

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH  
CAPITAL MARKET BOARD STANDARDS

FOR THE PERIOD ENDED 30 JUNE 2005

TOGETHER WITH AUDITORS' REVIEW REPORT

To the Board of Directors of  
Türk Hava Yolları Anonim Ortaklığı

1. We have reviewed the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 30 June 2005, and the related statements of income, shareholders' equity and cash flows for the six-month period then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 30 June 2005. These financial statements are the responsibility of the Company’s management.

2. We conducted our review in accordance with Capital Market Board Standards applicable for limited review engagements. Our review consisted of obtaining an understanding of the system for the preparation of the financial statements, applying analytical procedures to the underlying financial data and making inquiries of persons responsible for financial and accounting matters. This limited scope review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. Based on our limited scope review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with Capital Market Board Standards.

4. Additional paragraph for convenience translation into English:

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

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

Abdülkadir SAYICI  
Partner

08 September 2005, İstanbul, Turkey

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**BALANCE SHEETS**  
**AS AT 30 JUNE 2005 and 31 DECEMBER 2004**  
*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated)*

<b>ASSETS</b>	<b>Note</b>	<b>Reviewed Current Period 30.06.2005</b>	<b>Audited Previous Period 31.12.2004</b>
<b>Current Assets</b>		<b>906.666.457</b>	<b>677.317.067</b>
Cash and Cash Equivalents	4	554.442.117	365.637.483
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	227.856.605	158.585.050
Finance Lease Receivables (net)	8	-	-
Due From Related Parties (net)	9	213.217	812.921
Other Receivables (net)	10	7.723.854	2.989.387
Biological Assets (net)	11	-	-
Inventories (net)	12	68.724.973	64.513.843
Construction Contract Receivables (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	47.705.691	84.778.383
<b>Non-Current Assets</b>		<b>2.485.723.166</b>	<b>2.270.835.407</b>
Accounts Receivable (net)	7	-	-
Finance Lease Receivables (net)	8	-	-
Due From Related Parties (net)	9	-	-
Other Receivables (net)	10	1.854.035	1.921.124
Financial Assets (net)	16	42.386.147	42.636.073
Positive/Negative Goodwill (net)	17	-	-
Investment Property	18	-	-
Tangible Fixed Assets (net)	19	2.421.399.679	2.206.147.116
Intangible Fixed Assets (net)	20	6.806.006	7.463.579
Deferred Tax Assets	14	-	-
Other Non-Current Assets	15	13.277.299	12.667.515
<b>Total Assets</b>		<b><u>3.392.389.623</u></b>	<b><u>2.948.152.474</u></b>

The accompanying notes form an integral part of these financial statements

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**BALANCE SHEETS**  
**AS AT 30 JUNE 2005 and 31 DECEMBER 2004**  
*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated)*

	Note	Reviewed Current Period 30.06.2005	Audited Previous Period 31.12.2004
<b>LIABILITIES</b>			
<b>Short-Term Liabilities</b>		<b>1.233.879.524</b>	<b>721.872.724</b>
Bank Borrowings (net)	6	362.192.647	-
Short-Term Portion Of Long-Term Financial Liabilities (net)	6	-	-
Finance Lease Obligations (net)	8	209.364.831	202.712.254
Other Financial Liabilities (net)	10	321.700	281.244
Accounts Payable (net)	7	224.979.197	190.770.953
Due to Related Parties (net)	9	10.551.375	6.508.221
Advances Received	21	23.091.972	34.452.683
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	48.275.549	25.222.977
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	10	355.102.253	261.924.392
<b>Long-Term Liabilities</b>		<b>1.035.084.566</b>	<b>1.116.165.994</b>
Bank Borrowings (net)	6	-	-
Finance Lease Obligations (net)	8	854.997.173	957.728.732
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	8.228.489	8.556.817
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	108.671.168	99.777.377
Deferred Tax Liabilities	14	60.679.432	46.484.742
Other Liabilities (net)	10	2.508.304	3.618.326
<b>MINORITY INTERESTS</b>	24	-	-
<b>SHAREHOLDERS' EQUITY</b>		<b>1.123.425.533</b>	<b>1.110.113.756</b>
<b>Share Capital</b>	25	<b>175.000.000</b>	<b>175.000.000</b>
<b>Capital Reserves</b>	26-27-28	<b>1.872.838.374</b>	<b>1.872.838.374</b>
Share Premium		181.185	181.185
Share Premium on Cancelled Shares		-	-
Revaluation Surplus on Tangible Fixed Assets		-	-
Revaluation Increments of Financial Assets		-	-
Shareholders' Equity Inflation Adjustment Differences		1.872.657.189	1.872.657.189
<b>Profit Reserves</b>	26-27-28	<b>8.223.909</b>	<b>8.223.909</b>
Legal Reserves		417.011	417.011
Statutory Reserves		-	-
Extraordinary Reserves		7.806.889	7.806.889
Special Funds		9	9
Gain on Sale of Associate Shares and Investment Property to be added to Capital		-	-
Foreign Currency Translation Difference		-	-
Net Profit for the Period		13.311.777	107.058.441
Accumulated Losses	26-27-28	<b>(945.948.527)</b>	<b>(1.053.006.968)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>3.392.389.623</b>	<b>2.948.152.474</b>

The accompanying notes form an integral part of these financial statements

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**STATEMENTS OF INCOME**  
**FOR THE SIX - MONTH PERIOD ENDED 30 JUNE 2005 AND 2004**  
*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated)*

	<b>Note</b>	<b>Reviewed 1 January- 30 June 2005</b>	<b>Unreviewed 1 April- 30 June 2005</b>	<b>Reviewed 1 January- 30 June 2004</b>	<b>Unreviewed 1 April- 30 June 2004</b>
<b>MAIN OPERATING REVENUES</b>					
Sales Revenues (net)	36	1.227.288.340	678.483.489	1.094.200.423	575.961.979
Cost of Sales (-)	36	(1.101.942.924)	(583.236.964)	(922.690.808)	(487.160.226)
Service Revenues (net)		-	-	-	-
Other Revenues From Main Operations /interest+dividend+rent (net)	36	177.899.666	101.979.051	142.754.812	81.313.717
<b>GROSS OPERATING PROFIT</b>		<b><u>303.245.082</u></b>	<b><u>197.225.576</u></b>	<b><u>314.264.427</u></b>	<b><u>170.115.470</u></b>
Operating Expenses (-)	37	(308.274.360)	(164.124.067)	(288.081.323)	(141.556.703)
<b>NET OPERATING PROFIT/(LOSS)</b>		<b><u>(5.029.278)</u></b>	<b><u>33.101.509</u></b>	<b><u>26.183.104</u></b>	<b><u>28.558.767</u></b>
Income and Profit From Other Operations	38	223.734.198	85.027.921	170.657.913	(4.553.883)
Expenses and Losses From Other Operations (-)	38	(164.172.186)	(75.611.173)	(217.517.284)	(126.593.603)
Financial Expenses (-)	39	(27.026.267)	(15.830.847)	(21.753.132)	(11.496.087)
<b>OPERATING PROFIT/ (LOSS)</b>		<b><u>27.506.467</u></b>	<b><u>26.687.410</u></b>	<b><u>(42.429.399)</u></b>	<b><u>(114.084.806)</u></b>
Net Monetary Gain/(Loss)	40	-	-	<b><u>79.564.751</u></b>	<b><u>253.111.783</u></b>
<b>MINORITY INTEREST</b>	24	-	-	-	-
<b>PROFIT BEFORE TAXATION</b>		<b><u>27.506.467</u></b>	<b><u>26.687.410</u></b>	<b><u>37.135.352</u></b>	<b><u>139.026.977</u></b>
Taxes	41	(14.194.690)	(8.294.669)	(28.716.826)	(37.546.499)
<b>NET PROFIT FOR THE PERIOD</b>	42	<b><u><u>13.311.777</u></u></b>	<b><u><u>17.762.741</u></u></b>	<b><u><u>8.418.526</u></u></b>	<b><u><u>101.480.478</u></u></b>
<b>EARNINGS PER SHARE (YKr )</b>	42	<b><u>0,008</u></b>	<b><u>0,010</u></b>	<b><u>0,005</u></b>	<b><u>0,058</u></b>

