CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
CAPITAL MARKETS BOARD STANDARDS
FOR THE PERIOD ENDED 31 DECEMBER 2006
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL STATEMENTS ORIGINALY ISSUED IN TURKISH

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı ("the Company"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. We conducted our audit in accordance with the standards issued by the Capital Markets Board Standards.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the generally accepted auditing principles and standards issued by the CMB. Those principles require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the consolidated 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company management, 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.

Opinion

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards issued by the CMB.

   Without qualifying our opinion, we would like to emphasize on the following matter:

   The Company changed the accounting policy relating to the impairment provision for aircrafts according to the chapter named “Changes in Accounting Policies” of the CMB Communiqué Serial XI No:25. Due to the facts that inflation accounting is not required in the financial statements starting from 30 June 2006 and therefore the effects of fictitious increases in aircraft values casued by inflation accounting has been lessened, the Company decided that it is no longer necessary to use net book values calculated according to US Dollar acquisition costs in impairment loss calculations. The change in this accounting policy has resulted YTL 126.448.273 decrease in the previous years’ losses, YTL 42.766.253 increase in the net profit for the period, YTL 211.518.157 increase in tangible assets and YTL 42.303.631 increase in deferred tax liabilities of the Company.

İstanbul, 06 April 2007

Can Uluslararası Bağımsız Denetim ve S.M.M.M. A.Ş.
A Member Firm of INPACT International

İsmail USLU
Partner

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2006 AND 2005
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

ASSETS	Note	Audited 31 December 2006	Audited 31 December 2005
Current Assets		**857.257.447**	**825.922.684**
Cash and Cash Equivalents	4	365.057.959	482.910.555
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	273.400.852	191.596.806
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	21.318.613	970.701
Other Receivables (net)	10	8.571.133	6.567.690
Biological Assets (net)	11	-	-
Inventories (net)	12	135.643.567	84.255.279
Receivables from Construction Contracts in Progress (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	53.265.323	59.621.653
Non-Current Assets		**3.741.767.286**	**2.987.438.785**
Accounts Receivable (net)	7	-	-
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	14.812.000	-
Other Receivables (net)	10	1.971.731	1.901.488
Financial Assets (net)	16	29.327.501	37.406.378
Positive / Negative Goodwill (net)	17	-	-
Investment Property	18	-	-
Tangible Assets (net)	19	3.503.076.666	2.631.113.979
Intangible Assets (net)	20	7.508.620	6.154.133
Deferred Tax Assets	14	158.971.576	298.568.802
Other Non-current Assets	15	26.099.192	12.294.005
Total Assets		**4.599.024.733**	**3.813.361.469**

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2006 AND 2005
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

	Note	Audited 31 December 2006	Audited 31 December 2005
LIABILITIES			
Short Term Liabilities		**1.073.727.696**	**1.198.903.059**
Bank Borrowings (net)	6	-	362.903.225
Short-term Portion of Long-term Bank Borrowings (net)	6	4.481.158	-
Financial Lease Obligations (net)	8	218.720.799	179.092.821
Other Financial Liabilities (net)	10	373.497	332.636
Accounts Payable (net)	7	318.114.700	255.994.916
Due to Related Parties (net)	9	14.869.046	8.022.859
Advances Received	21	45.665.631	52.397.414
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	27.369.058	27.543.644
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	15	444.133.807	312.615.544
Long Term Liabilities		**1.915.578.585**	**1.366.116.817**
Bank Borrowings (net)	6	36.401.442	-
Financial Lease Obligations (net)	8	1.443.932.862	856.730.859
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	8.988.621	7.124.267
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	117.304.910	113.641.242
Deferred Tax Liabilities	14	308.950.750	388.620.449
Other Liabilities (net)	15	-	-
MINORITY INTERESTS	24	-	-
SHAREHOLDERS' EQUITY		**1.609.718.452**	**1.248.341.593**
Share Capital	25	**175.000.000**	**175.000.000**
Adjustment to Share Capital	25		
Capital Reserves	26	**1.922.017.534**	**1.872.838.374**
- Share Premium		181.185	181.185
- Share Premium of Cancelled Shares		-	-
- Revaluation Surplus on Tangible Assets		49.179.160	-
- Revaluation Increments on Financial Assets		-	-
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
Profit Reserves	27	**8.223.909**	**8.223.909**
- Legal Reserves		417.011	417.011
- Statutory Reserves		-	-
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		9	9
- Associate Shares and Gain on Sale of Investment Property to be added to Capital		-	-
- Foreign Currency Translation Differences		-	-
Net Profit for the Year		**185.749.426**	**138.227.837**
Accumulated Losses	28	**(681.272.417)**	**(945.948.527)**
Total Liabilities and Shareholders' Equity		**4.599.024.733**	**3.813.361.469**

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED
31 DECEMBER 2006 AND 2005
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

	Note	Audited 1 January – 31 December 2006	Audited 1 January – 31 December 2005
MAIN OPERATING REVENUES			
Sales Revenues (net)	36	3.813.810.220	2.956.104.996
Cost of Sales (-)	36	(3.247.648.431)	(2.435.869.117)
Service Revenues (net)	36	-	-
Other Revenues from Main Operations /Interest +Dividend+Rent (net)	36	235.572.545	150.966.612
GROSS OPERATING PROFIT		801.734.334	671.202.491
Operating Expenses (-)	37	(712.312.403)	(577.630.482)
NET OPERATING PROFIT		89.421.931	93.572.009
Income from Other Operations	38	875.813.548	425.430.333
Losses from Other Operations (-)	38	(671.072.706)	(277.165.588)
Financial Expenses (-)	39	(98.102.328)	(60.042.012)
OPERATING PROFIT		196.060.445	181.794.742
Net Monetary Gain / (Loss)	40	-	-
MINORITY INTEREST	24	-	-
PROFIT BEFORE TAXATION		196.060.445	181.794.742
Taxes	41	(10.311.019)	(43.566.905)
NET PROFIT FOR THE YEAR		**185.749.426**	**138.227.837**
EARNINGS PER SHARE (YKr)	42	0,106	0,079

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

	Share Capital	Share Premium	Revaluation Surplus on Tangible Assets	Restatement Effect on Shareholders' Equity	Legal Reserves	Extraordinary Reserves	Special Funds	Net Profit for the Period	Accumulated Losses	Total
Balances at 1 January 2005	175.000.000	181.185	-	1.872.657.189	417.011	7.806.889	9	107.058.441	(1.053.006.968)	1.110.113.756
Transfer of Previous Years' Profit to Accumulated Losses	-	-	-	-	-	-	-	(107.058.441)	107.058.441	-
Net Profit for the Year	-	-	-	-	-	-	-	138.227.837	-	138.227.837
Balances at 31 December 2005	175.000.000	181.185	-	1.872.657.189	417.011	7.806.889	9	138.227.837	(945.948.527)	1.248.341.593
Balances at 31 December 2005 (As Previously Reported)	175.000.000	181.185	-	1.872.657.189	417.011	7.806.889	9	138.227.837	(945.948.527)	1.248.341.593
Accounting policy change- effect of IFRS 36 (Note 2)	-	-	-	-	-	-	-	-	126.448.273	126.448.273
Balances at 31 December 2005 as Restated	175.000.000	181.185	-	1.872.657.189	417.011	7.806.889	9	138.227.837	(819.500.254)	1.374.789.866
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	-	(138.227.837)	138.227.837	-
Revaluation Surplus on Tangible Assets *	-	-	49.179.160	-	-	-	-	-	-	49.179.160
Net Profit for the Year	-	-	-	-	-	-	-	185.749.426	-	185.749.426
Balances at 31 December 2006	175.000.000	181.185	49.179.160	1.872.657.189	417.011	7.806.889	9	185.749.426	(681.272.417)	1.609.718.452

* The differences resulting from revaluation of lands by expert reports under tangible assets of the Company are recorded to the Revaluation Surplus account.

