1.377.104
4. Current assets (1+2+3)	2.714.557.648	1.317.814.760	941.312.179	22.805.350	432.625.359
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-		-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	12.669.299	634.694	7.647.026	270.045	4.117.534
8. Non current assets (5+6+7)	12.669.299	634.694	7.647.026	270.045	4.117.534
9. Total assets (4+8)	2.727.226.947	1.318.449.454	948.959.205	23.075.395	436.742.893
10. Trade payables	724.967.077	339.514.208	250.583.484	9.038.313	125.831.072
11. Financial liabilities	445.023.191	524.414	444.498.777	-	-
12a. Other liabilities, monetary	39.346.934	27.913.536	7.516.665	394.154	3.522.579
12b. Other liabilities, non monetary	632.032	620.338	11.694	-	-
13. Current liabilities (10+11+12)	1.209.969.234	368.572.496	702.610.620	9.432.467	129.353.651
14. Trade payables	-	-	-	-	-
15. Financial liabilities	3.286.402.558		3.286.402.558	-	-
16a. Other liabilities, monetary	34.330.826	26.521.260	4.790.822	-	3.018.744
16b. Other liabilities, non monetary	-	-	-	-	-
17. Non current liabilities (14+15+16)	3.320.733.384	26.521.260	3.291.193.380	-	3.018.744
18. Total liabilities (13+17)	4.530.702.618	395.093.756	3.993.804.000	9.432.467	132.372.395
19. Net asset/liability position of Off-balance sheet derivatives (19a-19b)	-	-	254.424.060	-	-
19a. Off-balance sheet foreign currency derivative assets			254.424.060	-	-
19b. Off-balance sheet foreign currency derivative liabilities				-	-
20. Net foreign currency asset/(liability) position (9-18+19)	(1.803.475.671)	923.355.698	(2.790.420.735)	13.642.928	304.370.498
21. Net foreign currency asset/liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(2.598.793.838)	146.229.806	(3.056.360.519)	12.461.015	298.875.860
22. Fair value of foreign currency hedged financial assets	-	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	11.305.317.391	2.570.894.658	2.815.171.973	262.108.817	5.657.141.943
26. Imports	4.091.338.689	2.682.995.840	910.380.714	37.519.114	460.443.020

Audited Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2011

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

	31 December 2010				
	TL Equivalent	US Dollar	Euro	GBP	Other
1. Trade receivables	401.348.898	145.176.463	87.020.463	12.210.604	156.941.368
2a. Monetary financial assets	2.316.370.081	2.098.839.409	110.826.542	612.421	106.091.709
2b. Non monetary financial assets	-	-	-	-	-
3. Other	66.293.167	61.852.539	2.598.539	144.937	1.697.152
4. Current assets (1+2+3)	2.784.012.146	2.305.868.411	200.445.544	12.967.962	264.730.229
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	(166.510.045)	(166.510.045)	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	180.292.325	144.001.412	29.331.543	888.663	6.070.707
8. Non current assets (5+6+7)	13.782.280	(22.508.633)	29.331.543	888.663	6.070.707
9. Total assets (4+8)	2.797.794.426	2.283.359.778	229.777.087	13.856.625	270.800.936
10. Trade payables	348.866.521	84.844.541	165.949.619	8.686.835	89.385.526
11. Financial liabilities	631.463.497	379.137.239	252.326.258	-	-
12a. Other liabilities, monetary	(4.731.681)	2.198.278	(10.958.333)	243.455	3.784.919
12b. Other liabilities, non monetary	489.632	56.367	433.265	-	-
13. Current liabilities (10+11+12)	976.087.969	466.236.425	407.750.809	8.930.290	93.170.445
14. Trade payables	-	-	-	-	-
15. Financial liabilities	3.781.139.557	1.801.134.839	1.980.004.718	-	-
16a. Other liabilities, monetary	9.829.695	3.453.108	5.418.972	2.604	955.011
16b. Other liabilities, non monetary	-	-	-	-	-
17. Non current liabilities (14+15+16)	3.790.969.252	1.804.587.947	1.985.423.690	2.604	955.011
18. Total liabilities (13+17)	4.767.057.221	2.270.824.372	2.393.174.499	8.932.894	94.125.456
19. Net asset/liability position of Off-balance sheet derivatives (19a-19b)	(2.281.685)	(244.025.867)	241.744.182	-	-
19a. Off-balance sheet foreign currency derivative assets	241.744.182	-	241.744.182	-	-
19b. Off-balance sheet foreign currency derivative liabilities	244.025.867	244.025.867	-	-	-
20. Net foreign currency asset/(liability) position (9-18+19)	(1.971.544.480)	(231.490.461)	(1.921.653.230)	4.923.731	176.675.480
21. Net foreign currency asset/liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(2.215.358.655)	(193.262.178)	(2.194.894.229)	3.890.131	168.907.621
22. Fair value of foreign currency hedged financial assets	-	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	6.528.219.249	924.361.219	2.349.790.637	153.310.525	3.100.756.868
26. Imports	2.634.053.757	1.771.619.115	599.994.315	30.330.811	232.109.516