The accompanying notes form an integral part of these financial statements

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX - MONTH PERIOD ENDED AT 30 JUNE 2005 AND 2004**  
*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated)*

	Share Capital	Shareholders' Equity Inflation Adjustment Differences	Share Premium	Legal Reserves	Extraordinary Reserves	Special Funds	Net Profit / (Loss)	Accumulated Losses	Total
Balances at 1 January 2004	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	243.458.570	(1.296.465.538)	1.003.055.315
Transfer of Previous Period Profit to Accumulated Losses	-	-	-	-	-	-	(243.458.570)	243.458.570	-
Current Period Profit	-	-	-	-	-	-	8.418.526	-	8.418.526
Balances at 30 June 2004	<u>175.000.000</u>	<u>1.872.657.189</u>	<u>181.185</u>	<u>417.011</u>	<u>7.806.889</u>	<u>9</u>	<u>8.418.526</u>	<u>(1.053.006.968)</u>	<u>1.011.473.841</u>
Balances at 1 January 2005	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	107.058.441	(1.053.006.968)	1.110.113.756
Transfer of Previous Period Profit to Accumulated Losses	-	-	-	-	-	-	(107.058.441)	107.058.441	-
Current Period Profit	-	-	-	-	-	-	13.311.777	-	13.311.777
Balances at 30 June 2005	<u>175.000.000</u>	<u>1.872.657.189</u>	<u>181.185</u>	<u>417.011</u>	<u>7.806.889</u>	<u>9</u>	<u>13.311.777</u>	<u>(945.948.527)</u>	<u>1.123.425.533</u>

The accompanying notes form an integral part of these financial statements

# TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

## 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 30 June 2005, the shareholders and their respective shareholdings in the Company were as follows:

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

The total number of employees working for the Company as of 30 June 2005 is 11.095 (30 June 2004: 10.142). The average number of employees working for the Company in 30 June 2005 and 2004 is 11.106 and 10.242, 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: THY Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy- İstanbul.

## 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### *Accounting Standards Applied*

The Company maintains its books of accounts and prepares its statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (“CMB”), (for publicly traded companies) and Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

The financial statements of the Company have been prepared in accordance with the accounting and reporting principles issued by the CMB Accounting Standards. The CMB issued a comprehensive set of accounting principles in Communiqué Serial XI No: 25 “The Accounting Standards in the Capital Markets”. In the Communiqué, it has been stated that applying the accounting standards promulgated by the International Accounting Standards Board (“IASB”) is accepted as an alternative to conform to the accounting standards of CMB.

By the decision taken on 17 March 2005, Capital Markets Board declared that it is not required to apply inflation accounting effective after 1 January 2005 for companies which operate in Turkey and prepare financial statements compliant with accounting standards of Capital Markets Board. Therefore, IAS 29 “Financial Reporting in Hyperinflationary Economies” issued by IASC was not applied in the financial statements, all other International Financial Reporting Standards pertaining to measurement and all changes made in those standards in 2005 were applied. Financial statements as at 31 December 2004 are expressed in terms of the purchasing power of New Turkish Lira at 31 December 2004 and prepared in the framework of alternative treatment mentioned above. Financial statements and footnotes are presented in the compulsory formats by an announcement dated on 20 December 2004 by Capital Markets Board.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

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

#### *New Turkish Lira*

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

#### *Inflation Accounting*

Depending on CMB's decision at 17 March 2005 which states that companies preparing their financial statements compliant with accounting standards of CMB are no longer required to apply inflation accounting, effective from 1 January 2005, the Company has not applied inflation accounting since 1 January 2005. The balance sheet as at 31 December 2004 and previous period's statement of income which are presented for comparison purposes are expressed in terms of purchasing power of New Turkish Lira at 31 December 2004.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. Indices and conversion factors used to restate the comparative amounts until 31 December 2004 are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>	<u>Cumulative inflation rates of 3 years %</u>
31 December 2004	8.403,8	1,000	69,7
30 June 2004	7.982,7	1,053	110,3

As at 30 June 2005, the exchange rate announced by the Turkish Central Bank (which is a market rate) was YTL 1,3413=US Dollar 1 (31 December 2004: YTL 1,3421=US Dollar 1).

The main procedures for the application of aforementioned restatement are as follows:

- Previous period financial statements prepared in the currency of a hyperinflationary economy restated in terms of the measuring unit current at 31 December 2004
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.



## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

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

#### *Inflation Accounting (cont'd)*

- All balance sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying the relevant conversion factors.
- All items in the statement of income, except for the non-monetary items in the balance sheet, which have an effect on the statement of income, are restated by applying the relevant conversion factors (monthly) and expressed in terms of purchasing power effective in 31 December 2004.
- Inflation effect on the net monetary position of the Company is reflected to previous period's statement of income as net monetary position loss/gain.

#### **Consolidation Basis:**

The company subjected to joint-management:

THY has one company sharing joint-management. The proportion of ownership interest is 50%. The company evaluates its investments by Equity Method.

The table below sets out the joint-ventures, operation area and shows the proportion of ownership interest.

<u>Company Title</u>	<u>Operation Area</u>	<u>Direct Proportion</u>	<u>Indirect Proportion</u>	<u>Registered Country</u>
Güneş Express Havacılık A.Ş. (Sun Express A.Ş.)	Air Transportation	% 50	-	Turkey

According to the equity method, the subsidiary reported in the balance sheet with net asset value and the Company includes its share out of the subsidiary's operations into the statement of income.

#### *Comparative Information*

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

#### *Offsetting*

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

# TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)*

## 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 Expense

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.

Commissions to agencies relating to the passenger revenue are recognized as expense when the transportation service is provided. Commissions on tickets sold are recorded as prepaid expenses in the current assets.

### 3.2 Inventory Valuation

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

### 3.3 Tangible Fixed Assets

Tangible fixed assets are reflected at cost restated for the effects of inflation. Depreciation is provided on a straight-line basis for all categories of tangible fixed assets, except for rotables and repairables, which are depreciated on a group basis.

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

	<u>Useful Life</u>	<u>Residual Value</u>
- Land	-	-
- Buildings	25-50	-
- Aircraft	15	30%
- Engines	15	30%
- Rotable Assets	5-8-10	-
- Repairables	2-3	-
- Simulator	10	-
- Machinery and Equipment	3-5-7-10	-
- Furniture and Fixtures	3-4-5	-
- Motor Vehicles	4-5-7	-
- Other Equipment	5	-

### 3.4 Intangible Fixed Assets

Intangible fixed assets of the Company include leasehold improvements, rights, information systems and software. Intangible fixed assets are reflected at cost restated for the effect of inflation, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years.

# TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.5 Impairment on Assets

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

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

### 3.6 Borrowing Costs

Banks loans are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized costs with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Finance expense resulted from bank loans are recorded to income statement in the period in which they are incurred.

### 3.7 Manufacturers' Credits

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

### 3.8 Financial Instruments and Financial Risk Management

#### (a) Classification and Accounting

The Company designates and accounts for financial investments 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 price. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are recognized in net profit or loss for the period in which they arise.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

##### *Investments Held to Maturity:*

Held-to-maturity investments 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:*

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

##### *Investments At Equity:*

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

#### (b) Measurement

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

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

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

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

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

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

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

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments and Financial Risk Management (cont'd)

(b) Measurement (cont'd)

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

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

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include accounts and other payables, due to related parties, bank loan and finance lease obligations. Foreign currency loans are translated into 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 approximate market value, except discount of liabilities.

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

#### *Credit Risk*

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

#### *Price Risk*

##### • Currency Risk:

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

##### • Interest Risk:

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

##### • Market Risk:

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

# TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)*

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments and Financial Risk Management (cont'd)

### • 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 period to its counter parties.

### 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 with the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

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

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2003	1,3958	1,4953
30 June 2004	1,4859	1,3976
31 December 2004	1,3421	1,4223
30 June 2005	1,3413	1,3388

### 3.10 Earnings Per Share

Earnings per share is calculated by dividing net profit by the weighted average number of shares 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 and revaluation surplus (Note 25). For the purpose of earnings per share computations, such Bonus Shares issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

Basic earnings per share is calculated by dividing net earnings belonging to the shareholders by the weighted average number of common shares.

### 3.11 Events Subsequent To The Balance Sheet Date

The Company discloses subsequent events when they occur.

### 3.12 Provisions, Contingent Assets and Liabilities

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

Liabilities and assets resulting from past events and whose existence 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.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.13 Leases

The Company leases aircraft, simulator, computer equipment and vehicles in the form of either finance leases or operating leases. Finance leases are reflected in the Company's assets by recording finance leased assets and liabilities equal to the present value of the lease payments. The finance leased assets are depreciated over their useful lives. Operating leases are accounted for as operating expense when incurred.

#### 3.14 Related Parties

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

#### 3.15 Segmental Reporting

##### *Business Segments*

The Company operates predominantly in one industry segment, its primary business being the air transportation of passengers and cargo within, to or from Turkey. The activity of the Company's equity investment is also related to the airline business.

##### *Geographical Segments*

The analysis of turnover is based on the destinations that THY serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Turnover from both scheduled and non-scheduled international flight revenues are attributed to flight destination's geographical area.

#### 3.16 Taxation and Deferred Taxes

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

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

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

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

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

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

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)*

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.17 Employee Retirement and Termination Indemnities

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

#### 3.18 Use of Estimates

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

#### 3.19 Maintenance and Repair Costs

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

#### 3.20 Frequent Flyer Program

THY provides a frequent flyer program which is called Miles and Miles 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 and charged to operations as program members accumulate mileage.

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

### 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Cash	333.995	162.030
Cheques received	47.364	116.877
Banks	547.139.620	363.838.243
Other liquid assets	6.921.138	1.520.333
	<u>554.442.117</u>	<u>365.637.483</u>

Foreign currency bank balances are YTL 376.868.126 at 30 June 2005 (31 December 2004: YTL 247.555.286).



## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 4 CASH AND CASH EQUIVALENTS (cont'd)

#### Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>30 June 2005</u>
166.250.000	YTL	18.05.2005-30.06.2005	01.07.2005-07.09.2005	166.250.000
24.400.000	US Dollar	30.06.2005	01.07.2005	32.727.720
166.245.000	Euro	03.06.2005- 30.06.2005	01.07.2005-01.09.2005	268.768.291
				<u>467.746.011</u>

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

### 5 MARKETABLE SECURITIES (NET)

None (31 December 2004: None).

### 6 BANK BORROWINGS (NET)

Short-term bank credits consisting of Financial Liabilities:

<u>Bank Name</u>	<u>Maturity</u>	<u>Currency</u>	<u>Interest Accruals</u>	<u>YTL</u>
T.İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	31.050 US Dollar	362.192.647

(31 December 2004: None.)

### 7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

i) Short-term accounts receivable consist of:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Trade receivables	248.494.856	175.591.911
Discount on receivables	(2.576.647)	(341.303)
Provision for doubtful receivables	(18.061.604)	(16.665.558)
	<u>227.856.605</u>	<u>158.585.050</u>

ii) Short-term accounts payable consist of:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Trade payables	218.844.344	186.439.488
Deposits and guarantees received	6.134.853	4.221.819
Other	-	109.646
	<u>224.979.197</u>	<u>190.770.953</u>

iii) Long-term accounts payable consist of:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Deposits and guarantees received	8.228.489	8.556.817

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 8 FINANCE LEASE RECEIVABLES AND OBLIGATIONS (NET)

i) Finance lease receivables: None (31 December 2004: None).

ii) Finance lease liabilities:

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

	<b>30 June 2005</b>	<b>31 December 2004</b>
Not later than one year	247.302.828	237.797.984
Between 1 – 4 years	589.131.928	608.219.202
Over 4 years	368.147.674	451.213.188
	<u>1.204.582.430</u>	<u>1.297.230.374</u>
Less: Future interest expense	<u>(140.220.426)</u>	<u>(136.789.388)</u>
Principal value of future rentals shown in the balance sheets	<u>1.064.362.004</u>	<u>1.160.440.986</u>

	<b>30 June 2005</b>	<b>31 December 2004</b>
Represented by :		
Short-term liabilities	209.364.831	202.712.254
Long-term liabilities	854.997.173	957.728.732
	<u>1.064.362.004</u>	<u>1.160.440.986</u>
Interest range:		
Floating rate obligations	813.676.785	872.924.584
Fixed rate obligations	250.685.219	287.516.402
	<u>1.064.362.004</u>	<u>1.160.440.986</u>

As of 30 June 2005, the US Dollar denominated lease obligations' interest rates are between 6,25% and 7,68%, for the fixed rate obligations; and a margin ranging between LIBOR and LIBOR plus 3,00% for floating rate obligations.