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

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
1 JANUARY - 31 DECEMBER 2006 AND 2005
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

	31 December 2006	31 December 2005
Cash flows from operating activities		
Profit before taxation	196.060.445	181.794.742
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	338.035.611	298.741.196
Provision for retirement pay liability	19.943.672	20.751.280
Interest income	(25.766.202)	(42.289.467)
(Profit) / loss on sale of fixed asset	222.261	(798.359)
Current period tax expense	(1.952.018)	-
Change in provision for diminution in value of fixed assets	(125.125.537)	(123.145.065)
Gain from financial investment accounted per equity method	(5.390.621)	(784.282)
Interest expense	81.885.860	57.821.640
Movement in manufacturers' credit	23.306.631	1.099.992
Foreign exchange loss on financial leases	39.006.934	2.229.427
Provision for diminution in value of financial assets	(6.721.164)	5.924.343
Amortization of deferred income from USAŞ shares transfer	(5.016.608)	(2.220.044)
Increase / (decrease) in provision for doubtful receivables	1.931.161	(148.838)
Operating profit before working capital change	**530.420.425**	**398.976.565**
Increase in accounts receivable	(83.735.207)	(32.862.918)
Increase in due from related parties (short and long term)	(35.159.912)	(157.780)
Increase in other short and long term receivables	(2.073.686)	(3.558.667)
Increase in inventories	(51.388.288)	(19.741.436)
Decrease in other current assets	6.356.330	38.520.614
(Increase) / decrease in other non-current assets	(13.805.187)	373.510
Increase in accounts payable	63.984.138	63.791.413
Increase in due to related parties	6.846.187	1.514.638
Increase / (decrease) in advances received	(6.731.783)	17.944.731
Increase / (decrease) in provision for short term liabilities	(174.586)	2.320.667
Increase in other short and long term liabilities	113.228.240	48.192.878
Retirement benefits paid	(16.280.004)	(6.887.415)
Interest paid	(70.692.613)	(59.179.468)
Prepaid taxes	(5.222.340)	(13.363.884)
Cash generated from operations	**435.571.714**	**435.883.448**
Cash flows from investing activities		
Cash inflow from sale of financial assets	20.190.662	89.634
Cash inflow from sale of tangible and intangible assets	7.143.832	59.000.980
Interest received	25.766.202	42.289.467
Acquisition of tangible assets	(1.076.135.508)	(473.118.517)
Change in advances given for aircrafts and other tangible assets	214.960.466	(184.337.652)
Net cash used in investing activities	**(808.074.346)**	**(556.076.088)**
Cash flows from financing activities		
Principal payment of financial leases	(189.706.809)	(387.625.942)
Increase in financial lease obligations	766.336.609	262.137.037
Increase / (decrease) in bank borrowings	(322.020.625)	362.903.225
Increase in other financial liabilities	40.861	51.392
Net cash provided by/(used in) financing activities	**254.650.036**	**237.465.712**
Net increase/(decrease) in cash and cash equivalents	(117.852.596)	117.273.072
Cash and cash equivalents at the beginning of period	482.910.555	365.637.483
Cash and cash equivalents at the end of period	**365.057.959**	**482.910.555**

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

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

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

Republic of Turkey Prime Ministry Privatization Administration	49,12	%
Others	50,88	%
Total	100,00	%

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary as of 31 December 2006 is 12.807 (31 December 2005: 11.121). The average number of employees working for the Group in 31 December 2006 and 2005 is 12.778 and 11.151, respectively. Financial assets of the Company are stated at Note 16.

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

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Accounting Standards Applied

The consolidated financial statements of the Company are prepared in accordance with the accounting and reporting principles published by the Capital Markets Board ("CMB"), namely "CMB Accounting Standards". The CMB published a comprehensive set of accounting principles in Communiqué Serial XI No: 25 "The Accounting Standards in the Capital Markets". In the Communiqué, it is stated that alternatively application of accounting standards promulgated by International Accounting Standards Board ("IASB") and International Accounting Standards Committee ("IASC") is deemed as the application of accounting principles of CMB. The attached consolidated financial statements are prepared according to the CMB Communiqué Serial XI No: 25.

By the decision made on 17 March 2005, the CMB has announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with CMB Accounting Standards. Accordingly, the Company did not apply International Accounting Standard ("IAS") 29 ("Financial Reporting in Hyperinflationary Economies") issued by the IASB in its consolidated financial statements for the accounting periods starting 1 January 2005. These consolidated financial statements and the related notes have been presented in conformity with the alternative application stated above and in accordance with the formats required by the CMB with the announcement dated 20 December 2004.

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

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

2.1 Accounting Standards Applied (cont'd)

The consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation and measurement in accordance with CMB Accounting Standards. Consequently, the consolidated financial statements are prepared in New Turkish Lira ("YTL") under the historical cost convention, other than financial assets and liabilities which are presented by their fair values.

2.2 Preparation of Financial Statements in Hyperinflationary Periods

As stated on Note 2.1, the Company had ended inflation accounting application starting from 1 January 2005 according to the decision of CMB.

2.3 Basis of Consolidation

a) The consolidated financial statements include the accounts of the parent company, Türk Hava Yolları A.O., its Subsidiary and its Associates on the basis set out in sections (b), (c) and (d) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with CMB Accounting Standards applying uniform accounting policies and presentation. The results of Subsidiary and Associates are included or excluded from their effective dates of acquisition or disposal respectively.

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

The table below sets out the consolidated Subsidiary and participation rate of the Company in this subsidiary at 31 December 2006:

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

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

c) The Company have two associates**.** The participation rate of the Company is 50%, and the associates are not controlled by the Company. The entities are valued by equity method.

The table below sets out consolidated associates and indicates the proportion of ownership interest of the Company in these associates at 31 December 2006:

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

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

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

2.3 Basis of Consolidation (cont'd)

d) Other investments in which the Company has direct or indirect participation below %20 or in case of participation over %20, has no significant influence or which are immaterial for purposes of consolidated financial statements are classified as available for sale. Available for sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for diminution in value. Available for sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value (Note 16).