Foreign currency sensitivity

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

	31 December 2011 Profit/(Loss) Before Tax	
	If foreign currency appreciated against TL by 10%	If foreign currency depreciated against TL by 10%
1 - Turkish Lira net asset/liability	92.335.570	(92.335.570)
2- Part of hedged from Turkish Lira risk (-)	-	-
3- Turkish Lira net effect (1 +2)	92.335.570	(92.335.570)
4 - Euro net asset/liability	(279.042.074)	279.042.074
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(279.042.074)	279.042.074
7 - GBP net asset/liability	1.364.293	(1.364.293)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	1.364.293	(1.364.293)
10 - Other foreign currency net asset/liability	30.437.050	(30.437.050)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	30.437.050	(30.437.050)
TOTAL (3 + 6 + 9 + 12)	(154.905.161)	154.905.161

	31 December 2010 Profit/(Loss) Before Tax	
	If foreign currency appreciated against TL by 10%	If foreign currency depreciated against TL by 10%
1 - US Dollar net asset/liability	(23.149.046)	23.149.046
2- Part of hedged from US Dollar risk (-)	-	-
3- US Dollar net effect (1 +2)	(23.149.046)	23.149.046
4 - Euro net asset/liability	(192.165.323)	192.165.323
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(192.165.323)	192.165.323
7 - GBP net asset/liability	492.373	(492.373)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	492.373	(492.373)
10 - Other foreign currency net asset/liability	17.667.548	(17.667.548)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	17.667.548	(17.667.548)
TOTAL (3 + 6 + 9 + 12)	(197.154.448)	197.154.448

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

b.3.2) Interest rate risk management

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

Interest Rate Position Table

	31 December 2011	31 December 2010
Instruments with fixed interest rate		
Financial Liabilities	3.928.078.910	2.206.737.240
Financial Instruments with Variable Interest Rate		
Financial Liabilities	3.984.803.923	1.971.342.139
Interest Swap Agreements not subject to Hedge accounting (Net)	(59.611)	7.569.719
Interest swap agreements subject to Hedge accounting (Net)	(62.888.643)	(27.153.795)

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

Interest rate sensitivity

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

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

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

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

b.3.3) Fuel prices sensitivity

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

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

39. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

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

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

31 December 2011 Balance Sheet	Loans and Receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1.549.524.710	-	-	-	-	1.549.524.710	6
Financial investments	133.533.101	6.796.870	73.569.707	1.767.872	-	215.667.550	7
Trade receivables	760.396.929	-	-	-	-	760.396.929	10
Other receivables	1.395.502.396	-	-	-	-	1.395.502.396	11
Financial liabilities							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	7.912.882.833	7.912.882.833	8
Other financial liabilities	-	70.753.275	84.117.807	-	3.612.510	158.483.592	9
Trade payables	-	-	-	-	1.001.609.621	1.001.609.621	10