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

	<b>30 June 2005</b>	<b>31 December 2004</b>
Not later than one year	102.752.398	78.824.262
Between 1 - 4 years	164.131.639	117.723.485
Over 4 years	9.307.816	1.488.724
	<u>276.191.853</u>	<u>194.036.471</u>

### 9 DUE TO AND FROM RELATED PARTIES (NET)

i) Due to and due from related parties as of 30 June 2005 and 31 December 2004 are as follows:

Short-term due from related parties consists of the following:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Güneş Ekspres Havacılık A.Ş.(Sun Express)	213.217	812.763
Uçak Servisi A.Ş. (USAŞ)	-	158
	<u>213.217</u>	<u>812.921</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

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

Due to related parties consists of the following:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Sun Express	196.140	211.054
Uçak Servisi A.Ş (USAŞ)	10.355.235	6.297.167
	<u>10.551.375</u>	<u>6.508.221</u>

ii) Transactions with related parties in the periods ended as of 30 June are as follows:

	<b>30 June 2005</b>	<b>30 June 2004</b>
Services given to Sun Express	1.351.404	1.770.380
Services given to USAŞ	160.297	115.282
	<u>1.511.701</u>	<u>1.885.662</u>

	<b>30 June 2005</b>	<b>30 June 2004</b>
Services taken from Sun Express	352.693	1.509.773
Services taken from USAŞ	36.505.081	30.458.874
	<u>36.857.774</u>	<u>31.968.647</u>

Dividend income from equity investments are as follows:

	<b>30 June 2005</b>	<b>30 June 2004</b>
Sun Express	80.800	-
Uçak Servisi A.Ş. (USAŞ)	1.113.723	-
Emek İnşaat ve İşletme A.Ş.	-	302.786
France Telecom	157.325	-
	<u>1.351.848</u>	<u>302.786</u>

### 10 OTHER RECEIVABLES AND PAYABLES (NET)

i) Other short-term receivables are as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Restrictions on transfer of funds from banks (*)	1.578.876	845.502
Business advances given	964.903	345.966
Due from personel	230.559	247.834
Receivable from SITA deposit certificates	150.153	150.242
Foreign receivables re-technical equipment	1.069.690	920.791
Due from insurance firms	3.197.083	-
Personnel salary advances	394.685	326.363
Other receivables	137.905	152.689
	<u>7.723.854</u>	<u>2.989.387</u>

(\*) As of 30 June 2005, the balance of this account is related to bank balance in Egypt.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 10 OTHER RECEIVABLES AND PAYABLES (NET) (cont'd)

ii) Other long-term receivables are as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Due from personel	1.068.100	1.127.433
Receivable from SITA deposit certificates	694.884	702.736
Other receivables	91.051	90.955
	<u>1.854.035</u>	<u>1.921.124</u>

iii) Other short-term financial liabilities are as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Due to bank (*)	<u>321.700</u>	<u>281.244</u>

(\*) Due to bank account consists of overnight interest-free borrowings for the purposes of settlement of tax and social security premium payments.

iv) Other short-term liabilities are as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Flight liability - advanced ticket sales	221.361.338	124.731.094
Flight liability resulting from sales of mileage	51.718.890	52.071.858
Accrued frequent flyer liability	8.217.839	6.993.168
Tax and funds payable	17.016.146	19.340.449
Gross manufacturer's	16.945.984	16.956.092
Accumulated amortization of manufacturers' credit(-)	(15.403.489)	(14.564.872)
Accrued maintenance costs	16.057.205	15.944.575
Social security premiums payable	10.048.032	12.188.329
Expense accruals of insurance premiums	10.617.291	10.074.286
Deferred income from USAŞ share transfer	5.016.621	3.618.326
Sales incentive premium accrual	4.375.588	7.734.390
Fuel oil privilege expense accrual	730.598	730.598
Due to personel	178.633	253.428
State Airport Administration ("DHMI") protocol payable	-	1.822.211
Discount on DHMI protocol payable	-	(36.401)
Other liabilities	1.163.252	790.475
Other expense accruals	7.058.325	3.276.386
	<u>355.102.253</u>	<u>261.924.392</u>

v) Other long-term liabilities are as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
Deferred income from USAŞ share transfer	<u>2.508.304</u>	<u>3.618.326</u>
	<u>2.508.304</u>	<u>3.618.326</u>

### 11 BIOLOGICAL ASSETS (NET)

None (31 December 2004: None).

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 12 INVENTORIES

Inventories consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Spare parts, flight equipment	52.495.634	54.483.543
Other inventories	16.229.339	10.030.300
	<u>68.724.973</u>	<u>64.513.843</u>

### 13 BILLINGS ON CONSTRUCTION CONTRACTS IN PROGRESS (NET)

None (31 December 2004: None).

### 14 DEFERRED TAX ASSETS AND LIABILITIES (NET)

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements as reported for CMB Accounting Standards purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for CMB and tax purposes and have been calculated over balance sheet items like fixed asset, retirement pay liability and provision for doubtful receivables. The deferred tax rate is 30%.

Temporary differences: deferred tax assets / (liabilities)

	<u>30 June 2005</u>	<u>31 December 2004</u>
Allowance for unrecoverable bank accounts	246	276
Allowance for doubtful receivables	861.118	416.692
Restatement of inventory	699.410	8.716.457
Appreciation in value of financial assets	(878.096)	(1.483.820)
Changes in other short term assets	-	60.960
Short term lease obligation	49.445.484	47.867.011
Deferred income and expense	391.679	290.395
Expense accruals	7.637.748	13.125.543
Provision for advance ticket sales	(22.112.271)	(17.973.936)
Deferred income	2.257.470	1.851.799
Adjustments to long term assets	-	(620.529)
Fixed assets	(407.344.176)	(425.380.016)
Long term lease obligation	256.499.152	287.318.620
Retirement pay liability	32.601.349	29.933.213
Manufacturers' credit	462.749	717.366
Discount on receivables	772.994	102.072
Discount on payables	(1.021.022)	(19.996)
Unused investment incentives	5.380.233	3.704.211
Unused tax losses	13.666.501	4.888.940
Deferred tax liability	<u>(60.679.432)</u>	<u>(46.484.742)</u>

Movement in deferred tax liability per balance sheet is as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Deferred tax charge related to the origination and reversal of temporary differences	14.194.690	2.818.011
Monetary gain on deferred tax liabilities	-	(6.043.575)
Net change in deferred tax	<u>14.194.690</u>	<u>(3.225.564)</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

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

i) Other current assets are as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Tax to be refunded	1.954	1.552
Prepaid sales commissions	20.367.926	10.414.391
Maintenance service income accrual	3.253.937	6.172.005
Deferred insurance expense	1.970.034	6.154.237
Prepaid operating lease expenses	4.883.611	3.982.248
VAT to be refunded	3.341.797	2.682.798
Prepaid financial expense of bank borrowing	2.220.372	-
Prepaid rent expenses	605.988	440.142
Expenditure allowance receivables from tax authority	140.216	9.049
Prepaid taxes and funds	3.104.425	51.305.913
Interline passenger income accrual	3.105.058	182.580
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
VAT deductible	722.158	152.793
Prepaid aircraft financing expense	543.043	539.501
Other prepaid expenses	2.352.764	1.648.766
	<u>47.705.691</u>	<u>84.778.383</u>

ii) Other non-current assets are as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Prepaid Eximbank USA guarantee and exposure fee	6.438.445	7.001.219
Prepaid aircraft financing expense	2.461.617	2.688.118
Prepaid operating lease expenses	2.630.605	1.241.311
Deposits given	1.746.632	1.736.867
	<u>13.277.299</u>	<u>12.667.515</u>

### 16 FINANCIAL ASSETS

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

	<u>30 June 2005</u>	<u>31 December 2004</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	18.473.222	16.706.000

ii) Financial assets available for sale are as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
France Telecom	20.214.336	20.214.336
Diminution in value of France Telecom shares	(12.295.608)	(11.192.456)
Uçak Servis A.Ş. (USAŞ)	11.010.272	8.213.707
Appreciation in value of USAŞ shares	3.169.902	6.880.463
Sita Inc.	1.785.738	1.785.738
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
Other financial assets	1.426	1.426
	<u>23.912.925</u>	<u>25.930.073</u>
	<u>42.386.147</u>	<u>42.636.073</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 16 FINANCIAL ASSETS (cont'd)

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

USAŞ distributed 1.852.500.000 of free shares to the Company based on the decision of General Assembly held on 8 December 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement.