2.4 Comparative Information and Corrections on Previous Periods' Financial Statements

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

As of 31 December 2006, an examination is made of whether the restated indexed YTL net book values of aircrafts exceeded their recoverable amounts. Differences arising from this comparison are recognized as impairment loss. In the prior accounting policy application, the Company firstly used to decrease the restated YTL net book values of its aircrafts to the YTL net book values based on US Dollar acquisition costs. Then, the Company used to control whether the net book values based on US Dollar acquisition costs exceeded the recoverable amounts of aircrafts. If net book values based on US Dollar acquisition costs had exceeded recoverable amounts of aircrafts, the Company used to recognize these differences as impairment in the financial statements. Due to the fact that inflation accounting has no longer been required in the preparation of financial statements and thus the effects of fictitious increases in aircraft values casued by inflation accounting has been lessened, starting from 30 June 2006 the Company has decided that use of net book values calculated according to US Dollar acquisition costs is not necessary as an additional criterion in the calculation of impairment loss. This accounting policy change has resulted YTL 211.518.157 increase in tangible assets, YTL 42.303.631 increase in deferred tax liabilities, YTL 126.448.273 decrease in accumulated losses and YTL 42.766.253 increase in the net profit for the period of the Company. Eliminating the effect of the current period reduction in the corporate tax rate, the increase in the net profit for the period would be YTL 21.614.437.

2.5 Offsetting

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

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

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

3.2 Inventories

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

3.3 Tangible Assets

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

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

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

The Company has its lands appraised by real estate appraisal companies certificated by CMB. The differences between book values and appraised values are directly recorded into the revalution surplus under the shareholders' equity accounts.

3.4 Intangible Assets

Intangible assets include leasehold improvements, rights, information systems and software. Intangible assets are reflected at cost as of 31 December 2006, leasehold improvements are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.5 Impairment on Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated. An impairment loss is recognised 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 recognised as income in the consolidated financial statements and cannot exceed the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognized for the asset in prior years.

As of 31 December 2006, an examination is made of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts. Recoverable amount is determined as, higher of the present value of cash flows expected from the usage of an asset and its net selling price. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations account.

3.6 Borrowing Costs

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

3.7 Manufacturers' Credits

Manufacturers' credits are received against acquisition or lease of aircraft and engines. The Company 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 operational leases are recorded as deferred revenue and amortized over the lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments and Financial Risk Management
a) Classification and Accounting

The Company classifies and accounts for financial instruments as follows:

Securities Held for Trading:

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

Investments Held to Maturity:

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

Investments Available for Sale:

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

Investments At Equity:

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

b) Measurement

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

Güneş Ekspres Havacılık A.Ş. ("Sun Express") and THY DO&CO İkram Hizmetleri A.Ş. ("THY DO&CO") are accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. ("USAŞ") is classified as available for sale investments and changes in their fair values are recognized in net profit or loss.

Financial assets, other than Sun Express, THY DO&CO and USAŞ are stated at their cost since their fair values can not be measured reliably.

Financial liabilities are classified according to the substance of the contractual arrangements. Significant financial liabilities include bank loans, financial lease obligations and accounts payable. Those denominated in foreign currencies are translated into New Turkish Lira at the rates of change ruling at the balance sheet date.

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

Financial expenses are accounted for on an accrual basis. Accounts and other payables and due to related parties are recorded at their nominal value, which approximates their fair value.

Credit Risk

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

Price Risk

- Currency Risk

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

- Interest Risk

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

- Market Risk

The Company invests in treasury bills under short term reverse repurchase agreements or deposits to banks on a daily basis. Fair values of this kind of investments fluctuate depending on market conditions.

- Liquidity Risk

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Foreign Currency Transactions

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

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

	Closing Rate	Average Rate
31 December 2006	1,4056	1,4297
31 December 2005	1,3418	1,3405

3.10 Earnings Per Share

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

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

3.11 Events Subsequent to the Balance Sheet Date

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

3.12 Provisions, Contingent Liabilities and Contingent Assets

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

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

3.13 Leases

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

3.14 Related Parties

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Deferred Income Taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax at the balance sheet date.

The principal temporary differences arise from the differences between book values of property, plant and equipment and tax bases, income and expense not included in current tax base, provision for employment termination benefits and unused tax allowances and exemptions.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

In case there is a legal enforceable right to set off current tax assets against current tax liabilities, deferred tax assets and deferred tax liabilities are offset accordingly.

3.16 Employment Termination Benefits

In accordance with applicable law, the Company is obliged to make lump-sum payments to retiring employees or to employees whose employment is terminated without resignation or causes defined in labor law. The reserve has been calculated by estimating the present value of future probable obligation of the Company arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the government.

3.17 Use of Estimates

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

3.18 Maintenance and Repair Costs

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

3.19 Frequent Flyer Program

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

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

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

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2006	31 December 2005
Cash	503.956	195.489
Cheques received	309.601	138.532
Banks	354.192.254	477.065.690
Other liquid assets	10.052.148	5.510.844
	365.057.959	482.910.555

Foreign currency bank balances are YTL 317.154.164 at 31 December 2006 (31 December 2005: YTL 295.610.051).

Time Deposits:

Amount	Currency	Opening Date	Maturity	31 December 2006
33.582.312	YTL	04.12.2006-29.12.2006	04.01.2007	33.582.312
112.392.082	Euro	11.12.2006-29.12.2006	04.01.2007-12.01.2007	208.093.940
7.443.256	US Dollar	29.12.2006	04.01.2007	10.462.241
				252.138.493

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

5 MARKETABLE SECURITIES (NET)

None (31 December 2005: None).

6 BANK BORROWINGS (NET)

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

Bank Name	Maturity	Original Amount	Interest Accruals	YTL
Akbank	15.08.2009	2.959.707 US Dollar	228.368 US Dollar	4.481.158

Long-term bank borrowing is as follows at 31 December 2006:

Bank Name	Maturity	Original Amount	Interest Accruals	YTL
Akbank	15.08.2009	25.897.440 US Dollar	-	36.401.442

Bank Borrowings comprised the following short-term bank credit at 31 December 2005:

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

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

7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

Short-term accounts receivable comprised the following:

	31 December 2006	31 December 2005
Trade receivables	295.210.410	210.448.412
Discount on receivables (-)	(3.361.677)	(2.334.886)
Provision for doubtful receivables	(18.447.881)	(16.516.720)
	273.400.852	191.596.806

Short-term accounts payable comprised the following:

	31 December 2006	31 December 2005
Trade payables	318.507.546	254.984.188
Discount on payables (-)	(4.941.179)	(2.705.808)
Deposits and guarantees received	4.349.529	3.715.141
Other	198.804	1.395
	318.114.700	255.994.916

Long-term accounts payable comprised the following:

	31 December 2006	31 December 2005
Deposits and guarantees received	8.988.621	7.124.267

8 FINANCIAL LEASE RECEIVABLES AND OBLIGATIONS (NET)

Financial lease obligations are as follows:

	31 December 2006	31 December 2005
Not later than one year	293.245.257	221.054.754
Between 1 - 4 years	824.972.080	540.757.739
Over 4 years	930.144.100	458.520.976
	2.048.361.437	1.220.333.469
Less: Future interest expense	(385.707.776)	(184.509.789)
Principal value of future rentals shown in the balance sheets	1.662.653.661	1.035.823.680
Represented by :		
Current liabilities	218.720.799	179.092.821
Long term liabilities	1.443.932.862	856.730.859
	1.662.653.661	1.035.823.680
Interest range:		
Floating rate obligations	1.530.403.463	982.205.221
Fixed rate obligations	132.250.198	53.618.459
	1.662.653.661	1.035.823.680

As of 31 December 2006, the US Dollar and Euro denominated lease obligations' interest rates for the fixed rate obligations are between 4,075% and 5,59%; and for the floating rate obligations are on a margin ranging between EURIBOR minus 0,01% and LIBOR minus %0,057 and LIBOR plus %3,0.