31 December 2010 Balance Sheet	Loans and Receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	813.936.552	-	-	-	-	813.936.552	6
Financial investments	-	44.396.158	39.674.214	1.750.943	-	85.821.315	7
Trade receivables	577.622.814	-	-	-	-	577.622.814	10
Other receivables	1.864.162.765	-	-	-	-	1.864.162.765	11
Financial liabilities							
Bank borrowings	-	-	-	-	14.696.729	14.696.729	8
Finance lease obligations	-	-	-	-	4.163.382.650	4.163.382.650	8
Other financial liabilities	-	22.537.592	40.095.044	-	1.117.687	63.750.323	9
Trade payables	-	-	-	-	735.874.026	735.874.026	10

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

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

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

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

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

		Fair value level as of the reporting date		
Financial assets	31 December 2011	Level 1 TL	Level 2 TL	Level 3 TL
Financial assets at fair value through profit or loss				
Derivative instruments	73.569.707	-	73.569.707	-
Financial assets subject to hedge accounting				
Derivative instruments	6.796.870	-	6.796.870	-
Total	80.366.577	-	80.366.577	-
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative instruments	84.117.807	-	84.117.807	-
Financial liabilities subject to hedge accounting				
Derivative instruments	70.753.275	-	70.753.275	-
Total	154.871.082	-	154.871.082	-

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

Derivative Instruments and Hedging Transactions

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

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

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

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

31 December 2011	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(62.888.643)	(62.888.643)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	6.796.870	-	6.796.870
4 way collar contracts for hedging against cash flow risk of fuel prices	-	(7.864.632)	(7.864.632)
Fair values of derivative instruments for hedging purposes	6.796.870	(70.753.275)	(63.956.405)
Cross-currency swap contracts not subject to hedge accounting	43.169.453	(61.992.542)	(18.823.089)
Interest rate swap contracts not subject to hedge accounting	20.717.103	(20.776.714)	(59.611)
	9.683.151	(1.348.551)	8.334.600
Fair values of derivative instruments not for hedging purposes	73.569.707	(84.117.807)	(10.548.100)
Total	80.366.577	(154.871.082)	(74.504.505)

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

31 December 2010	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(22.537.592)	(22.537.592)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	44.396.158	-	44.396.158
Fair values of derivative instruments for hedging purposes	44.396.158	(22.537.592)	21.858.566
Cross-currency swap contracts not subject to hedge accounting	7.675.593	(11.049.940)	(3.374.347)
Interest rate swap contracts not subject to hedge accounting	31.998.621	(29.045.104)	2.953.517
Fair values of derivative instruments not for hedging purposes	39.674.214	(40.095.044)	(420.830)
Total	84.070.372	(62.632.636)	21.437.736

	Hedging against fuel risk	Hedging against interest risk	Total
Increase/(decrease) in fair values of derivative instruments for hedging purposes	(1.067.762)	(62.888.643)	(63.956.405)
The amount of financial expenses inside hedge funds		(1.232.013)	(1.232.013)
Reclassified amount for inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	7.708.590	-	7.708.590
Total	(13.139)	(773.840)	(786.979)
Deferred tax	6.627.689	(64.894.496)	(58.266.807)
Hedge fund as of 31 December 2011	(1.325.538)	12.978.899	11.653.361
	5.302.151	(51.915.597)	(46.613.446)

40. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

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

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

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

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

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

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

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

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

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

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

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

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

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

	31 December 2010		
	Reported in the previous period	Reclassified amount	Reported in the current period
Cost of sales (-)	(6.609.264.529)	(42.850.948)	(6.652.115.477)
Marketing and sales expenses (-)	(999.770.863)	18.893.343	(980.877.520)
General administrative expenses (-)	(352.872.407)	25.854.547	(327.017.860)
Other operating income	149.669.257	(8.089.723)	141.579.534
Other operating expenses (-)	(128.343.992)	6.192.781	(122.151.211)
Total	(7.940.582.534)	-	(7.940.582.534)

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