Details of the Company's long-term financial assets at 30 June 2005 are as follows:

<u>Name of the Company</u>	<u>Place of Incorporation and Operation</u>	<u>Proportion of Ownership Interest</u>	<u>Proportion of Voting Power Held</u>	<u>Principal Activity</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Holland	Less than 0,1%	Less than 0,1%	Information & Telecommunication Services
Uçak Servisi A.Ş. (USAŞ)	Turkey	7,75%	7,75%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

### 17 POSITIVE/NEGATIVE GOODWILL (NET)

None (31 December 2004: None).

### 18 INVESTMENT PROPERTY (NET)

None (31 December 2004: None).

### 19 TANGIBLE FIXED ASSETS (NET)

	<u>30 June 2005</u>	<u>31 December 2004</u>
Tangible fixed assets (net)	1.823.867.300	1.810.476.604
Pre-payments for airplane purchases	594.509.367	395.670.512
Advances given for other tangible fixed assets	3.023.012	-
	<u>2.421.399.679</u>	<u>2.206.147.116</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

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

	Land, Land Improvements and Building	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Software	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction in Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets and Simulators	Total Leased Assets	Total
<b>Cost</b>											
Opening balance 1 January 2005	164.394.003	293.126.703	216.627.863	1.271.455.508	284.390.748	386.260	2.230.381.085	3.359.221.949	17.796.598	3.377.018.547	5.607.399.632
Additions	-	1.939.427	686.575	57.043.500	39.448.452	732.201	99.850.155	-	-	-	99.850.155
Disposals	-	(1.354.989)	(365.619)	-	(14.088.447)	(329.721)	(16.138.776)	-	-	-	(16.138.776)
Closing balance 30 June 2005	164.394.003	293.711.141	216.948.819	1.328.499.008	309.750.753	788.740	2.314.092.464	3.359.221.949	17.796.598	3.377.018.547	5.691.111.011
<b>Accumulated depreciation</b>											
Opening balance 1 January 2005	45.636.971	252.663.395	196.713.598	778.440.216	139.865.031	-	1.413.319.211	936.557.576	5.265.168	941.822.744	2.355.141.955
Depreciation for the period	1.368.278	6.709.541	4.054.014	13.309.502	41.342.808	-	66.784.143	78.381.845	695.403	79.077.248	145.861.391
Disposals	-	(1.338.458)	(352.200)	-	(14.088.447)	-	(15.779.105)	-	-	-	(15.779.105)
Closing balance 30 June 2005	47.005.249	258.034.478	200.415.412	791.749.718	167.119.392	-	1.464.324.249	1.014.939.421	5.960.571	1.020.899.992	2.485.224.241
Accumulated impairment	-	6.827.559	-	279.552.083	-	-	286.379.642	1.091.128.378	4.511.450	1.095.639.828	1.382.019.470
<b>30 June 2005 net book value</b>	117.388.754	28.849.104	16.533.407	257.197.207	142.631.361	788.740	563.388.573	1.253.154.150	7.324.577	1.260.478.727	1.823.867.300
<b>31 December 2004 net book value</b>	118.757.032	32.529.232	19.914.266	202.929.868	144.525.717	386.260	519.042.375	1.283.505.372	7.928.857	1.291.434.229	1.810.476.604



## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 20 INTANGIBLE FIXED ASSETS (NET)

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Cost</u></b>			
Opening balance 1 January 2005	60.098.447	18.829.214	78.927.661
Additions	784.596	195.342	979.938
Disposals	-	(58.052)	(58.052)
Closing balance 30 June 2005	<u>60.883.043</u>	<u>18.966.504</u>	<u>79.849.547</u>
<b><u>Accumulated depreciation</u></b>			
Opening balance 1 January 2005	53.301.396	18.162.686	71.464.082
Amortization charge for the period	1.402.651	228.356	1.631.007
Disposals	-	(51.548)	(51.548)
Closing balance 30 June 2005	<u>54.704.047</u>	<u>18.339.494</u>	<u>73.043.541</u>
Accumulated impairment	-	-	-
<b>30 June 2005 net book value</b>	<u>6.178.996</u>	<u>627.010</u>	<u>6.806.006</u>
<b>31 December 2004 net book value</b>	<u>6.797.051</u>	<u>666.528</u>	<u>7.463.579</u>

### 21 ADVANCES RECEIVED

Advances received are as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Advances received for mileage credit sales	6.038.519	23.101.559
E-pos ticket advance	1.354.528	348.806
Deposits received from Turkish Republic		
Religious Affairs	240.460	2.350.512
MCO advances	14.839.313	8.360.092
Other advances received	619.152	291.714
	<u>23.091.972</u>	<u>34.452.683</u>

### 22 RETIREMENT PLANS

The Company does not have retirement plans other than the provision for the employment termination benefits described in Note 23.

### 23 PROVISIONS FOR LIABILITIES

i) Provisions for short - term liabilities consist of:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Accrued salaries	19.149.264	15.619.949
Collective bargaining expense accruals	20.228.485	-
Provision for legal claims	8.542.430	9.245.739
Other	355.370	357.289
	<u>48.275.549</u>	<u>25.222.977</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 23 PROVISIONS FOR LIABILITIES (cont'd)

ii) Provisions for long- term liabilities consist of :

	<u>30 June 2005</u>	<u>31 December 2004</u>
Provision for employment termination indemnity	108.671.168	99.777.377

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, complete 25 years of service (20 years for women), are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of YTL 1.649 as at 30 June 2005 (31 December 2004: YTL 1.575). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

Amounts recognized in the income statement as provision for termination benefit are as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Current service cost	8.469.881	5.977.885
Interest cost	2.721.201	2.652.696
	<u>11.191.082</u>	<u>8.630.581</u>

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

	<u>30 June 2005</u>	<u>31 December 2004</u>
Provision at 1 January	99.777.377	89.528.586
Charge for the period	11.191.082	16.585.532
Payments during the period	(2.297.291)	(6.336.741)
Provision at 30 June	<u>108.671.168</u>	<u>99.777.377</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,45 % (31 December 2004:5,45 %) per annum after considering the effect of increase in eligible pay and its limit.

### 24 MINORITY INTEREST

None (31 December 2004: None).

### 25 SHARE CAPITAL/ ASSOCIATIVE SHARE CAPITAL ELIMINATIONS

The Company's share capital was held in each period as follows:

	<u>Group</u>	<u>%</u>	<u>30 June 2005</u>	<u>%</u>	<u>31 December 2004</u>
Turkish Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	75,18(**)	131.565.696	75,17	131.538.948
Others	A	24,82(**)	43.434.304	24,83	43.461.052
Share capital (historic)			175.000.000		175.000.000
Restatement effect			1.739.005.871		1.739.005.871
Restated			<u>1.914.005.871</u>		<u>1.914.005.871</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)*

### 25 SHARE CAPITAL/ ASSOCIATIVE SHARE CAPITAL ELIMINATIONS (cont'd)

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

(\*\*) YTL 26.748 nominal valued shares of the Company which were bought by private shareholders from the second public offering of the Company which was held on 1, 2 and 3 December 2004 was transferred to the accounts of the Republic of Turkey Prime Ministry Privatization Administration by İş Yatırım Menkul Değerler A.Ş. The transfer was made due to default of private shareholders who were unable to transfer the amounts of the shares after the conclusion of last instalment.