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

	31 December 2006	31 December 2005
Not later than one year	170.991.574	118.983.335
Between 1 - 4 years	357.227.317	176.568.422
Over 4 years	611.303.660	124.747.806
	1.139.522.551	420.299.563

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

9 DUE TO AND FROM RELATED PARTIES (NET)

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

	31 December 2006	31 December 2005
THY DO&CO İkram Hizmetleri A.Ş.	19.833.398	-
Güneş Ekspres Havacılık A.Ş. (Sun Express)	1.485.215	970.701
	21.318.613	970.701

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

	31 December 2006	31 December 2005
THY DO&CO İkram Hizmetleri A.Ş.	14.812.000	-
	14.812.000	-

Due from THY DO&CO İkram Hizmetleri A.Ş. comprised of short and long term credit receivables at amounts of Euro 10.700.000, Euro 8.000.000 respectively, in total Euro 18.700.000.

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

	31 December 2006	31 December 2005
Güneş Ekspres Havacılık A.Ş. (Sun Express)	3.372.538	459.029
Uçak Servisi A.Ş. (USAŞ)	11.496.508	7.563.830
	14.869.046	8.022.859

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

	31 December 2006	31 December 2005
Services rendered to Sun Express	4.926.339	3.655.346
Services rendered to USAŞ	461.158	372.382
	5.387.497	4.027.728

	31 December 2006	31 December 2005
Services received from Sun Express	11.667.348	866.914
Services received from USAŞ	98.159.997	79.320.622
	109.827.345	80.187.536

Dividends received from related parties:

	31 December 2006	31 December 2005
Sun Express	14.350.920	7.080.216
Uçak Servisi A.Ş. (USAŞ)	409.135	1.113.723
France Telecom	342.789	157.326
Emek İnşaat ve İşletme A.Ş.	103	69
	15.102.947	8.351.334

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

10 OTHER RECEIVABLES AND LIABILITIES (NET)

Other short-term receivables comprised the following:

	31 December 2006	31 December 2005
Due from insurance firms	3.688.278	3.192.141
Foreign receivables from technical suppliers	2.194.204	1.557.088
Business advances	771.160	95.989
Receivables relating to RJ aircrafts modifications	-	560.516
Personnel salary advances	556.804	375.337
Due from personnel	312.489	278.853
Receivable from SITA deposit certificate	188.675	155.882
Other receivables	859.523	351.884
	8.571.133	6.567.690

Other long-term receivables comprised the following:

	31 December 2006	31 December 2005
Due from personnel	986.372	1.006.711
Receivable from SITA deposit certificates	985.359	804.107
Other receivables	-	90.670
	1.971.731	1.901.488

Other short-term financial liabilities comprised the following:

	31 December 2006	31 December 2005
Debt to banks (*)	373.497	332.636

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

11 BIOLOGICAL ASSETS (NET)

None (31 December 2005: None).

12 INVENTORIES (NET)

	31 December 2006	31 December 2005
Spare parts, flight equipments	119.132.823	69.659.366
Other inventories	16.510.744	14.595.913
	135.643.567	84.255.279

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

None (31 December 2005: None).

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

14 DEFERRED TAX ASSETS AND LIABILITIES

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

The deferred tax assets and liabilities as of 31 December 2006 and 2005, computed by applicable tax rate are as follows:

	31 December 2006	31 December 2005
Long term lease obligations	100.292.302	185.266.465
Short term lease obligations	25.180.043	36.369.506
Retirement pay liability	23.460.981	34.092.373
Expense accruals	6.698.855	17.283.762
Unused investment incentives	-	20.048.657
Discount on receivables	672.335	772.994
Allowance for doubtful receivables	494.424	230.607
Income and expenses relating to future periods	220.206	456.107
Other	393.885	-
Allowance for unrecoverable bank accounts	-	246
Restatements on inventory	-	520.391
Deferred income	-	1.504.979
Manufacturers' credit	-	1.392.681
Unused tax losses	-	630.034
Diminution/(appreciation) in value of investments	1.558.545	(666.579)
Discount on payables	(988.236)	(811.742)
Provision for advance ticket sales	(18.437.485)	(21.609.699)
Fixed assets	(289.525.029)	(365.532.429)
	(149.979.174)	(90.051.647)

	31 December 2006	31 December 2005
Deferred tax assets	158.971.576	298.568.802
Deferred tax liabilities	(308.950.750)	(388.620.449)
Deferred tax assets / (liabilities), net	(149.979.174)	(90.051.647)

Movement in deferred tax liability is as follows:

	31 December 2006	31 December 2005
Net deferred tax charge related to temporary differences	3.136.660	43.566.905
Net change in deferred tax	3.136.660	43.566.905

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

14 DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Movement in deferred tax liability is as follows at 31 December 2006:

	31 December 2006
31 December 2005 opening value of deferred tax	90.051.647
As a result of accounting policy change, the effect on previous years deferred taxes	54.192.117
Total deferred tax liability	144.243.764
Current period deferred tax expense	3.136.660
Deferred taxes netted off from revaluation surplus	2.598.750
Current period deferred tax liability, net	149.979.174

15 OTHER CURRENT/NON-CURRENT ASSETS

Other current assets comprised the following:

	31 December 2006	31 December 2005
Prepaid sales commissions	14.173.900	11.149.101
Prepaid operating lease expenses	11.356.882	5.314.180
Interline passenger income accruals	3.886.502	3.843.430
Maintenance service income accruals	5.792.001	10.127.094
Tax to be refunded	7.025.462	2.965.389
Prepaid taxes and funds	5.222.340	13.363.884
VAT deductible	27.545	437.170
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Prepaid rent expenses	666.760	574.125
Deferred insurance expenses	283.404	6.787.420
Prepaid aircraft financing expense	423.583	487.846
Receivables from tax office	13.157	13.194
Prepaid financial expense of bank borrowing	21.690	740.124
Other prepaid expenses	1.922.986	2.726.288
Income accruals	1.356.703	-
	53.265.323	59.621.653

Other non-current assets comprised the following:

	31 December 2006	31 December 2005
Maintenance reserve for engines	5.707.606	-
Prepaid Eximbank USA guarantee and exposure fee	4.796.966	5.889.372
Advances given for operating leases	4.414.740	2.637.672
Income accruals	3.747.430	-
Prepaid operating lease expenses	3.670.910	374.744
Deposits given	2.037.873	1.325.066
Prepaid aircraft financing expense	1.723.667	2.067.151
	26.099.192	12.294.005

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

15 OTHER CURRENT/NON-CURRENT ASSETS (cont'd)

Other short-term liabilities comprised the following:

	31 December 2006	31 December 2005
Flight liability resulting from ticket sales	218.668.355	154.979.724
Flight liability resulting from mileage sales	60.789.528	51.770.242
Frequent flyer program liability	42.285.285	30.577.262
Gross manufacturers' credits	28.394.376	19.690.997
Accumulated amortization on manufacturers' credits(-)	(1.596.533)	(16.199.785)
Accruals for sales incentive premiums	19.226.521	6.684.627
Taxes and funds payable	25.593.540	16.204.908
Social security premiums payable	16.898.094	14.840.062
Accruals for maintenance costs	13.271.328	12.585.613
Expense accruals for insurance premiums	10.613.244	10.468.387
Other liabilities	2.704.621	1.373.121
Debt to personnel	375.941	276.417
Deferred income from USAŞ shares transfer	-	5.016.608
Accruals for other expenses	6.909.507	4.347.361
	444.133.807	312.615.544

16 FINANCIAL ASSETS (NET)

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

	31 December 2006	31 December 2005
Güneş Ekspres Havacılık A.Ş. (Sun Express)	7.681.874	17.490.282
THY DO&CO İkram Hizmetleri A.Ş.	15.199.029	-
	22.880.903	17.490.282

Financial assets available for sale are as follows:

	31 December 2006	31 December 2005
Uçak Servisi A.Ş. (USAŞ)	8.110.722	8.085.622
Appreciation/(diminution) in value of USAŞ shares	(3.370.602)	3.367.104
Sita Inc.	1.679.619	1.679.619
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
France Telecom shares	-	20.214.336
Diminution in value of France Telecom shares	-	(13.458.870)
Other financial assets	-	1.426
	6.446.598	19.916.096
	29.327.501	37.406.378

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

16 FINANCIAL ASSETS (NET) (cont'd)

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1,25% of shares was transferred on 2 January 2003, 1,25% of shares was transferred on 2 January 2004, 1,25% of shares was transferred on 3 January 2005 and 1,25% of shares was transferred on 2 January 2006 and the transfer was completed to 15%. Consequently, 1.567.500.000 shares corresponding to 15% of USAŞ's share capital, transferred to the Company, were recorded to "financial assets" and "deferred income" accounts at market value of YTL 22.599.856. "Deferred income" amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003, 1.026 million shares in 2005 and 1.026 million shares in 2006 at İstanbul Stock Exchange.

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

Sun Express's total assets and equity are YTL 85.513.379 and YTL 15.363.747 respectively at 31 December 2006. (31 December 2005: YTL 69.014.975 and YTL 34.980.564).

THY DO&CO İkram Hizmetleri A.Ş. was established with YTL 60.000.000 capital on 27 September 2006. THY DO&CO İkram Hizmetleri A.Ş.'s total assets and equity are YTL 107.915.720 and YTL 30.398.058 respectively at 31 December 2006.

Details of the Company's financial assets at 31 December 2006 are as follows:

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

17 POSITIVE / NEGATIVE GOODWILL (NET)

None (31 December 2005: None).

18 INVESTMENT PROPERTY (NET)

None (31 December 2005: None).

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

19 TANGIBLE ASSETS (NET)

	31 December 2006	31 December 2005
Tangible assets (net)	3.138.028.969	2.051.105.815
Advances given for aircraft purchases	358.335.473	570.531.933
Advances given for other tangible assets	6.712.224	9.476.231
	3.503.076.666	2.631.113.979

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

19 TANGIBLE ASSETS (NET) (cont'd)

	Land,Land Improvements& Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Software	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Other Leased Fixed Assets&Simulator s	Total Leased Assets	Total
Cost											
Opening balance 1 January 2006	164.394.003	295.103.154	200.528.580	2.027.132.388	309.650.653	1.670.455	2.998.479.233	2.901.409.819	17.796.598	2.919.206.417	5.917.685.650
Transfers from finance leased aircraft	-	4.654.093	-	522.310.296	-	-	526.964.389	(509.167.791)	(17.796.598)	(526.964.389)	-
Additions	1.236.388	32.419.711	7.928.444	44.699.992	112.609.302	625.818	199.519.655	871.973.047	-	871.973.047	1.071.492.702
Disposals	(849.287)	(33.144.626)	(24.434.311)	-	(74.019.504)	(1.406.803)	(133.854.531)	-	-	-	(133.854.531)
Revaluation	51.777.910		-		-	-	51.777.910	-	-	-	51.777.910
Closing balance 31 December 2006	216.559.014	299.032.332	184.022.713	2.594.142.676	348.240.451	889.470	3.642.886.656	3.264.215.075	-	3.264.215.075	6.907.101.731
Accumulated Depreciation											
Opening balance 1 January 2006	48.373.526	262.683.227	184.566.172	1.050.923.392	146.892.242	-	1.693.438.559	847.858.584	6.646.682	854.505.266	2.547.943.825
Transfers from finance leased aircraft	-	4.193.415	-	240.233.317	-	-	244.426.732	(237.780.050)	(6.646.682)	(244.426.732)	-
Depreciation for the period	2.732.356	11.415.258	6.431.550	86.472.784	95.451.582	-	202.503.530	132.247.826	-	132.247.826	334.751.356
Disposals	(469.504)	(28.636.643)	(23.366.852)	-	(74.019.504)	-	(126.492.503)	-	-	-	(126.492.503)
Closing balance 31 December 2006	50.636.378	249.655.257	167.630.870	1.377.629.493	168.324.320	-	2.013.876.318	742.326.360	-	742.326.360	2.756.202.678
Accumulated impairment	-	3.095.448	-	629.210.248	-	-	632.305.696	380.564.388	-	380.564.388	1.012.870.084
31 December 2006 net book value	165.922.636	46.281.627	16.391.843	587.302.935	179.916.131	889.470	996.704.642	2.141.324.327	-	2.141.324.327	3.138.028.969
31 December 2005 net book value	116.020.477	26.709.444	15.962.408	442.349.451	162.758.411	1.670.455	765.470.646	1.278.899.340	6.735.829	1.285.635.169	2.051.105.815

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

20 INTANGIBLE ASSETS (NET)

	Rights	Leasehold Improvements	Total
Cost			
Opening balance 1 January 2006	61.631.745	19.233.061	80.864.806
Additions	4.026.898	615.908	4.642.806
Disposals	(6.320)	-	(6.320)
Closing balance 31 December 2006	65.652.323	19.848.969	85.501.292
Accumulated Depreciation			
Opening balance 1 January 2006	56.095.307	18.615.366	74.710.673
Amortization charge for the period	2.873.781	410.474	3.284.255
Disposals	(2.256)	-	(2.256)
Closing balance 31 December 2006	58.966.832	19.025.840	77.992.672
Accumulated impairment			
31 December 2006 net book value	6.685.491	823.129	7.508.620
31 December 2005 net book value	5.536.438	617.695	6.154.133

21 ADVANCES RECEIVED

Short-term advances received comprised the following:

	31 December 2006	31 December 2005
MCO advances	18.976.134	15.962.740
Charter advances	2.087.449	3.413.900
Advances received for operating and financial leases	4.669.162	1.151.059
Advances received for mileage credit sales	18.396.195	21.649.478
E-pos ticket advances	701.462	9.675.611
Other advances received	835.229	544.626
	45.665.631	52.397.414

22 RETIREMENT PLANS

The Company does not have any obligations regarding the retirement plans. (31 December 2005: None).