As at 30 June 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 name. The Class C share, which belongs to the Privatization Administration, is a unique share with a par value of YKr 0.1 with the following privileges:

Main Agreement Article 7: The Directors elected to represent C shareholders should have an affirmative vote for recording of transfer of ordinary shares on the share register.

Main Agreement Article 10: The Board of Directors of the Company consists of seven members of which one member has to be nominated by the class C shareholder.

Main Agreement Article 14: The following Board of Directors' decisions are subject to the class C Shareholder's affirmative vote:

- a) As explained in Article 3.1 of the Main Agreement, taking decisions that will negatively affect the Company's mission
- b) To suggest a change in the Main Agreement at General Assembly
- c) To increase the share capital
- d) Registration of the transfer of the shares issued to name in the 'Register of the Company.
- e) To make decisions or taking actions which will put the Company under direct or indirect commitment for more than 5 of total assets for each agreement in the latest annual financial statements prepared for Turkish Capital Market Board (this statement will be valid until the Company's shares held by Turkish State are below 20)
- f) To make decisions about to merging with another companies and liquidation.
- g) To make decisions to close flight routes or significantly decrease number of flights except routes that cannot recover even its operational expenses under market conditions.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

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(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 25 SHARE CAPITAL/ ASSOCIATIVE SHARE CAPITAL ELIMINATIONS (cont'd)

Main Agreement Temporary Article 1: The Company's chairman of the Board of Directors, members of the Board of Directors, auditors and general manager who meet the conditions mentioned in law numbered 4046, are to be selected from candidates suggested by A group shareholders, then assigned by a nomination of the Republic of Turkey Prime Ministry Privatization Administration and the approval of the Prime Minister or authorized minister, until the Company's shares held by Turkish State are below 50. The article 315 of Turkish Commercial Code is applied for the members representing non-public membership.

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

According to Communiqué Serial XI , No: 25 "Accounting Standards in the Capital Markets" issued on 15 November 2003 by Capital Markets Board, items of the Company's shareholders' equity are given below at nominal amounts, the differences arising from inflation accounting are disclosed under "Shareholders' Equity Inflation Adjustment Differences":

	<b>30 June 2005</b>	<b>31 December 2004</b>
Share Capital	175.000.000	175.000.000
Share Premium	181.185	181.185
Legal reserves	417.011	417.011
Extraordinary reserves	7.806.889	7.806.889
Other profit reserves	9	9
Restatement difference of shareholders' equity (*)	1.872.657.189	1.872.657.189
Net period profit	13.311.777	107.058.441
Accumulated losses	(945.948.527)	(1.053.006.968)
	<u>1.123.425.533</u>	<u>1.110.113.756</u>
<b>(*)Shareholders' Equity Inflation Adjustment Differences</b>		
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
Other reserves	5.313.341	5.313.341
	<u>1.872.657.189</u>	<u>1.872.657.189</u>

Accumulated profits in statutory books can be distributed except the following 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. According to Turkish Commercial Code, order I legal reserves are apportioned as 5 % of statutory net profit to the extent reaching to 20 % of the company's paid-in capital. Order II legal reserves equal to 10 % of distributed profit exceeding 5 % of paid-in capital. According to Turkish Commercial Code, legal reserves can be used only to set off losses as long as not exceeding 50 % of paid-in capital, it is not possible to use in any other way except that. Publicly held companies distribute dividends in the following way that Capital Market Board requires.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

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

According to Part 15 Article 399 of Comminique Serial: XI No: 25, it is required in the context of regulations of Capital Markets Board regarding distribution of profits that the amount arising from the restatement of financial statement according to inflation accounting for the first time and recorded in "accumulated losses" should be treated as a deduction item when determining the distributable profit according to the inflation-adjusted financial statements. However, it is possible to set off the amount in "accumulated losses" with the profit for the period, if any, and undistributed accumulated profits; as for the remaining amount of loss, it is possible to set off with, respectively, extraordinary reserves, legal reserves, capital reserves arising from the restatement of items of shareholders' equity for inflation accounting purposes.

### 29 FOREIGN CURRENCY POSITION

Foreign currency risk occurs 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 debt. As of 30 June 2005, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

The foreign currency position of the Company as of 30 June 2005 and 31 December 2004 in terms of YTL is as follows:

30 June 2005	US Dollar	Euro	Sterling	Other	Total
<b>Foreign currency based assets</b>					
Cash and cash equivalents	46.823.805	290.029.688	4.728.620	42.361.837	383.943.950
Account receivables (net)	25.268.219	15.682.170	10.014.746	104.888.852	155.853.987
Due from related parties (short term)	-	213.217	-	-	213.217
Other short-term receivables and assets	1.819.504	2.603.879	20.626	1.712.807	6.156.816
Inventories-advances given	161.453	2.241	2.219	6.077.387	6.243.300
Other current assets	9.334.303	2.698.260	213.069	9.372.207	21.617.839
Other long-term receivables and assets	1.852.719	-	-	-	1.852.719
Advances given for the aircrafts	597.316.758	167.183	48.437	-	597.532.378
Other non - current assets	13.222.012	441.223	72.991	1.739.918	15.476.144
	<b>695.798.773</b>	<b>311.837.861</b>	<b>15.100.708</b>	<b>166.153.008</b>	<b>1.188.890.350</b>
<b>Foreign currency based liabilities</b>					
Bank borrowings	362.192.647	-	-	-	362.192.647
Short-term finance lease obligation	209.364.831	-	-	-	209.364.831
Accounts payable (short term) (net)	32.895.816	36.104.200	4.575.381	76.320.503	149.895.900
Due to related parties (net)	199.603	32.583	2.089	-	234.275
Deposits and advances received	6.269.893	106.865	942	387.780	6.765.480
Other accrued liabilities	347.138	-	-	-	347.138
Passenger flight liabilities	21.652.236	6.293.548	1.165.779	55.370.158	84.481.721
Long-term finance lease obligations (net)	854.997.173	-	-	-	854.997.173
Accounts payable (long- term)	377.509	5.793.771	533.166	1.524.043	8.228.489
<b>30 June 2005</b>	<b>1.488.296.846</b>	<b>48.330.967</b>	<b>6.277.357</b>	<b>133.602.484</b>	<b>1.676.507.654</b>
<b>Net foreign currency position (*)</b>	<b>(792.498.073)</b>	<b>263.506.894</b>	<b>8.823.351</b>	<b>32.550.524</b>	<b>(487.617.304)</b>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 29 FOREIGN CURRENCY POSITION (cont'd)

(\*) Although, the Company is shown as in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Company values its aircraft and spare engines based on their US Dollar acquisition costs or US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's tangible assets which are carried from US Dollar denominated values should also be considered during the evaluation of the Company's sensitivity of its assets and liabilities against the changes in foreign exchange rates. As of 30 June 2005, the net book values of aircraft and spare engines, which are carried from US Dollar acquisition costs or US Dollar selling prices is YTL 1.470.036.716 (31 December 2004: YTL 1.504.373.218).