23 PROVISIONS FOR LIABILITIES

Provisions for short-term liabilities comprised the following:

	31 December 2006	31 December 2005
Accrued salaries	21.773.788	17.993.508
Provisions for legal claims	5.544.394	9.202.870
Other provisions	50.876	347.266
	27.369.058	27.543.644

Provisions for long-term liabilities comprised the following:

	31 December 2006	31 December 2005
Provision for retirement pay liability	117.304.910	113.641.242

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

23 PROVISIONS FOR LIABILITIES (cont'd)

Provision for retirement pay liability is recognized as explained below:

Under labor laws effective in Turkey, employees who worked for at least one year are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), are called up for military service or die. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to an upper limit of YTL 1.857 as at 31 December 2006 (31 December 2005: YTL 1.727). The number of service years required before retirement is rising according to a sliding scale (60 for men, 58 for women) based on new legislation enacted in 1999. Provision for retirement pay liability is not subject to any kind of funding and no funding is required. The total provision recognized in the financial statements represents the estimated present value of the vested benefit obligation.

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

	31 December 2006	31 December 2005
Current service cost	13.449.887	15.156.287
Interest cost	6.493.785	5.594.993
	19.943.672	20.751.280

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

	31 December 2006	31 December 2005
Provision at 1 January	113.641.242	99.777.377
Charge for the period	19.943.672	20.751.280
Payments during the period	(16.280.004)	(6.887.415)
Provision at 31 December	117.304.910	113.641.242

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,71% (31 December 2005: 5,61 %) per annum considering the effect of increase in eligible pay and its limit.

24 MINORITY INTERESTS

None (31 December 2005: None).

25 SHARE CAPITAL/ ADJUSTMENT TO SHARE CAPITAL

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

	Group	%	31 December 2006	%	31 December 2005
Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	49,12(**)	85.963.662	75,18	131.565.696
Others	A	50,88(**)	89.036.338	24,82	43.434.304
Share capital (historic)			175.000.000		175.000.000
Restatement effect (Note:26)			1.739.005.871		1.739.005.871
Restated share capital			1.914.005.871		1.914.005.871

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

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

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

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

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

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

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

a) As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,

b) Suggesting change in the Articles of Association at General Assembly,

c) Increasing share capital,

d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

e) Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),

f) Making decisions relating to merges and liquidation,

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

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

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

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

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

	31 December 2006	31 December 2005
Share capital	175.000.000	175.000.000
Share premium	181.185	181.185
Revaluation surplus on tangible assets	49.179.160	-
Legal reserves	417.011	417.011
Extraordinary reserves	7.806.889	7.806.889
Special funds	9	9
Shareholders' equity inflation adjustment differences (*)	1.872.657.189	1.872.657.189
Net profit for the year	185.749.426	138.227.837
Accumulated losses	(681.272.417)	(945.948.527)
	1.609.718.452	1.248.341.593
(*) Shareholders' Equity Inflation Adjustment Differences		
Share capital	1.739.005.871	1.739.005.871
Share premium	714.307	714.307
Legal reserves	60.597.395	60.597.395
Extraordinary reserves	67.026.275	67.026.275
Special funds	5.313.341	5.313.341
	1.872.657.189	1.872.657.189

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

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

29 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debts. As of 31 December 2006, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

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

29 FOREIGN CURRENCY POSITION (cont'd)

The foreign currency position of the Company as of 31 December 2006 and 2005 in terms of YTL is as follows:

31 December 2006	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	52.188.763	224.456.764	1.196.876	49.621.686	327.464.089
Accounts receivable (net)	57.213.432	45.890.748	6.622.176	63.170.691	172.897.047
Due from related parties (net)	-	36.130.613	-	-	36.130.613
Other receivables (short term)	4.456.074	420.952	27.145	669.436	5.573.607
Inventory-advances	258.862	646.499	2.208	-	907.569
Other current assets	17.739.763	5.504.877	364.685	2.736.520	26.345.845
Other receivables (long term) (net)	1.971.731	-	-	-	1.971.731
Tangible assets (advances)	364.049.207	851.424	142.857	-	365.043.488
Other non-current assets	15.224.079	663.214	85.602	630.406	16.603.301
	513.101.911	314.565.091	8.441.549	116.828.739	952.937.290
Foreign currency denominated liabilities					
Bank borrowings (short term) (net)	4.481.158	-	-	-	4.481.158
Financial lease obligations (short term) (net)	188.669.421	30.051.378	-	-	218.720.799
Accounts payable (short term) (net)	137.662.365	60.824.377	3.445.186	52.079.242	254.011.170
Due to related parties (net)	35.939	3.334.160	-	-	3.370.099
Bank borrowings (long term) (net)	36.401.442	-	-	-	36.401.442
Deposits and advances received	23.510.779	515.497	182.317	360.572	24.569.165
Other accrued liabilities (short term)	523.718	6.414	-	852	530.984
Other liabilities (net)	140.898.534	63.047.313	10.776.911	50.085.735	264.808.493
Financial lease obligations (long term) (net)	1.099.716.929	344.215.933	-	-	1.443.932.862
Accounts payable (long-term)	468.075	6.876.034	65.036	1.579.476	8.988.621
	1.632.368.360	508.871.106	14.469.450	104.105.877	2.259.814.793
Net foreign currency position (*)	(1.119.266.449)	(194.306.015)	(6.027.901)	12.722.862	(1.306.877.503)

(*) Whereas, the Company seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Company values its aircraft, spare engines and simulators according to their US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Company's assets and liabilities against the changes in foreign exchange rates. As of 31 December 2006, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices is YTL 2.747.836.474 (31 December 2005: YTL 1.916.522.751).

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

29 FOREIGN CURRENCY POSITION (cont'd)

31 December 2005	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	209.110.558	63.411.560	1.701.717	27.041.304	301.265.139
Accounts receivable (net)	24.881.620	45.615.416	5.907.491	40.429.558	116.834.085
Due from related parties (net)	469.066	446.745	-	-	915.811
Other receivables (short term)	4.230.783	522.195	75.320	91.366	4.919.664
Inventory-advances	1.117.566	53.958	71.109	18.599	1.261.232
Other current assets	28.138.494	2.946.996	298.931	9.047.045	40.431.466
Other receivables (long-term) (net)	1.810.818	-	-	-	1.810.818
Tangible assets (advances)	579.865.473	-	142.691	-	580.008.164
Other non-current assets	11.312.071	463.364	71.791	414.991	12.262.217
	860.936.449	113.460.234	8.269.050	77.042.863	1.059.708.596
Foreign currency denominated liabilities					
Bank borrowings (net)	362.903.225	-	-	-	362.903.225
Financial lease obligations (short term) (net)	179.092.821	-	-	-	179.092.821
Accounts payable (short-term) (net)	68.596.451	56.577.386	3.195.299	28.019.720	156.388.856
Due to related parties	8.022.859	-	-	-	8.022.859
Deposits and advances received	23.008.165	148.138	412	-	23.156.715
Other accrued liabilities (short term)	347.266	-	-	-	347.266
Other liabilities (net)	86.222.778	59.606.730	9.865.236	32.273.248	187.967.992
Financial lease obligations (long term) (net)	856.730.859	-	-	-	856.730.859
Accounts payable (long-term)	428.254	5.270.953	103.467	1.321.592	7.124.266
	1.585.352.678	121.603.207	13.164.414	61.614.560	1.781.734.859
Net foreign currency position(*)	(724.416.229)	(8.142.973)	(4.895.364)	15.428.303	(722.026.263)

30 GOVERNMENT GRANTS

The Company has investment incentive certificates; dated 23 May 2003 covering the period of 22.04.2003 – 22.10.2007 at amount of YTL 2.516.985.000 and dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2007 at amount of YTL 143.479.629. The investment incentive certificates provide benefits for the exemption of Value Added Tax regarding domestic and international purchases of goods and exemption of customs duty for investment goods imported from countries other than European Union members.

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

31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:
Amount of letter of guarantees given is YTL 55.363.981 as of 31 December 2006 (31 December 2005: YTL 38.040.225).

b) Purchase Commitments:
The Company has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered on 2005 and 23 of these aircrafts are delivered on 2006. Total value of these aircrafts is approximately US Dollar 4,7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Company paid a deposit of US Dollar 255 million as of 31 December 2006 related to these aircrafts.

c) Letters of comfort:

	31 December 2006	**31 December 2005**
Letters of comfort given to Sun Express	US Dollar 2.900.000	US Dollar 2.900.000
	Euro 2.556.459	Euro 2.556.459

d) The Company's discounted retirement pay provision is YTL 117.304.910. The Company's liability for retirement pay would be approximately YTL 200.219.418 as of 31 December 2006, if all employees were dismissed on that date.

e) An investigation has been started in early 2006 simultaneously both at Europe and USA about many airlines, including major ones, on the fixed cargo fees by the USA Department of Justice Antitrust Division and European Antitrust Authorities. Included the context of this investigation, on 06 April 2006, USA Columbia District Court requested the company to present the information and documents regarding the air cargo fees. Similar notifications were sent to other airlines mentioned, too.

32 BUSINESS COMBINATIONS

None (31 December 2005: None).

33 SEGMENTAL REPORTING

Business Segments

The Company predominantly operates in one industry segment as of 31 December 2006, the primary businesses are air transportation of passengers and cargo within, to or from Turkey and to supply maintenance service for aircrafts.

Geographical Segments

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

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

33 SEGMENTAL REPORTING (cont'd)

33.1. Total Assets and Shareholders' Equity

Total Assets	**31 December 2006**	**31 December 2005**
Aviation	4.543.734.657	3.813.361.469
Technical service	384.443.991	-
Total	4.928.178.648	3.813.361.469
Less: Eliminations of consolidation	(329.153.915)	-
Total assets according to consolidated financial statements	4.599.024.733	3.813.361.469

Shareholders' Equity	**31 December 2006**	**31 December 2005**
Aviation	1.582.037.230	1.248.341.593
Technical service	319.297.771	-
Total	1.901.335.001	1.248.341.593
Less: Eliminations of consolidation	(291.616.549)	-
Total shareholders' equity according to consolidated financial statements	1.609.718.452	1.248.341.593

33.2. Main Sales Revenues

	01 January 2006-31 December 2006	**01 January 2005-31 December 2005**
Aviation	3.813.810.220	2.956.104.996
Technical service	354.802.097	-
Total	4.168.612.317	2.956.104.996
Less: Eliminations of consolidation	(354.802.097)	-
Total main sales revenues according to consolidated financial statements	3.813.810.220	2.956.104.996

33.3. Main Operating Profit / (Loss)

	01 January 2006-31 December 2006	**01 January 2005-31 December 2005**
Aviation	57.453.966	93.572.009
Technical service	35.259.818	-
Total	92.713.784	93.572.009
Less: Eliminations of consolidation	(3.291.853)	-
Total main operating profit / (loss) according to consolidated financial statements	89.421.931	93.572.009

33.4. Main Operating Profit / (Loss) According to Segments

01 January 2006-31 December 2006	**Aviation**	**Technical service**	**Eliminations between segments**	**Total**
Revenues	3.813.810.220	354.802.097	(354.802.097)	3.813.810.220
Other income from main operations	177.872.787	-	57.699.758	235.572.545
Cost of sales	(3.233.933.575)	(307.525.342)	293.810.486	(3.247.648.431)
Gross profit	757.749.432	47.276.755	(3.291.853)	801.734.334
Operating expenses	(700.295.466)	(12.016.937)	-	(712.312.403)
Main operating profit	57.453.966	35.259.818	(3.291.853)	89.421.931

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

33 SEGMENTAL REPORTING (cont'd)

33.4. Main Operating Profit / (Loss) According to Segments (cont'd)

01 January 2005-31 December 2005	**Aviation**	**Technical service**	**Eliminations between segments**	**Total**
Revenues	2.956.104.996	-	-	2.956.104.996
Other income from main operations	150.966.612	-	-	150.966.612
Cost of sales	(2.435.869.117)	-	-	(2.435.869.117)
Gross profit / (loss)	671.202.491	-	-	671.202.491
Operating expenses	(577.630.482)	-	-	(577.630.482)
Main operating profit	93.572.009	-	-	93.572.009

34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) The collective bargaining agreement between THY and Turkish Civil Aviation Labour Union ended at 31 December 2006. The collective bargaining agreement meetings have been continuing as of report date.

b) Market price of 1.026.000.000 USAŞ shares, which are traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of 30 March 2007, has increased from YTL 4,62 at 31 December 2006 to YTL 5,70 at 30 March 2007. Hence, the total market value of these shares increased by YTL 1.108.080 compared to balance sheet date.

35 DISCONTINUED OPERATIONS

None (31 December 2005: None).