31 December 2004	US Dollar	Euro	Sterling	Other	Total
<b>Foreign currency based assets</b>					
Cash and cash equivalents	40.353.808	178.302.052	2.317.807	28.309.351	249.283.018
Account receivables (net)	35.521.212	32.904.743	5.421.928	38.641.943	112.489.826
Due from related parties	477.642	311.411	-	-	789.053
Other short-term receivables and assets	739.008	288.734	49.340	909.014	1.986.096
Inventories-advances given	277.197	41.698	47.031	64.103	430.029
Other current assets	27.689.397	2.206.977	461.616	1.917.674	32.275.664
Other long-term receivables and assets	1.919.808	-	-	-	1.919.808
Advances given for the aircrafts	396.911.822	-	-	-	396.911.822
	<u>503.889.894</u>	<u>214.055.615</u>	<u>8.297.722</u>	<u>69.842.085</u>	<u>796.085.316</u>
<b>Foreign currency based liabilities</b>					
Short term finance lease obligations	202.712.254	-	-	-	202.712.254
Accounts payable	54.284.440	47.389.637	4.071.525	20.360.591	126.106.193
Due to related parties	215.959	1.268	-	-	217.227
Other short and long-term liabilities (net)	347.345	-	-	-	347.345
Deposits and advances received	73.437.880	6.509.397	3.944.879	3.531.318	87.423.474
Other accrued liabilities					
Long-term finance lease obligations	957.728.732	-	-	-	957.728.732
Manufacturers' credit (net)	417.560	6.500.183	264.091	1.374.983	8.556.817
	<u>1.289.144.170</u>	<u>60.400.485</u>	<u>8.280.495</u>	<u>25.266.892</u>	<u>1.383.092.042</u>
<b>Net foreign currency position(*)</b>	<u>(785.254.276)</u>	<u>153.655.130</u>	<u>17.227</u>	<u>44.575.193</u>	<u>(587.006.726)</u>

### 30 GOVERNMENT GRANTS AND ASSISTANCES

The Company has investment incentive certificates dated 23 May 2003 and encloses periods 22.04.2003 – 22.04.2006 at amount of YTL 2.416.034.000 and dated 9 March 2005 and encloses periods 24.01.2005 - 24.01.2007 at amount of YTL 135.967.323. The Company has the following advantages within the context of these investment incentive certificates:

- VAT exemptions of domestic and foreign investment goods
- Exemption from customs duty for the importing of investment goods from the countries other than European Union

In addition, YTL 38.329.210 of the investment expense of the Company subject to 100% of investment allowance and YTL 4.902.180 is subject to 40% of investment allowance.

Investment allowances can be deducted from the current or future corporate tax bases.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

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(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 31 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is YTL 37.649.133 as of 30 June 2005 (31 December 2004: YTL 34.044.958).

b) Purchase Commitments:

The Company has signed agreements to purchase 51 aircrafts which will be obtained between years 2005-2008. Total value of these aircrafts is approximately US Dollar 4.1 billion according to the list prices before any discounts to be applied by aircraft producer firms. THY paid a deposit of US Dollar 439 million as of 30 June 2005 related to these new purchases.

c) Letter of Comfort:

		<u>30 June 2005</u>		<u>31 December 2004</u>
Letters of comfort given to Sun Express	US Dollar	2.900.000	US Dollar	2.900.000
	Euro	2.556.459	Euro	2.556.459

d) The Company's discounted retirement pay provision is YTL 108.671.168. The Company's total undiscounted liability for retirement pay would be approximately YTL 171 million as of 30 June 2005, if all employees had been dismissed as at that date.

### 32 BUSINESS COMBINATIONS

None (31 December 2004: None).

### 33 SEGMENTAL REPORTING

#### *Business Segments*

The Company operates predominantly in one industry segment, its primary business being the air transportation of passengers and cargo within, to or from Turkey. The activity of the Company's equity investment is also related to the airline business.

#### *Geographical Segments*

The analysis of turnover is based on the destinations that THY serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Turnover from both scheduled and non-scheduled international flight revenues are attributed to flight destination's geographical area.

### 34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

THY sold the A 319 CJ VIP aircraft registered as TC-ANA to Turkish Republic Prime Ministry on 25 July 2005 upon the 15 July 2005 dated resolution of Board of Directors.

### 35 DISCONTINUED OPERATIONS

None (31 December 2004: None).

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 36 OPERATING REVENUES

Operating revenues are as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Scheduled services		
- Passenger	1.105.396.275	970.224.132
- Cargo and mail	121.892.065	123.976.291
Non-scheduled services	19.206.598	15.037.225
Other revenues	158.698.610	127.719.484
<b>Gross sales</b>	<b>1.405.193.548</b>	<b>1.236.957.132</b>
Minus: discounts and return from sales	(5.542)	(1.897)
<b>Net sales</b>	<b>1.405.188.006</b>	<b>1.236.955.235</b>
Cost of sales (-)	(1.101.942.924)	(922.690.808)
<b>Gross operating profit</b>	<b>303.245.082</b>	<b>314.264.427</b>

Geographical analysis of the scheduled services' traffic revenue is as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
- Europe	498.142.902	430.730.424
- Middle East	132.336.436	126.885.648
- North Africa	32.971.849	29.667.441
- North America	61.533.263	63.107.201
- Far East	211.580.191	189.274.912
	<u>936.564.641</u>	<u>839.665.626</u>
Domestic	290.723.699	254.534.797
Total scheduled services' flight revenue	<u>1.227.288.340</u>	<u>1.094.200.423</u>

Cost of sales consists of the following:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Fuel expenses	305.803.704	205.326.605
Staff expenses	222.460.455	187.860.257
Depreciation expenses	142.007.820	146.612.959
Handling and station expenses	110.703.011	107.457.462
Landing and navigation expenses	81.995.020	74.244.484
Passenger service and catering expenses	68.242.024	59.019.464
Maintenance expenses	66.861.938	42.589.596
Operating lease expenses	44.465.183	22.394.458
Insurance expenses	30.404.828	25.269.512
Other renting expenses	7.233.700	4.607.672
Aircraft rent expenses	6.630.865	8.264.867
Service expenses	3.567.573	2.913.442
Communication expenses	3.379.455	4.318.232
Other taxes	1.969.391	830.903
Lighting, heating and water expenses	1.882.441	2.327.484
Transportation expenses	1.026.165	620.565
Impairment loss	-	25.547.901
Cost of other sales	3.309.351	2.484.945
	<u>1.101.942.924</u>	<u>922.690.808</u>



## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 37 OPERATING EXPENSES (-)

Operating expenses are as follows:

	<b>30 June 2005</b>	<b>30 June 2004</b>
<b>Sales and marketing expenses(-)</b>		
Commission and promotion expenses	94.668.246	99.774.191
Staff expenses	57.023.278	52.254.809
Reservation system expenses	31.070.267	26.534.437
Communication expenses	6.810.674	7.275.112
Rent expenses	6.083.955	6.663.122
Service expenses	3.811.361	2.501.026
Advertisement expenses	3.447.408	1.943.568
Transportation expenses	2.042.521	1.719.278
Passenger service and catering expenses	2.008.540	1.610.946
Other taxes	1.418.033	1.257.487
Seat rent expenses	900.143	781.935
Lighting, heating and water expenses	666.876	716.235
Maintenance expenses	624.642	550.827
Software and computer equipment expenses	368.653	445.896
Fuel expenses	249.045	185.932
Insurance expenses	159.133	283.109
Other sales and marketing expenses	7.470.349	5.416.468
	<u>218.823.124</u>	<u>209.914.378</u>
<b>General administrative expenses(-)</b>		
Staff expenses	70.363.188	59.745.143
Depreciation expenses	5.484.578	5.656.197
Other taxes	1.850.138	1.628.337
Maintenance expenses	1.773.257	1.757.688
Software and computer equipment expenses	1.754.519	1.954.551
Communication expenses	1.616.772	1.220.445
Commission and promotion expenses	1.054.637	882.347
Lighting, heating and water expenses	778.444	356.124
Service expenses	706.398	1.005.873
Other renting expenses	653.056	278.634
Insurance expenses	186.132	876.469
Fuel expenses	113.562	4.607
Other general administrative expenses	3.116.555	2.800.530
	<u>89.451.236</u>	<u>78.166.945</u>
Total operating expenses	<u>308.274.360</u>	<u>288.081.323</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 38 OTHER OPERATING INCOME/EXPENSES AND PROFIT/LOSSES