36 MAIN OPERATING REVENUES

Main operating revenues comprised the following:

	31 December 2006	**31 December 2005**
Scheduled flights		
- Passenger	3.495.728.964	2.689.568.398
- Cargo and mail	318.081.256	266.536.598
Non-scheduled flights	38.087.714	30.986.034
Other revenues	197.497.490	119.997.072
Total revenues	**4.049.395.424**	**3.107.088.102**
Less: Discounts and sales returns	(12.659)	(16.494)
Net Sales	**4.049.382.765**	**3.107.071.608**
Cost of Sales (-)	(3.247.648.431)	(2.435.869.117)
Gross Operating Profit	**801.734.334**	**671.202.491**

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

36 MAIN OPERATING REVENUES (cont'd)

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

	31 December 2006	31 December 2005
- Europe	1.618.824.898	1.268.687.282
- Middle East	354.393.721	281.786.168
- North Africa	92.310.760	77.844.923
- North America	187.668.723	154.329.658
- Far East	677.036.278	486.580.828
- Middle Africa	8.024.917	-
- West Africa	4.646.207	-
	2.942.905.504	2.269.228.859
Domestic	870.904.716	686.876.137
Total revenue from the scheduled flights	3.813.810.220	2.956.104.996

Cost of sales consists of the following:

	31 December 2006	31 December 2005
Fuel expenses	1.106.553.053	729.386.690
Staff expenses	606.948.477	523.619.808
Landing and overflight expenses	332.533.505	245.249.413
Depreciation expenses	324.917.726	285.638.122
Handling expenses	193.980.518	157.321.224
Maintenance expenses	225.790.625	141.000.727
Passenger service and catering expenses	178.470.351	146.643.592
Operating lease expenses	173.603.826	100.924.585
Insurance expenses	42.638.453	51.058.405
Aircraft wet-lease expenses	10.703.448	10.223.259
Other renting expenses	10.702.230	15.026.757
Communication expenses	8.418.467	7.972.597
Service expenses	6.881.500	6.921.026
Other taxes	4.806.297	5.096.775
Transportation expenses	2.335.751	2.689.662
Lighting, heating, energy and water expenses	3.040.590	3.790.684
Cost of other sales	15.323.614	3.305.791
	3.247.648.431	2.435.869.117

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

37 OPERATING EXPENSES (-)

Operating expenses comprised the following:

	31 December 2006	31 December 2005
Sales and marketing expenses (-)		
Commission and promotion expenses	257.815.843	212.444.272
Staff expenses	143.569.983	125.487.955
Reservation system expenses	71.684.061	55.300.819
Other renting expenses	16.816.907	13.226.105
Communication expenses	14.408.370	13.372.145
Advertisement expenses	14.998.735	7.654.857
Code share expenses	14.202.646	2.059.097
Service expenses	9.484.523	8.197.697
Passenger service and catering expenses	5.664.104	4.404.684
Transportation expenses	4.652.765	5.039.813
Other taxes	4.288.302	4.128.938
Lighting, heating, energy and water expenses	1.828.496	1.492.957
Maintenance expenses	1.204.158	1.052.548
Fuel expenses	783.485	525.559
Software and computer equipment expenses	681.903	634.039
Insurance expenses	392.860	287.514
Depreciation expenses	224.791	-
Other sales and marketing expenses	15.515.248	13.201.723
	578.217.180	468.510.722

	31 December 2006	31 December 2005
General administrative expenses (-)		
Staff expenses	80.966.019	70.304.250
Depreciation expenses	12.893.094	13.103.074
Other taxes	6.054.153	3.726.375
Maintenance expenses	4.869.631	3.879.646
Service expenses	4.432.819	2.026.024
Other renting expenses	4.425.143	1.242.136
Software and computer equipment expenses	4.421.994	3.492.256
Communication expenses	3.533.695	2.424.355
Commission and promotion expenses	3.128.220	2.239.262
Lighting, heating, energy and water expenses	1.547.531	1.641.541
Insurance expenses	992.138	384.735
Fuel expenses	199.910	221.145
Other general administrative expenses	6.630.876	4.434.961
	134.095.223	109.119.760
Total operating expenses	712.312.403	577.630.482

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

38 INCOME/LOSSES FROM OTHER OPERATIONS

Income from other operations consists of the following:

	31 December 2006	31 December 2005
Foreign exchange gains	643.998.988	209.523.006
Change in provision for diminution in value of fixed assets	125.125.537	123.145.065
Interest income	25.766.202	42.289.467
Dividend income	15.102.947	8.351.334
Discounts received from spare parts suppliers	11.932.007	10.442.021
Reversal of unnecessary provision	8.224.104	11.009.988
Cost free materials income	6.489.584	5.019.663
Compensation received	6.291.637	3.473.513
Profit on sale of marketable securities	5.491.073	3.611.850
Yapı Kredi protocol income	2.964.893	2.649.935
Income from manufacturers' credit	921.667	1.774.511
Discount income	881.913	596.515
Profit on sale of fixed assets	109.463	798.359
Income from financial investment accounted per equity method	-	784.282
Other	22.513.533	1.960.824
	875.813.548	425.430.333

Loss from other operations consists of the following:

	31 December 2006	31 December 2005
Foreign exchange losses	606.353.861	238.201.803
Provision expenses	26.617.397	30.491.374
Loss from financial investment accounted per equity method	11.960.380	-
Indemnity and penalty expenses	8.256.573	275.554
Retirement pay interest cost	6.493.785	5.594.993
Loss on sale of marketable securities	2.203.869	-
Expenses incurred for passengers with no visas	1.425.731	796.374
Loss on sale of fixed assets	331.724	-
Other expenses	7.429.386	1.805.490
	671.072.706	277.165.588

39 FINANCIAL EXPENSES

Financial expenses consist of the following:

	31 December 2006	31 December 2005
Financial lease interest expenses	71.807.751	45.658.088
Foreign exchange loss on bank loans	15.467.926	-
Interest expense on bank loans	10.078.109	12.163.552
Other financial expenses	748.542	2.220.372
	98.102.328	60.042.012

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

40 NET MONETARY GAIN/LOSS

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

41 TAX

Corporate tax payable is as follows:

	31 December 2006	31 December 2005
Provision for corporate tax payable	7.174.359	-
Prepaid taxes and funds	(5.222.340)	(13.363.884)
	(1.952.019)	(13.363.884)

Tax expense is as follows:

	31 December 2006	31 December 2005
Current period tax expense	7.174.359	-
Deferred tax expense	3.136.660	43.566.905
Tax expense	10.311.019	43.566.905

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

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

The corporation tax rate of the fiscal year 2006 is 20% (30% those for benefiting from investment allowances.) (2005: 30%). Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and allowances. The annual corporate income tax return is required to be filled in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year. Payments can be made up until the end of the month in which the tax return is to be filed.

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

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

The parent company preferred to deduct the investment allowances of 2005 from the earnings in 2006. Therefore, the applicable current corporate tax rate is 30%. However, since the parent company assumes that investment allowances will not be benefited in 2007 and in the following years, and due to the fact that the deferred tax assets and liabilities are of long-term, deferred tax rate is applied as 20%.

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

41 TAX (cont'd)

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

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

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

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

42 EARNINGS PER SHARE

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

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

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

	31 December 2006	**31 December 2006**
Number of shares outstanding on 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (in full)	-	-
Number of shares outstanding on 31 December (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the period (in full)	175.000.000.000	175.000.000.000
Net profit for the period	185.749.426	138.227.837
Earnings per share (YKr)	**0,106**	**0,079**

43 STATEMENTS OF CASH FLOWS

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

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

The Company has no confirmation on the balance of the account below as of 31 December 2006:

There is an unfavorable difference of YTL 790.584 between the current accounts of the State Airport Administration Authority and those of the Company.