Income and profits from other operations are as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Foreign exchange gains	125.818.576	130.150.105
Provision for diminution in value of fixed assets	59.761.603	-
Interest income	14.159.175	17.175.145
Reversal of unnecessary provision	6.368.906	8.034.166
Discounts received from spare parts suppliers	5.798.284	4.979.220
Free of cost of materials income	3.190.886	715.215
Income from investment accounted for equity method	1.767.223	2.575.853
Compensation received	1.602.292	1.463.902
Dividend income	1.351.849	299.757
Discount interest income	1.046.350	-
Manufacturers' credit income	847.299	988.165
Gain on sale of fixed assets	386.298	54.221
Other income	1.635.457	4.222.164
	<u>223.734.198</u>	<u>170.657.913</u>

Expenses and losses from other operations are as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Foreign exchange losses	152.212.282	200.975.160
Provision expenses	7.618.079	4.589.455
Interest expenses – third parties	-	3.375.410
Retirement pay interest cost	4.084.534	2.652.696
Rent expense of RJ aircrafts to be returned	-	2.139.886
Rent expense of RJ aircraft for the non-operating period	-	1.836.708
Discount expense	-	1.514.907
Expenses for passengers without visa	192.888	253.876
Other expenses	64.403	179.186
	<u>164.172.186</u>	<u>217.517.284</u>

### 39 FINANCIAL EXPENSE

Financial expenses consist of the following:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Financial leases interest expense	22.808.585	21.753.132
Interest expense on bank borrowings	3.477.558	-
Other financial expenses	740.124	-
	<u>27.026.267</u>	<u>21.753.132</u>

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 40 NET MONETARY POSITION GAIN/LOSSES

With the decision taken 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. The Company has ceased inflation accounting application since 1 January 2005 upon the declaration of CMB. Therefore, as of 30 June 2005 there was no monetary gain/loss.

### 41 TAXATION

Corporation tax payable is as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Provision of corporation tax payable	-	-
Prepaid taxes and funds	-	(51.305.913)
	<u>-</u>	<u>(51.305.913)</u>

Tax expense is as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Current period tax expense	-	11.788.390
Deferred tax expense	14.194.690	16.928.436
Tax expense	<u>14.194.690</u>	<u>28.716.826</u>

*Corporate tax:*

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated tax liabilities based on the Company's financial results for the period.

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

The effective tax rates are as follows:

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

In Turkey, prepaid taxes are calculated and accrued on a quarterly basis. The prepaid corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003. In 2004, the prepaid corporate income tax rate was applied 33%. Prepaid corporate income tax rate is 30% in 2005.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until 15 April following the close of the accounting period to which they relate. The tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

## TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

### 41 TAXATION (cont'd)

#### *Income withholding tax:*

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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

### 42 EARNINGS PER SHARE

There were no dilutive equity instruments outstanding which would require the calculation of separate diluted earnings per share. A summary of the weighted average number of shares outstanding during 30 June 2005 and 30 June 2004 and the earnings per share calculation is as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Number of shares outstanding at January 1, (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at 30 June (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Weighted average number of shares outstanding during the period (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Net profit for the period	13.311.777	8.418.526
Earnings per share (YKr)	<b>0,008</b>	<b>0,005</b>

# TURK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 June 2005

(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)

## 43 CASH FLOW STATEMENT

	Reviewed 30 June 2005	Reviewed 30 June 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit prior to taxation	27.506.467	37.135.352
<i>Adjustments to reconcile profit for the period to net cash provided by operating activities:</i>		
Depreciation	147.492.398	152.269.156
Provision for retirement pay liability	11.191.082	8.630.581
Interest income	(14.159.175)	(17.175.145)
Gain on fixed asset sales	(386.298)	(54.221)
Monetary gain on deferred taxes liabilities	-	(3.740.089)
Impairment (gain)/loss	(59.761.603)	25.547.901
Income from financial investment accounted per equity method	(1.767.223)	(2.575.853)
Interest expense	26.286.143	25.128.542
Movement in manufacturers' credit	(848.725)	(1.063.463)
Foreign exchange gain on finance leases (net of monetary gain)	(492.063)	(18.038.768)
Provision for diminution in value of financial assets available for sale	4.813.713	2.678.970
Amortization of deferred income from USAŞ share transfer	(2.796.565)	(1.809.163)
Increase/(Decrease) in provision for doubtful receivable	1.396.046	(4.996.176)
<b>Operating profit before working capital changes</b>	<b>138.474.197</b>	<b>201.937.624</b>
Increase in trade receivables	(70.667.601)	(55.159.621)
(Increase)/Decrease in due from related parties	599.704	(784.687)
Increase in other short term/long term receivables and assets	(4.667.378)	(10.530.510)
Increase in inventories	(4.211.130)	(7.234.351)
(Increase)/Decrease in other current receivables and assets	37.072.692	(3.798.494)
(Increase)/Decrease in other non-current receivables and assets	(609.784)	2.069.131
Increase in other financial liabilities	40.456	-
Increase in trade payables	33.879.916	18.606.527
Increase in due to related parties	4.043.154	1.365.640
Decrease in deposits and advances received	(11.360.711)	(32.366.278)
Increase/(Decrease) in other short term provisions	23.052.572	(26.673.959)
Increase in other short and long-term liabilities	92.916.564	111.493.341
Retirement benefits paid	(2.297.291)	(5.245.661)
Interest paid	(26.355.294)	(26.493.861)
Income taxes paid	-	(25.469.296)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>209.910.066</b>	<b>141.715.545</b>
<b>Net cash provided by operating activities</b>		
Cash outflow from purchase of financial assets	-	(8.283)
Cash inflow from sale of tangible fixed assets	422.752	10.873.328
Interest received	14.159.175	17.175.145
Acquisition of tangible fixed assets	(100.500.372)	(56.330.292)
Advances given for aircrafts and other tangible assets	(201.861.867)	80.187
<b>Net cash used in investing activities</b>	<b>(287.780.312)</b>	<b>(28.209.915)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment of finance leases	(95.517.767)	(148.365.673)
Changes in bank borrowings	362.192.647	7.524.698
<b>Net cash provided by/(used) in financing activities</b>	<b>266.674.880</b>	<b>(140.840.975)</b>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>188.804.634</b>	<b>(27.335.345)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>365.637.483</b>	<b>751.131.264</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>554.442.117</b>	<b>723.795.919</b>

## **TURK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the financial statements as at 30 June 2005

*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. The prior period amounts given for comparison purposes expressed in terms of purchasing power of the Turkish Lira at 31 December 2004)*

### **44 OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALY OR NECESSARY TO MAKE FINANCIAL STATEMENTS APPARENT, INTERPRETABLE AND UNDERSTANDABLE**

None (31 December 2004: None).